

**TEERTHANKER MAHAVEER  
UNIVERSITY MORADABAD, INDIA**

**CENTRE FOR DISTANCE & ONLINE  
EDUCATION**



Accredited with NAAC **A** Grade

*12-B Status from UGC*

**Programme: Bachelor of Commerce**

**Course: Business Organization**

**Course Code: BCPCC101**

**Semester-I**

# Syllabus

## **OBJECTIVE AND EXPECTED OUTCOME OF THE COURSE:**

To facilitate the students in appreciating need/ significance and applications of various managerial functions

### **UNIT I**

**Definition of management:** nature and scope, organizational objectives. Forms of different organizations: Sole Proprietorship, Partnership and Joint Stock Company. Development of management thoughts: Classical and new classical systems, contingency approaches. Scientific Management. Social responsibility and business ethics

### **UNIT II**

**Planning:** Nature, Purpose and Functions, Types, Steps in planning. Decision making and its process.

**Organizing:** Nature, Importance, Process, Formal & Informal organizations, Organization chart, Organizing principles, Span of management, Departments by function, Territory, Product/service, Customer group and Matrix organization. **Authority:** Definition, Types, Responsibility and Accountability, Delegation, Decentralization v/s Centralization, Determinants of effective decentralization

### **UNIT III**

**Staffing: Recruitment, Selection, Training, Induction, Performance Management, Manpower management, Factors affecting staffing, job design Teamwork: Stages of Team Building. Directing:** Motivation: Theories – Maslow, Herzberg, McGregor & Ouchi, and Leadership – Styles, Managerial Grid, Nine Cell Matrix.

### **UNIT IV**

**Controlling:** control process, types, barriers to control making, control techniques: budget and nonbudgetary control devices. Introduction to TQM Introduction to Management by objective

## **SUGGESTED READINGS/BOOKS:**

**Principles of Management:** Ghuman & Ashwathapa (Tata McGraw Hill Publishers)

**Essentials of Management:** Koontz & Weirich (Tata McGraw Hill Publishers)

**Principles & Practices of Management:** L.M. Prasad (S. Chand Publishers)

**Management:** Stephen Robbins (Pearson Publishers)

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# CHAPTER - 1

## NATURE AND SCOPE OF MANAGEMENT

### 1.1 OBJECTIVES

**Define** the meaning, importance and nature of management

**Organizational objective**

**Describe** the different forms of organizations

### 1.2 INTRODUCTION

The basic unit of a society is the individual. But no individual can satisfy all his desires himself. Therefore, he unites with his fellow-beings and works in an organized group to achieve what he cannot achieve individually. Human beings are surrounded by organized groups of many kinds, viz., a family, a play group, a work group, a school, a business firm, a government etc. Management is an essential part of any group activity. It is a primary force within the group organization which tends to lead it towards the group goal. Management is required to plan, organize, co-ordinate and control the affairs of the organization. It brings the human and material resources together and motivates people for the achievement of the objectives of the organization. Without management, resources of production remain resources merely and never become production. Management is a universal process in all organized social and economic activities. Wherever there is human activity, there is management. In our real life, we see that every activity we undertake involves an element that ensures co-ordination and cohesiveness to the activity, without which our acts would be unproductive and ineffective. Like the domain of ancient philosophers all mankind is the management's province.

### 1.3 MEANING OF MANAGEMENT

The term 'management' has been used in different senses. Sometimes it is used in the sense of managing the 'group of managerial personnel' in an organization. At other times, management refers to the process of planning, organizing, staffing, directing, co-ordinating and controlling. It is also referred to as a body of knowledge, a practice and discipline. There are some who describe it as a technique of leadership and decision-making or a means of co-ordinating, while some others have analysed management as an economic resource, a factor of production or a system of authority. Different authors on this subject have defined the term management in different ways. Some important definitions on management are discussed here:

**Mary Parker Follett**, "Management is the art of getting things done through people". As per this definition management is getting things done through people who may be managers or non-managers. At the level of chief executive officer, the work is got done through functional managers, at middle level the things are implemented through supervisors and at lower level of management through workers. Getting things done through others is considered to be an art. Human and technical skills play an important part in getting work from others. It requires proper planning and organization and creation of proper work environment. The duties are assigned, powers are delegated and accountabilities are created. Proper monitoring of work of subordinates the manager helps him in assessing their

performance and correcting deviations.

**Harold Koontz** has given a little modified definition of management. In his words, "Management is the art of getting things done through and with people in formally organized groups." Another aspect which has been highlighted by some authors is the process of management. They are of the view that management is related to the functions performed by managers. Some definitions in this connection can be cited as follows:

**Louis Allen**, "Management is what a manager does."

**James Lundy**, "Management is principally the task of planning, co-ordinating, motivating and controlling the efforts of others towards a specific objective."

**F.W. Taylor**, "Management is the art of knowing what you want to do and then seeing that it is done in the best and cheapest way."

#### 1.3.1 Nature of Management

Management means different aspects to different authors. Each definition lays emphasis on a particular aspect of management thereby presenting only a partial view of the total concept of

management. Over a period of time managerial techniques to manage a business have undergone a change thus the nature of management can be studied as such:

**Multidisciplinary.** Though management has developed as a separate discipline but it draws knowledge and concepts from disciplines such as sociology, psychology, economics, statistics, operations research etc. Management integrates ideas and concepts from these disciplines and uses them for improving the efficiency of the organization. The integration of knowledge of various fields is the major contribution of management. So the disciplines concerned with human beings contribute immensely to the management.

**Management is a group activity.** Management is an essential part of a group activity. As no individual can satisfy all his desires himself he unites with his fellow-beings and works in an organized group to achieve what he cannot achieve individually. Wherever, there is an organized group of people working towards a common goal, some type of management becomes essential. Management makes the people realise the objective of the group and directs their efforts towards the achievement of these objectives. Massie has rightly called management as 'co-operative group'.

**Management is goal-oriented.** Management aims to achieve economic and social objectives. It exists to achieve some definite goals or objectives. Group efforts in management are always directed towards the achievement of some pre-determined goals. It is concerned with the establishment and accomplishment of these objectives. To quote Theo Haimann, 'Effective management is always management by objectives'. Haynes and Massie are of the opinion that without objectives management would be difficult, if not impossible.

**Management is a factor of production.** Management is not an end in itself but a means to achieve the group objectives. Just as land, labour and capital are factors of production and are essential for the production of goods and services, management is a factor of production that is required to co-ordinate the other factors of production for the accomplishment of pre-determined goals.

**Management is universal in character.** Management is applicable in all types of organizations. Wherever there is human activity, there is management. The basic principles of management are of universal application and can be applied in all organizations whether they are business, social, religious, cultural, sports, educational, politics or military. As Socrates has put it, 'Over whatever a man may preside, he will be a good president if he knows what he needs and is able to provide it whether he has the direction of a chorus, a family, a city or an army.' In the words of Henry Fayol, 'Be it a case of commerce, politics religion, war in every concern there is management function to be performed'. —

**Management is a social process.** Management consists of getting things done through others. This involves dealing with people. The efforts of the human beings have to be directed, co-ordinated and regulated by management in order to achieve the desired results, it is in this sense that management is regarded as a social process. Moreover, management has a social obligation to make optimum use of scarce resources for the benefit of the community as a whole. In the words of Broth, 'Management is a social process entailing responsibility for the effective and economical planning and the regulation of the operation of an enterprise, in fulfillment of a given purpose or task.'

**Management is a system of authority.** Since management is a process of directing men perform a task, authority to accomplish the work from others is implied in the very concept of management. Authority is the power to get the work done from others and to compel them to work in a certain manner. Management cannot perform in the absence of authority, in real sense, management is a rule-making and rule-enforcing body. There is a chain of authority and responsibility among people working at different levels of the organization. There cannot be an efficient management without well-defined lines of command or superior-subordinate relationships at the various levels of decision-making.

**Management is a dynamic function.** Management is a dynamic function and it has to be performed continuously. It is constantly engaged in the moulding of the enterprise in an ever changing business environment. It is concerned not only with moulding of the enterprise but also the alteration of environment itself so as to ensue the success of the enterprise. In real sense, it is never-ending function.

**Management is an art as well as a science.** Management is a science because it has developed certain principles which are of universal application. But the results of management depend upon the personal skill of managers and in this sense management is an art. The art of the manager is essential to make the best use of management science. Thus, management is both science and art. It should, however, be noted that the science of management is not as exact as the physical science. It is still in the evolutionary stage, may be called as an inexact science or social science.

**Management is a profession.** In the present days, management is recognized as a profession. It has a systematic and specialized body of knowledge consisting of principles, a technique and laws and can be taught as a separate discipline or subject. This has also divorced ownership from management. Now with the advent of large-scale business, the management is entrusted in the hands of professional managers.

### 1.3.2 Objectives of Management

The primary objective of management is to run the enterprise smoothly. The profit earning objective of a business is also to be kept in mind while undertaking various functions. Following are the broad objectives of management

**Proper utilization of resources.** The main objective of management is to use various resources of the enterprise in a most economic way. The proper use of men, materials, machines and money will help a business to earn sufficient profits to satisfy various interests. The proprietors will want more returns on their investments while employees, customers and public will expect a fair deal from the management. All these interests will be satisfied only when physical resources of the business are properly utilized.

**Improving performance.** Management should aim at improving the performance of each and every factor of production. The environment should be so congenial that workers are able to give their maximum to the enterprise. The fixing of objectives of various factors production will help them in improving their performance.

**3. Mobilising best talent.** The management should try to employ persons in various fields so that better results are possible. The employment of specialists in various fields will be increasing the efficiency of various factors of production. There should be a proper environment which should encourage good persons to join the enterprise. The better pay scales, proper amenities, future growth potentialities will attract more people in joining a concern.

**Planning for future.** Another important objective of management is to prepare plans. No management should feel satisfied with today's work if it has not thought of tomorrow. Future plans should take into consideration what is to be done next. Future performance will depend upon present planning. So, planning for future is essential to help the concern.

### 1.3.3 Is Management An Art Or Science

The controversy with regard to the nature of management as to whether it is an art or science is very old and has created a lot of confusion. It is necessary to understand the real nature of management. The learning of art involves its continuous practice while learning of science involves assimilation of principles. The earlier captains of industry and managers used intuition, commonsense, hunches and experience in managing organizations. They were brilliant and hard working but still were not professionally trained managers. This was the main reason of controversy about the nature of management.

#### Management as an Art

An art is often regarded as the systematic application of skill or knowledge in effecting accomplishment of results. It represents the methods or ways of doing specific things and indicates how an objective is to be achieved. The function of art is to effect change and accomplish results through deliberate efforts. Art is a personalized process and every artist has his own style. It is practice-based and perfection in it requires continuous practice over a long period of time.

The main elements of art are :

- |                              |                         |
|------------------------------|-------------------------|
| (a) Personal skill           | (b) Practical knowledge |
| (b) Result-oriented approach | (d) Regular practice    |

#### Creativity

Like any other artist, a manager also uses his knowledge and skill in co-ordinating the activities of people in the organization. Management is an art of dealing with people to accomplish desired results.

Management is concerned with the application of knowledge and skill. Unless managerial principles are used for making the things effective and better, these will not be covered in art. Management is result oriented because it is concerned with accomplishment of objectives. It aims at achieving maximum productivity at lowest costs.

Like an artist, management always tries to attain higher and higher goals in order to reach the state of absolute perfection. This efficiency and effectiveness is attained through regular practice.

Every art has an element of creativity and in this sense also management is one of the most creative art as it is concerned with getting work done through others by motivating them to work and co-ordinating their activities.

### **Management as a Science**

The word science literally means knowledge. It is a systematised body of knowledge acquired by mankind through observation and experimentation and which is capable of verification. The basic difference between art and science is that art implies knowing, how the application, whereas science is concerned with knowing, why? In the words of Keynes, "Science is a systematised body of knowledge which establishes relationship between cause and effect."

The essential features of science are as follows :

It is a systematised body of knowledge that uses scientific methods for observation.

The principles are evolved on the basis of continued observation.

The principles are exact and have universal applicability without any limitation.

The principles establish a cause and effect relationship between various factors.

The validity of scientific principles can be verified and they provide a reliable basis for predicting future events.

Let us now apply these features of science to management to determine whether it qualifies science ?

**Systematised body of knowledge.** Management is viewed as a science as it is an organized body of knowledge built up by management practitioners, thinkers and philosophers over a period of years. "Management science is a body of systematised knowledge accumulated and accepted with reference to the understanding of general truths concerning management." The principles of management make use of scientific methods for observation. Frederick W. Taylor, the Father of Scientific Management applied scientific techniques to studies of planning, organizing, staffing, motivating, etc.

**Continued observation.** As applied to management, the principles of management have been developed after continued observations. The knowledge of management has been acquired through continuous and vigorous efforts of many theorists and practitioners over a period of years.

**Universal application.** Scientific principles represent basic truths and can be applied in all situations and at all times i.e., they have universal application. In the field of management also, this knowledge has been accumulated and accepted with reference to general truths. There are certain fundamental principles of management which can be universally applied. In the words of Taylor, "The fundamental principles of management are applicable to all human activities from our simplest individual acts to the working of our great corporations."

**Cause and effect relationship.** Scientific principles establish cause and effect relationship between various factors. When applied to management, the principles of management also establish cause and effect relationship, e.g., poor planning and plant layout cause low productivity.

**Validity and predictability.** Mere knowledge or collection of facts is not science. It is *only* when the knowledge so gathered can be verified, it becomes science. The principles of management can also be verified for their validity. The principles of management have been put to several tests and found to be valid. For example, a subordinate put under one boss will show better results, than a subordinate who has to follow two or more bosses. Further, the principles of management by finding cause and effect relationship can serve reliable basis for predicting further events.

#### **1.3.4 Management as an Inexact or a Social Science**

From the above discussion, it is clear that management is a science. But it must be noted that unlike Physics, Chemistry and Biology, it is not exact or accurate science. The principles of management cannot be considered as fundamental truths. At times, they may not bring desired results and may not have universal application. The main reason for the inexactness of the science of management is that it deals with human beings whose behaviour cannot be predicted. Thus, we can say that management is a 'soft science' or 'behavioural science' and it belongs to a group of social sciences like sociology, political science.

Management as a pure science suffers from the following limitations:

It does not consist of fundamental truths only.

The principles of management do not always have a universal application.

Behaviour of human beings cannot be predicted.

Management lacks certainty about results.

### 1.3.5 Management-A Science As Well As An Art

We have seen above that management has elements of both art and science. It may not be proper to term it as pure science or pure art. In fact, it is a science as well as an art because science and art are both complementary to each other. As Cossa has said, "Science requires art, art requires science, each being complementary to each other." It may be concluded that there is no hard and fast line between art and science of management. The former (science) will have to solve problems and establish principles which might be applied with benefit to the latter (art) In the words of Dean Stanely F. Teele, "Management is a mixture of art and science. The present ratio is about 90% art and 10% science. Though a very great deal of developments are presently increasing that proportion which can properly be called science. I am willing to venture a guess that by the end of another generation the ratio will be 80% art and perhaps 20% science.

### 1.3.6 Management-As A Profession

Another question that arises in regard to the nature of management is whether management can be regarded as a profession or not. To determine this, we must understand the meaning and special attributes of profession. The dictionary meaning of profession is a "calling in which one professes to have acquired specialized knowledge, which is used either in instructing, guiding or advising others." The term "profession" has been defined in a variety of meanings by different authors. In the broad sense, it refers to any occupation by which a person earns a livelihood the restricted sense, it includes only "the three learned professions" of theology, law and medicine but in real sense, the term profession falls in between the two extremes.

In the words of Hodge and Johnson, "Profession is a vocation requiring some significant body of knowledge that is applied with high degree of consistency in the service of some relevant segment of society." A.S. Hornby has defined profession as an "Occupation especially on requiring advanced education and special training." Prof. Dalton E. McFarland lays down the following criteria or special attributes in a profession :

The existence of a body of specialized knowledge or techniques.

Formalized method of acquiring training and experience.

The establishment of representative organization with professionalism as its goal.

The formation of ethical codes for the guidance of conduct.

The charging of fees, based on services, but with due regard for the priority of service over the desire for monetary reward.

Let us now apply the above-mentioned attributes to ascertain the status of management as a profession.

**Body of specialized knowledge and techniques.** When applied to management, it has an organized body of knowledge built up by management practioners, thinkers and philosophers over the period of years. In this sense, we can safely say that modern management is certainly a profession. A.P.M. Fleming has rightly remarked that modern management has "a technique quite apart from the technology of the particular works concerned."

**Formalized methods of acquiring training and experience.** The management science, today, is fully equipped with formalized methods of acquiring the body of knowledge in theory and practice. To impart management education and training, there are a large number of formal institutes in various countries, including India. Several tools of management such as Business, Psychology, Business Law, Statistics, Data-processing, Operations Research and Cost Accounting, etc. have been developed. The business houses today, prefer to employ those managerial personnel who have obtained a professional degree in management from some recognised institutes.

**Establishment of professional associations.** Professional Management Associations are being established in most of the countries (i) to regulate the behaviour of members; (ii) to create a code of conduct for guiding the activities of the profession; and (iii) to promote and build up the image of management as a profession. In India, there is All India Management Association with many local associations affiliated to this. But the main function of this association is to manage and co-ordinate the research works in the various areas of management. It is, however, true that norms of managerial behaviour have not yet been established and we do not have uniform methods of entry.

**Code of Conduct.** Members of a profession have to abide by a code of conduct. A code conduct provides rules and regulations, norms of honesty, integrity and professional morality. In the traditional professions such as law and medicine, there exists standard code of conduct. But in the sphere of management, there exists no uniform code of conduct. There are no restrictions of licensing on the



entry of management profession and judge from this standpoint, management cannot be regarded as a profession.

**Priority of service over economic considerations.** Unlike an ordinary occupation or trade, a profession, though a source of livelihood, involves the application of expert knowledge for the service of the society. For example, a doctor earns his livelihood from his profession of medicine but service to the society is uppermost in his mind. When applied to management, although there exists no code of conduct, yet we find that an increasing emphasis is being put on the social responsibilities of managers. Management aims at providing maximum efficiency at the lowest cost so as to serve the interests of employers, workers, consumers, society and the nation at large.

### 1.3.7 Conclusion

The above discussion shows that management in some respects qualify as a profession but it does not have certain features which generally constitute a recognised profession. The saying is that 'managers are born, and not made' is no longer valid in the present days. Although, Peter F. Drucker, the greatest exponent of management theory and practice, is of the view, 'No greater magic could be done to our economy or to our society than attempt to professionalise management by licensing managers or by limiting access to management to people with a special academic degree.' Management is now backed by a systematised body of knowledge and a number of principles, techniques and tools have been developed which need proper learning, education and training. To conclude, we may say that although management does not possess all the essential attributes of a profession, it is no doubt emerging as a profession.

### 1.3.8 Professional Management In India

Professional management is enterprise management where major decision making is in the hands of those persons who have acquired managerial or professional qualifications, have technical competency and rich practical experience. Professional management can be described management conducted by professionally qualified managers.

In India management has been mostly 'family management'. The features of family management are :

The ownership and managerial control of business are in the hands of family members (ii) the main objective of business is the maximisation of profits (iii) the members of family may or may not have managerial qualifications. In this traditional family management or patrimonial management the authority of decision-making rests with members of the family. The hierarchy of managerial position of a person is decided by the position held in the family. In most of the cases power is personalised in a close-knit group tied with family relationship. The business is run on the basis of value system followed by the family.

Another type of managerial system practiced in India is bureaucratic style. Since independence, government has invested large amounts in public sector enterprises. These units are managed by civil servants transferred from government departments. These bureaucrats concentrate more on file work than on practical aspects of the business. They are slow to changes and have a snobbish attitude towards subordinates. The bureaucrats are not professionally trained managers and are oftenly transferred on different jobs. The main cause of failure of public sector in India is due to bad management of these units.

In some sectors government is now trying to put professionally trained persons too.

After the advent of liberation, beginning from 1991, the managerial trend is changing Government has opened many areas for private sector and the entry of multinationals has been allowed as a matter of policy. The private sector is facing stiff competition from foreign companies. The multinationals are run on professional lines and are using latest managerial practices. The business in India is now feeling the need of professionally trained personnel. A large number of management institutes and universities are imparting management education to students. The trend is now shifting from traditional family management to professional management. Even the members of business families are acquiring formal management education. This trend towards professional management is slow. Even if trained managers are employed, the decision-making powers remain with the members of the family. The changing business scenario and severe competition from international business is compelling Indian businessman to go for genuine professionalization of management. A separation of ownership and management is also increasing at present.

The trend towards professionalization of management in India is rapidly increasing because of the following reasons :

There is a rapid expansion of management education and training programmes in universities and management institutions. Some management institutes at Ahmedabad, Calcutta, Bangalore, Lucknow are recognised world over for their high standards of education.

Some organizations in public as well as private sector have started training programmes for newly recruited management trainees and other managerial staff.

There is a growing corporate demand for management experts in areas like planning, management, information system, information technology, personnel, marketing, finance, etc.

The owners are employing management experts for higher managerial positions. The family ties are now given less weightage for placing persons at higher positions. Some companies have employed chief executive officers from outside the family circles.

Management consultancy services are expanding and corporate sector is taking advantage of such services.

There is a growing awareness of social responsibility and business ethics.

### 1.3.9 Administration V/S Management

There is a controversy on the use of these terms. Some authors say that administration and management are the same thing and there is no difference between the two words while others feel that they are different functions. There are persons who feel that administration is a part of management. Various view points are discussed as such :

**Administration is different from management.** As per this view administration is a higher level activity while management is a lower level activity. Administration is concerned with the determination of overall objectives and policies of an enterprise while management is concerned with planning, co-ordinating and controlling of business activities for attaining the enterprise objectives. Ordway Tead has distinguished administration from management as follows:

Administration is the process and agency which is responsible for the determination of the aims for which an organization and management are to operate, and which gives general oversight to the continuing effectiveness of the total operation in reaching the objectives sought. Management is the process and agency which directs and guides the operations of an organization in the realising of established aims. Some other authors like Oliver Sheldon, Florence, Lansburg, Haiman are also of the view that administration involves decision-making and policy formulation while management deals with execution and supervisory work. So American authors take administration as a wider term than management.

**Administration is a part of management.** Another view is that administration and organization are a part of management. Brech has propounded this view. In his words, "Management is the generic term for the total process of executive control involving responsibility for effective planning and guidance of the operations of an enterprise. Administration is that part of management which is concerned with the installation and carrying out of the procedures by which the programme is laid down and communicated and the progress of activities is regulated and checked against plan. The European school of thought considered administration as a part of management. Kimball and Kimball and Rickman were also of the same view.

**Administration and management are one.** Some authors are of the view that administration and management are used interchangeably and there is no distinction between the two. In the words of Newman, "management or administration is the guidance, leadership and control of the efforts of a group of individuals towards some common goods." In Henry Fayol's opinion every undertaking requires same functions and observes same principles. Other authors such as George Telly, Allen, Koontz and O'Donnell also feel that both the terms mean the same thing. In general practice administration is used more in government or other public organizations while management is used in business world.

Above given discussion reveals that there is no separate staff to perform these functions. All managers, regardless of their level perform the same functions. The higher up in the hierarchy, however, the more time will be spent in administrative activity and the less in management activity in the manager's daily routine, as shown in the diagram. Administration is done at top level by deciding policies and execution is done at lower level which is management. It can be said that these are the two activities which are performed at different levels of management.

### Distinction between Administration and Management

| Basis of difference       | Administration  | Management   |
|---------------------------|---|--|
| 1. Nature of work         | It is primarily concerned with the determination of objectives and broad policies. It is a thinking function. | It is a doing function. It involves the implementation of plans and policies.            |
| 2. Scope                  | It takes major decisions and is a wider term than management.   | It takes the decisions within the framework of administration.                           |
| 3. Level of Authority     | It is a top management function.  | It is a lower level management function.   |
| 4. Status                 | It consists of the owners of an enterprise.   | It consists of managerial personnel with specialized knowledge who may be the employees. |
| 5. Nature of Organization | Generally, it is used in relation to government, military, educational and religious organizations.           | It is used mainly in business firms which have economic motives.                         |
| 6. Influence              | Its decisions are generally influenced by external factors such as social, political, legal, etc.             | Its decisions are influenced by internal factors such as values, beliefs and opinions.   |

#### 1.3.10 Organization and Management

The word 'organization' has been derived from the word 'organ' which means various limbs or parts of a body and a musical instrument. The human body is a combination of various limbs and if any one of the limbs stops functioning properly, then some defect develops in the human body. If a musical instrument is not timed properly, it does not produce a melodious sound. Similarly, no business activity can be undertaken without the five factors of production, viz., the land, labour, capital, enterprise and organization. The four factors may prove ineffective in the absence of the fifth—the organization.

According to C.H. Northcott, organization can be defined as 'the arrangement by which tasks are assigned to men and women so that their individual efforts contribute effectively to some more or less clearly defined purpose for which they have been brought together.' In the words of Louis A. Allen, organization is, 'the process of identifying and grouping work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of establishing people to work most effectively together in accomplishing objectives.' Although organization and management are inter-related, yet there is a difference between two. Management is a process of planning, organizing, staffing, directing and controlling. Management is a very wide term and includes organization. Organization is a part of management, an essential part. In essence, organization is the foundation upon which the whole management structure is built. It has been rightly said, 'If management is the brain, organization is the body of an enterprise.'

#### 1.3.11 Importance of Management

Management is the art of securing maximum prosperity with a minimum of effort. Wherever there is an organized group of people working towards common goals, some type of management becomes essential. It has been rightly said that 'anything minus management amounts to nothing'. In the words of Koontz and O'Donnel, 'There is no more important area of human activity than management since its task is that of getting things done through others.'

In the case of business enterprise, management is all the more important, because 'no business runs on itself, even on momentum, every business needs repeated stimulus which can only be provided by management. According to Peter F. Drucker, 'Management is a dynamic life giving element in an organization. In its absence the resources of production remain resources and never become production.'

The following points further highlight the importance of management:

**Achievement of group objectives.** It is the management which makes the people realise the objectives of the group and directs their efforts towards the achievement of these objectives. It brings the human and material resources together to mobilise the people for the achievement of the objectives of the organization.

**Optimum utilization of resources.** No business activity can be undertaken without the five factors of production viz., the land, labour, capital, enterprise and the management. The four factors may prove ineffective in the absence of the fifth—the management. It is the management which makes optimum utilization of resources possible. In the words of Urwick and Brech, “No ideology, no ism, no political theory can win greater output with less efforts, only sound management.”

**Minimisation of cost (to combat rising competition).** In the present days of increasing competition, only those business enterprises can survive which can produce quality goods at the lowest of costs. Through better planning, sound organization and effective control, management enables a concern to reduce costs and enables an enterprise to face cut-throat competition.

**Increased profits.** Profits can be increased in any organization either by increasing the sales revenue or reducing cost. To increase the sales revenue is beyond the control of an organization. Management by reducing costs increases its profits and provides opportunities for future growth and development.

**Smooth running of business.** Management ensures efficient and smooth running of business through better planning, sound organization, effective control and the various tools of management.

**Provides Innovation.** Management provides new ideas, imagination and visions to the organization.

**Change of Growth.** An enterprise operates in an changing environment. Management moulds the enterprise in such a changing environment. It moulds not only the enterprise but also alters the environment itself to ensure the success of the business. In order to meet the challenge of automation and the complexities of advanced technology also there is a need for the development of management.

**Social Benefits.** Management is beneficial not only to the business enterprises but to the society as a whole. It raises the standard of living of the people by providing good quality products and services at the lowest possible cost. It also makes the optimum use of scarce sources and promotes peace and prosperity in the society.

**Special Importance of Management in India’s Developing Economy.** Management has to play a more vital role in the developing countries like India, where productivity is low and the resources limited. It has been rightly said, “There are no under-developed countries. There are only under-managed ones.”

### 1.3.12 Scope of Management

Management is an all pervasive function since it is required in all types of organized endeavour. Thus, its scope is very large. The following activities are covered under the scope of management:

- |                        |                   |
|------------------------|-------------------|
| (i) Planning,          | (ii) Organization |
| (iii) Staffing,        | (iv) Directing,   |
| (v) Co-ordinating, and | (vi) Controlling. |

The operational aspects of business management, called the branches of management, are follows:

- |                           |                              |
|---------------------------|------------------------------|
| 1. Production Management, | 2. Marketing Management,     |
| 3. Financial Management.  | 4. Personnel Management, and |
| Office Management.        |                              |

**Production Management.** Production means creation of utilities. This creation of utilities takes place when raw materials are converted into finished products. Production management then, is that branch of management which by scientific planning and regulation sets into motion that part of enterprise to which has been entrusted the task of actual translation of raw material into finished product. It is a very important field of management, for every production activity which has not been hammered on the anvil of effective planning and regulation will not reach the goal, it will not meet the customers and ultimately will force a business enterprise to close its doors of activities which will give birth to so many social evils. Plant location and layout, production policy, type of production, plant facilities, material handling, production planning and control, repair and maintenance, research and development, simplification and standardization, quality control and value analysis, etc., are the main problems involved in production management.

**Marketing Management.** Marketing is a sum total of physical activities which are involved in the transfer of goods and services and which provide for their physical distribution. Marketing management refers to the planning, organizing, directing and controlling the activities of the persons working in the market division of a business enterprise with the aim of achieving the organization objectives. It can be regarded as a process of identifying and assessing the consumer needs with a view to first converting them into products or services and then involving the same to the final consumer or user so as to satisfy their wants with a stress on profitability that ensures the optimum use of the resources available to the enterprise. Market analysis, marketing policy, brand name, pricing, channels of distribution, sales promotion, sale-mix, after sales service, market research, etc. are the problems of marketing management.

**Financial Management.** Finance is viewed as one of the most important factors in every enterprise. Financial management is concerned with the managerial activities pertaining to the procurement and utilization of funds or finance for business purposes. The main functions of financial management include:

- Estimation of capital requirements;
- Ensuring a fair return to investors;
- Determining the suitable sources of funds;
- Laying down the optimum and suitable capital structure for the enterprise (v) Co-ordinating the operations of various departments;
- Preparation, analysis and interpretation of financial statements;
- Laying down a proper dividend policy; and
- Negotiating for outside financing.

**Personnel Management.** Personnel Management is that phase of management which deals with the effective control and use of manpower. Effective management of human resources is one of the most crucial factors associated with the success of an enterprise. Personnel management is concerned with managerial and operative functions. Managerial functions of personnel management include

- Personnel planning;
  - Organizing by setting up the structure of relationship among jobs, personnel and physical factors to contribute towards organization goals;
  - Directing the employees; and
- Controlling the operating functions of personnel management are;
- Procurement of right kind and number of persons;
  - Training and development of employees;
  - Determination of adequate and equitable compensation of employees;
  - Integration of the interests of the personnel with that of the enterprise; and
  - Providing good working conditions and welfare services to the employees.

**Office Management.** The concept of management when applied to office is called 'office management'. Office management is the technique of planning, co-ordinating and controlling office activities with a view to achieve common business objectives. One of the functions of management is to organize the office work in such a way that it helps the management in attaining its goals. It works as a service department for other departments.

The success of a business depends upon the efficiency of its administration. The efficiency of the administration depends upon the information supplied to it by the office. The volume of paper work in office has increased manifold in these days due to industrial revolution, population, explosion, increased interference by government and complexities of taxation and other laws.

Harry H. Wylie defines office management as 'the manipulation and control of men, methods, machines and material to achieve the best possible results—results of the highest possible quality with the expenditure of least possible effect and expense, in the shortest practicable time, and in a manner acceptable to the top management.'

## 1.4 FORMS OF DIFFERENT ORGANIZATIONS

### 1.4.1 Sole Proprietorship

Sole trade is the oldest and most commonly used form of business organization. It is as old as civilization is. Historically, it appears that business first started with this form of organization. With the development of science and technology the needs of the business also increased and new forms of organization developed. This organization is also known as Sole-Proprietorship, individual-Proprietorship,

Single Entrepreneurship. In sole of organization, an individual is at *the helm of affairs*. He *makes* all the investments, shares all risks, takes all profits, manages and controls the business himself. The sole-trader mainly depends upto his own resources, *so the business is generally on a small scale basis*. *The business is normally run with the help of family members* but he may employ persons to look after the day-to-day activities of the business. So far as his liability is concerned, it is unlimited. The creditors are entitled to have claim even on his private property. The sole-trader moulds the fate of the concern. It is the competence of the proprietor which determines the future of the business. His powers arc unlimited and his decisions are final. He is, in fact, the sole organizer, manager, controller and master of his business.

### Definitions

Some important definitions are discussed to have a clear view of sole trade form of organization.

***“The individual entrepreneurship is the form of business organization on the head of which stands an individual as the one who is responsible, who directs its operations and who alone runs the risk of failure.”***

**L.H. Haney**

According to Haney, the business is in the hands of one person who is not only responsible for its management but also for its risks.

***“A sole-trader is a person who carries on business exclusively by and for himself He is not only the owner of the capital of the undertaking, hut is usually to organize and manage and takes all the profits or responsibility for losses.”***

**James**

**Stephenson**

James Stephenson emphasis that sole-trade business is carried on by one person with his own funds and according to his managerial capabilities. He is also responsible for the success or failure of this business.

### 1.4.2 Features of Sole Proprietorship

**Individual Initiative.** This business is started by the initiative of a single person. He prepares the blue prints of the venture and arranges various factors of production- He may employ other person for assistance but ultimate authority and responsibility lies with him. All the profits and losses are taken by the single individual.

**Unlimited Liability.** In sole trade business liability is unlimited. The proprietor is responsible for all losses arising from the business. The liability is not limited only to his investments in the business but his private property is also liable for business obligations.

**Management and Control.** The proprietor manages the whole business himself. He prepares various plans and executes them under his own supervision. There may be some persons to help him but ultimate control lies with the owner.

**Motivation.** One person is the sole owner of the business. He takes all profits and bears losses, if any. There is a direct relationship between efforts and reward. If he works more, he will earn more. He is motivated to expand his business activities. He will not like to enter speculative business because the risk involved is more.

**Secrecy.** All important decisions are taken by the owner himself. He keeps all the business secrets only to himself. Business secrets are very important for small business. By retaining business secrets he avoids competitors entering the same business.

**Proprietor and proprietorship arc one.** Legally, the sole trader and his business arc not separate entities. Loss in his business is his loss and liabilities of the business are his liabilities.

**Owners and business exist together.** In sole-trade business there is no separate existence of the business with the owner. The business and owner exist together. The business is dissolved if the owner dies, becomes insolvent or is removed from the scene.

**Limited area of operations.** A sole-trade business has generally a limited area of operations, the reason being the limited resources and managerial abilities of the sole trader. He can arrange limited funds only and will be able to supervise a small business. Since all decisions are to be taken by the proprietors, so the area of business will be limited with his management abilities.

**Free from Legal Formalities.** A sole trade business can be started without performing any legal formalities. It does not require any formation or registration.

### 1.4.3 Advantages of Sole-Proprietorship

**Easy in Formation.** Sole proprietorship is the only form of organization where no legal formalities are required to be performed. Anybody wishing to start a sole trade concern can do so without loss of time. This business is absolutely free from legal formalities. On the other hand, if a joint stock company is to be formed it needs services of experts to get it incorporated, and it involves a lot of labour and money.

**Better Control.** In this form of organization one man is responsible for all type of activities. He controls all functions of the business. He himself takes decisions at appropriate time. The authority and responsibility lies with one man. He cannot afford to be complacent in taking decisions. If the responsibility is divided, then there can be a possibility of shifting obligation to other persons. (Everybody's responsibility becomes nobody's responsibility). In sole trade business there is no such difficulty. The owner is all in all and he cannot escape his work. The business is controlled in an effective way.

**Flexibility in operations.** A sole proprietorship concern is generally run on a small scale basis. In case a change in operation is required, it can be possible without involving much expenditure. Even if a new line of production is to be taken up, it will not involve much efforts. On the other hand, if the operations are on a large scale, then it becomes difficult to change the method of production. A small scale concern can adjust its production according to the changing demand pattern. It can increase and decrease its production as per requirements. Moreover, no legal formalities are required for making changes in operations. A joint stock company cannot go beyond its objective clause. Because of being flexible in operations, a sole trade concern is most suitable for industries dealing in fashionable and seasonal goods.

**Retention of Business Secrets.** A sole trader maintains business secrets. Being the sole proprietor, he is not expected to share his trade secret with anybody else. He is not expected to publish his accounts. He can maintain secrecy from his competitors. Secrecy is very important for small scale concerns.

**Easy to Raise Finance.** An individual entrepreneur is able to create goodwill for his business. This helps him to establish his credit worthiness in the market. Secondly, the liability in sole trade organization being unlimited, the creditors can have a claim over the private property of the owner. The creditors feel secure in extending credit to individual proprietors. Moreover, they try to repay the loans as quickly as possible so that they do not lose goodwill in the market. Once a sole trader loses his creditworthiness, he will not be able to get much help from the market.

**Direct Motivation.** The proprietor takes keen interest in the working of the business. He tries to put heart and soul in the business so to earn as much profits as he can. There is direct relationship in efforts and reward. In other forms of organization the profits are shared by more than one person. So everybody may not put in his best efforts.

**Promptness in Decision Making.** All important decisions are taken by one person. He can take prompt decisions. He will not let an opportunity slip away. If more than one person is involved in decision taking, than delay is bound to occur.

**Direct Accessibility to Consumers.** In sole proprietorship the scale of operations is small. The owner can have direct contact with customers and employees. He can know the relations and preferences of consumers. It enables him to make necessary changes in the quality and design of his products. It will help him to boost his sales. He can also put emphasis on consumer service.

**Inexpensive Management.** The sole trader is the owner, manager and controller of the business. He does not appoint specialists for various functions. He personally supervises various activities and can avoid wastage in the business. He does not create managerial paraphernalia. In this way managerial costs are saved to a large extent.

**No Legal Restrictions.** There are no legal requirements for starting a business. There are no special acts governing the work of a sole proprietor. The proprietor is not required to submit the results of his business to any authority. There is no restriction in changing the nature of business. Even dissolution of the business can easily be undertaken. The tax liability on a sole trader is also low. He is taxed as an individual and not as a business unit.

#### 1.4.4 Disadvantages of Sole Proprietorship

**Limited Resources.** The resources of a sole proprietor are limited. He makes investments from his family source only. There is a limit to which a single person can invest. He tries to raise finances from financial institutions also. These institutions want securities for their loans. The sole trader cannot offer much security, so he does not get much help from financial institutions. The capacity for expanding business operations is limited for want of resources, even when there is a scope for expansion. Other forms of ownership are better than the sole proprietor for raising financial resources.

**Limited Managerial Ability.** One person may not be expert in each and every function of the business. He will not be able to devote sufficient time for all types of activities. He will have to depend upon paid employees. The employees may not take as much interest as the owner himself can take. The managing capacity of the proprietor is limited. In the present competitive world, complexities of managerial jobs are increasing everyday. The sole proprietor may not be able to use the services of experts for want of resources. So one person will not be able to survive effectively. On the other hand, his limited resources will not allow him to use the services of professional people. Limited managerial capacity will hinder the growth of business.

**Unlimited Liability.** The liability of a sole proprietor is unlimited. His private property can also be assigned for meeting business obligations. A loss in business may deprive him of his private assets also. Unlimited liability also restricts his working. He tries to be cautious in taking risk. It acts as a detriment to the growth of business activities.

**Uncertain Continuity.** The business continues as far as sole proprietor is there. In case of his mobility or death, the business is discontinued. The successors of the sole proprietor may not have an aptitude or ability to continue in the business. The closure of a business will cause inconvenience to the consumers. It will also result in social loss.

**Limited Scope for Employees.** A sole trader cannot attract trained and qualified persons for reasons of limited career opportunities. Moreover, the continuity of sole trade business being uncertain the employees also remain under psychological pressure. A sole proprietor cannot offer financial incentive to employees because his activities are on a small scale. The employees will try to join good concerns whenever an opportunity arises.

#### 1.5 PARTNERSHIP

A partnership is an association of two or more persons to carry on, as co-owners, a business and to share its profits and losses. The partnership may come into existence either as a result of the expansion of the sole-trading concern or by means of an agreement between two or more persons desirous of forming a partnership. When the business expands in size, the proprietor finds it difficult to manage the business and is forced to take more outsiders who will not only provide additional capital but also assist him in managing the business on sound lines. Sometimes the nature of business demands large amount of capital, effective supervision and greater specialization. It is the ideal form of organization for the enterprise requiring moderate amount of capital and diversified managerial talent. This form is not suitable for a business requiring big capital and expert managerial personnel.

##### Definitions

***“Two or more individuals may form a partnership by making a written or oral agreement that they will jointly assume full responsibility for the conduct of business.” John A. Shubin***

According to Shubin two or more persons join together to share business responsibility. The liability part is mainly given as a base of partnership.

***“The relationship between persons who agree to carry on a business in common with a view to private gain.” L.H. Haney***

Haney has given more emphasis on sharing of gains. The coming together of persons to share the gains of a business is called partnership.

***“A partnership firm as it is often called, is then a group of men who have joined capital or services for the prosecution of some enterprise.” Kimball anti Kimball***

The bringing together of financial resources and services by persons for carrying on some work has been called partnership in this definition. One person may contribute money, the other may provide service, are meant to carry on an enterprise.



### 1.5.1 Features of Partnership

**Association of Two or More Persons.** In partnership, there must be at least two persons. Partnership is the outcome of a contract, so there must be two or more persons. The persons becoming partners must be competent to enter into a contract. Minors cannot form a partnership firm as they are incompetent to enter into a contract. According to section 11 of Contract Act, there is no maximum limit on partners in Partnership Act, but according to Companies Act, the maximum number of partners engaged in a banking business cannot exceed ten and twenty in any other business.

**Contractual Relation.** The persons joining the partnership enter into a contract for running the business. According to Partnership Act, the relation of partnership arises from contract and not from status. The contract may be oral or written but in practice written agreement is made because it helps to settle the disputes if they arise later on.

**Earning of Profits.** The purpose of the business should be to make profits and distribute them among partners. If a work is done for charity purposes or to serve the society it will not be called partnership. So, the motive of the business should be to earn profits. It does not mean that there will not be losses but the motive should be the earning of profits.

**Existence of Business.** Partnership can only be for some kind of business. The term 'Business' includes any trade, profession or occupation. By business we mean all activities concerning production, distribution and rendering of services for the purpose of earning profits. If the work is related to social service, we do not call it a business and, hence, no partnership.

**Implied Authority.** There is an implied authority that any partner can act on behalf of the firm. The business will be bound by the acts of partners.

**Unlimited Liability.** As is the case of a sole-trade business liability of the partners of a firm is unlimited. In case some obligation arises then not only the partnership assets but also the private property of the partners can be taken for the payment of liabilities of the firm to the third parties. The creditors can claim their dues from anyone of the partners or from all the partners. The partners are liable individually and collectively.

**Principal and Agent Relationship.** In partnership the relationship of Principal and Agent exists. It is not necessary that all partners should work in the business. Any one or more partners can act on behalf of other partners. Each partner is an agent of the firm and his activities bind the firm. He also acts as a principal because he is bound by the activities of other partners.

**Utmost Good Faith.** The very basis of the partnership business are good faith and mutual trust. Every partner should act honestly and give proper accounts to other partners. The partnership cannot run if there is suspicion among partners. It is very important that partners should act as trustees and for the common good of all. Distrust and suspicion among partners lead to the failure of many firms.

**Restriction on Transfer of Shares.** No partner can sell or transfer his share to anybody else without the consent of the other partners. In case any partner does not want to continue in the partnership, he can give a notice for dissolution of the firm.

**Common Management.** Every partner has a right to take part in the running of the business. It is not necessary for all partners to participate in the day-to-day activities of the business but they are entitled to participate. Even if partnership business is run by some partners, the consent of all other partners is necessary for taking important decisions.

**Partners and Partnership are One.** A partnership firm has no separate entity from the partners. A firm is only a name to the collective name of partners. No firm can exist without partners. The rights and liabilities of partners are the rights and liabilities of the firm. Partners have implied authority to bind the firm for their acts.

**Capital Contribution.** The partners contribute to the capital of the firm. It is not necessary to have capital in profit sharing ratio. A partner can be admitted to the firm even without contributing to the capital. It is not essential that all partners must contribute to the firm's capital.

### 1.5.2 Advantages of Partnership Form Of Organization

Partnership form of organization is suitable for medium size businesses where personal efforts of entrepreneurs are essential. The following are the advantages of partnership:

**Easy to Form.** This is a suitable type of organization requiring no legal formalities. No formal documents are required to be prepared as is necessary in case of joint stock company. A simple agreement among partners is sufficient to start partnership firm. A partnership deed is not necessary though it is advisable to prepare it. Even the registration of firm is optional.

**Large Resources.** The resources of more than one person are available for the business. The partners can contribute to start a moderately large-scale concern. More partners can be added if capital needs are large. The partnership concern can also arrange funds from the outside sources.

**Greater Managerial Talent.** The partners may be assigned duties according to their talent. Different functional departments may be managed and controlled by different partners. The talent, expertise and knowledge of partners in different fields can be used for the welfare of the business. It will help to increase the efficiency of the business resulting in more profits.

**More Credit-standing.** The partners may have sufficient contacts in the market. They can offer more securities to the financial institutions. The liability of partners being unlimited they will be able to raise more finances. As compared to a sole-trade business, partnership concern has more credit-worthiness.

**Promptness in Decision-Making.** The partners meet frequently and they can take prompt decisions. The firm will not lose any business opportunities because of delay in taking a decision.

**Sharing of Risk.** The risk of business is shared by more persons. The burden of every partner will be much less as compared to the burden of sole-trade. Furthermore, the business expansion will not be hampered for fear of risk.

**Relationship between Reward and Work.** The partners try to put more labour to earn more and more profits. There is a direct relationship between reward and work. The more they work, the more they be benefited.

**More Possibility of Growth and Expansion.** As compared to a sole-trade business, partnership concern has more possibilities for expansion and growth of business activities. The partner can contribute more and manage the activities more systematically.

**Close Supervision.** The partners themselves look after the business; so they can avoid wastages. They have direct access to the employees and can encourage them for more production. The management of partnership is much cheaper as compared to a joint stock company where experts are paid higher salaries.

**Flexibility of Operations.** There is no statutory obligation to seek approval from government before making major changes in the business set-up. There can be any change in managerial set-up, capital and scale of operations. These changes can be made easily depending upon the business opportunities.

**Secrecy.** A partnership concern is not expected to publish its profit and loss account and balance sheet as is necessary for a joint stock company. The partners can keep the business secrets to themselves. The competitors don't know about the exact position of the business. The secrets of business are very important for a small concern.

### 1.5.3 Disadvantages of Partnership

**Unlimited Liability.** The liability of partners is unlimited. They are not only liable for their business investments but their private properties can also be taken for business liabilities. Partners try to avoid risks and it restricts the expansion and growth of the business.

**Limited Resources.** There is a limitation in raising additional resources for expansion purposes. The business resources are limited to the personal funds of the partners. Borrowing capacity of the partners is also limited. The number of partners to be added to a business is also limited. A banking company cannot have more than ten partners and in other business the number of partners cannot exceed twenty. So, there is a limit beyond which partners cannot be added.

**Instability.** The partnership concern suffers from the uncertainty of duration because it can be dissolved at the time of death, lunacy or insolvency of a partner. The lack of trust among partners can also lead to dissolution. The discontinuity of the business is a social loss and it causes inconvenience to the consumers and workers.

**Mutual Distrust.** The mutual distrust among partners is the main cause for the dissolution of partnership concerns. It is difficult to maintain harmony among partners because they may have different opinions and may not agree on certain matters. Lack of confidence in each other can be a cause for quarrels and it may lead to the dissolution of the firm.

**Limitations on Transfer of Share.** No partner can transfer his share to a third party without the consent of the other partners. If a partner wants his share back it will not be possible without the approval of other partners or without dissolution of the firm. In case of a company, any shareholder can

transfer his shares without affecting the working of the business. In partnership, a partner is permanently wedded to it.

**Burden of Implied Authority.** A partner can bind the business by his acts. He can act as an agent of the business. A dishonest partner may lead the business in difficulties. The other partners will have to meet the obligations incurred by the partner. The provision of implied authority may create problems for the business.

**Lack of Public Faith.** The accounts of partnership concerns are not published. So public is unaware of the exact position of the business. There is a suspicion in public mind that these concerns earn huge profits at the cost of consumers. There is no legal binding for the publication of accounts. So partnership concerns lack public confidence.

## 1.6 JOINT STOCK COMPANY

The limitations of sole-proprietorship and partnership forms of ownership gave birth to joint stock company form of organization. Two important limitations of earlier forms of organization were inadequacy of funds and unlimited liability. The capacity of sole-trader to provide funds for the business is limited. Even in partnership where two or more persons join and combine their funds, the limitation of funds is felt. The demand of business for funds increased with the expansion and development of trade and industry. The earlier forms of organization could not meet the ever increasing demand for funds of business. The other limitation which hampered the growth of business was the unlimited liability of owners. The liability of proprietors was not limited to only the amounts invested in business. Their private properties could also be used to meet business liabilities. The factor of unlimited liability discouraged people to invest more even if they had the capacity to do so. The joint stock company form of organization provides an answer to the difficulties faced by earlier forms. The liability of members is limited and the participation of large number of persons helps in raising more and more funds under joint stock company form of organization. of companies. The Joint Stock Companies Act was passed in 1844 and limited liability was granted only in 1855.

In India the first Companies Act was passed in 1850 and the principle of limited liability was introduced only in 1857. The application of this Act was extended to Banking and Insurance Companies in 1860. A comprehensive bill was passed in 1956. The firms incorporated under this Act are known as Companies'. The Parliament and State Legislatures can also pass legislations for the incorporation of companies, generally called Corporations'.

### Definitions

A company is *"an association of many persons who contribute money or money,,s worth to a common stock and employ it in some trade or business, and who share the profit and loss (as the case may be) arising therefrom."*

**James Stephenson**

*"A Joint Stock Company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership."*

**Prof. L.H. Haney**

*"A corporation is an artificial being, invisible, intangible and existing only in contemplation of the law. Being a mere creation of law, it possesses only the properties which the charter of its creation confers upon it either expressly or as incidental to its very existence."*

**Chief Justice Marshall**

### 1.6.1 Characteristics

The following are the characteristics of a Joint Stock Company:

**Association of Persons.** A company is an association of persons joining hands with a common motive. A private limited company must have at least two persons and a public limited company must have at least seven members to get it registered. Furthermore, the number of shareholders should not exceed 50 in private companies but there is no maximum limit for the members in a public limited company.

**Independent Legal Entity.** The company is created under law. It has a separate legal entity apart from its members. A company acts independently of its members. The company is not bound by the acts of its members and members do not act as agents of the company. A person can own its shares and can be its creditor too. The life of the-company is independent of the lives of its members. The company can sue and be sued in its own name.

**Limited Liability.** The liability of its shareholders is limited to the value of shares they have purchased. In case the company incurs huge liabilities, the shareholders can only be called upon to pay the unpaid balance on their shares. The company being a separate legal entity can incur debts in its own

name and the shareholders will not be personally liable for that. However, shareholders of a limited company have unlimited liability. The liability of members of a company limited by guarantee is limited to the guaranteed amount.

**Common Seal.** A company being an artificial person cannot put its signatures. The law requires every company to have a seal and get its name engraved on it. The seal of the company is affixed on all important documents and contracts as a token of signature. The directors must witness the affixation of the seal.

**Transferability of Shares.** The shares of a company can be transferred by its members. Whenever the members want to dispose off the shares, they can do so by following the procedure devised for this purpose. Under Articles of Association, the company can put certain restrictions on the transfer of shares but it cannot altogether stop it. However, private companies can put more restrictions on transferability of shares, virtually making it zero.

**Separation of Ownership and Management.** The shareholders of a company are widely scattered. A shareholder may like to invest money but may not be interested in its management. The companies are managed by the Board of Directors. The ownership and management are in two separate hands. The shareholders do not get any right to participate in company management. The right to manage company affairs is vested in the directors who are elected representatives of the shareholders.

**Perpetual Existence.** The company has a permanent existence. The shareholders may come or may go but the company will go on forever. The continuity of the company is not affected by death, lunacy or insolvency of its shareholders. The company can be wound up only by the operation of law. The shares of the company may change hands a number of times, but the continuity of the company is not affected at all.

**Corporate Finance.** A Joint Stock Company, generally, raises large amounts of funds. The capital is divided into shares of small denomination. A large number of persons purchase shares and contribute to the capital of the company. Since there is no limit on number of maximum members in public companies, large amounts of sources can be raised from persons in different walks of life.

**Centralized and Delegated Management.** A Joint Stock Company is an autonomous and self-governed body. The shareholders being large in number cannot look after the day-to-day activities of the company. They elect Board of Directors in general body meeting for managing the company. All policies of the company are decided by a majority vote. All important decisions are taken in a democratic way. The centralized management and democratic functioning brings in unity of action.

**Publication of Accounts.** A Joint Stock Company is required to file annual statements with the Registrar of Companies at the end of a financial year. The annual statements are available for inspection in the office of the Registrar.

### 1.6.2 Merits of Company Form of Organization

The company form of organization has been successful in almost all countries of the world. This form is suitable where large resources are required and the production has to be carried out on a large scale. The number of joint stock companies has shown a phenomenal increase in the twentieth century. Some of the merits of company form of organization are discussed below:

**Accumulation of Large Resources.** The main drawback of the sole trade and partnership concerns has been the scarcity of resources. The resources of a sole trader and of partners being limited, these enterprises have always suffered for want of funds. A company can collect large sum of money from large number of shareholders. There is no limit on the number of shareholders in a public company. If need for more funds arise, the number of shareholders can be increased. Joint stock companies are suitable for those businesses where large resources are required.

**Limited Liability.** The liability of members in a company form of organization is limited to the nominal value of the shares they have acquired. If a person has purchased a share of Rs. 100, his liability is limited to Rs. 100 only. If the share is partly paid, then he can be required to pay only the unpaid value of the share. In no case the total payment will exceed Rs. 100. The limited liability encourages many persons to invest in shares of joint stock companies. Many persons will be reluctant to invest in those enterprises where liability is unlimited.

**3. Continuity of Existence.** When a company is incorporated, it becomes a separate legal entity. It is an entity with perpetual succession. The members of a company may go on changing from time to time but that does not affect the continuity of a company. The death or insolvency of members does not in any way affect the corporate existence of the company. The continuity of a company is not only in the

interests of the members but is also beneficial for the society. The discontinuation of a company may cause wastage of resources and inconvenience to the consumers.

**Efficient Management.** In company form of organization, ownership is separate from management. It enables the company to appoint expert and qualified persons for managing various business functions. The availability of large-scale resources enables the company to attract talented persons by offering them higher salaries and better career opportunities. The efficient management will help the company to expand and diversify its activities.

**Economies of Large Scale Production.** With the availability of large resources, the company can organize production on a big scale. The increase in scale and size of the business will result in economies in production, purchase, marketing and management, etc. These economies will enable the company to produce goods at a lower cost, thus resulting in more profits. The company will help consumers by providing them with cheaper goods and will also be able to accumulate more resources for further expansion.

**Transferability of Shares.** The shares of a public company are freely transferable. A shareholder can dispose of his shares at any time when the market conditions are favourable or he is in need of money. The company does not return share-money before its winding up but shareholders can easily sell their shares through stock exchange markets. Stock Exchange provides a ready market for the purchase and sale of shares. The facility of transferring shares encourages many persons to invest. This provides liquidity to the investor and stability to the company. On the other hand, partnership form of organization does not provide free transferability of shares.

under uncertain economic and technological environments. Technological changes are taking place every day. The needs of consumers are varied and changing, to cope with the changing economic environment every business is required to invest money on research and developmental programmes. Sole trade concern or partnership firms cannot afford to spend money on research work. Joint stock companies can afford to invest money on research projects. It will enable them to cope with changing business conditions.

**Social Benefits.** The company form of organization mobilises scattered savings of the community. These savings can be better used for productive purposes. The companies also enable financial institutions to invest their money by providing them avenues. It also enables the utilisation of natural resources for better productive uses. Large-scale production enjoys a number of economies enabling low cost of production. The society is supplied with enough quantity of goods.

### 1.6.3 Demerits of Company Form of Organization

The company form of organization suffers from the following drawbacks :

**Difficulty of Formation.** Promotion of a company is not an easy risk. A number of stages are involved in company promotion. The suitability of a particular type of business is to be decided first. A number of persons should be ready to associate for getting a company incorporated. A lot of legal formalities are required to be performed at the time of registration. The shares will have to be sold during the particular time. Promotion of a company is both expensive and risky.

**Separation of Ownership and Management.** The ownership and management of a public company is in different hands. The owners *i.e.*, shareholders play an insignificant role in the working of

the company. On the other hand, control is in the hands of those who have no stakes in the company. The management may indulge in speculative business activities. There is no direct relationship between efforts and rewards. The profits of the company belong to shareholders and the Board of Directors are paid only a commission. The management does not take personal interest in the working of the company as is the case in partnership and sole-trade business.

**Evils of Factory System.** The company form of organization leads to large-scale production. The evils of factory system like insanitation, air pollution, congestion of cities are attributed to joint stock companies. Joint stock companies facilitate formulation of business combinations which ultimately leads to the monopolistic control and exploitation of consumers.

**Speculation in Shares.** The joint stock companies facilitate speculation in the shares at stock exchanges. The prices of shares depend upon both economic and non-economic factors. The speculators try to fluctuate the prices of shares according to their suitability. The stock exchanges will not help the growth of healthy investment when speculative activities are being carried on. The management of joint stock companies also sometimes encourage speculation in shares for their personal gains.

**Fraudulent Management.** The promoters and directors may indulge in fraudulent practices. The management is in the hands of those persons who have not invested much in the company. The Company Law has devised methods to check fraudulent practices but they have not proved enough to check them completely.

**Lack of Secrecy.** The management of companies remains in the hands of many persons. Everything is discussed in the meetings of Board of Directors. The trade secrets cannot be maintained. In case of sole trade and partnership concerns such secrecy is possible because a few persons are involved in management.

**Delay in Decision-making.** In company form of organization no single individual can make a policy decision. All important decisions are taken either by the Board of Directors or are referred to general house. Decision-taking process is time consuming. If some business opportunity arises and a quick decision is needed, it will not be possible to arrange meetings all of a sudden. So many opportunities may be lost because of a delay in decision-making.

**Excessive State Regulations.** A large number of rules and regulations are framed for the working of the companies. The companies will have to follow rules even for their internal working. The government tries to regulate the working of the companies because large public money is involved. The formalities are many and the penalties for their non-compliance are heavy. This often detracts companies from their main objectives for which they have been formed.

### 1.7 SUMMARY

The economic development of a country depends on management. Management coordinates all organizational activities and produces a synergic effect, like a man conducting an orchestra.

Management is the process of planning, organizing, directing, controlling, innovating and representing the effort of organizational members to achieve definite organizational goals.

There are three types of management— Sole Proprietorship, Partnership and Joint Stock Company. It can be concluded that basic principles and functions of management are universal in nature. These can be applied in every type of organization and in every country. The application of these principles, however, may vary from person. The art and practice of management always varies from situations to situations to situations and it is culture bound.

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### 1.9 SUGGESTED READINGS

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### 1.10 TERMINAL AND MODEL QUESTIONS

Define management. Describe its main characteristics.

Management is the art of getting things done through people. Explain

Discuss the characteristics of a sole proprietorship form of organization. Discuss its merits and demerits.

Define partnership. Discuss the elements of partnership.

What is a Joint stock company? Explain its silent features.

Activity 1

Explain the different forms of organizations .

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Activity 2

**Define** the meaning of management.

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## CHAPTER - 2

### DEVELOPMENT OF MANAGEMENT THOUGHT

#### 2.1 OBJECTIVES

**Examine** the contributions and limitations of F.W. Taylor's scientific management

**Describe** the contributions and limitations of Henri Fayol's administrative management

**Discuss** the contributions and limitations of Max Weber's bureaucracy

**Relate** the Hawthorne's experiments to the contributions and limitations of Elton Mayo's human relations movement

**Analyse** the behavioural approach of management scientists such as Douglas McGregor, Abraham Maslow, Kurt Lewin and others

**Identify** the quantitative approach to management thought

**Explain** the systems approach to management thought

**Explain** the contingency approach

#### 2.2 INTRODUCTION

From an almost unrecognised position nearly three centuries ago, management has risen today to the central activity of our age and economy—a powerful and innovative force on which our society depends for material support and national well-being. The period between 1700 and 1850 highlights the Industrial Revolution and the writings of the classical economists. The advent of the factory system during this period highlighted for the first time the importance of direction as a managerial function. Several economists during this period explained in their writings the concepts and functions of management. Adam Smith, for example, explained the concept and consequences of division of labour. Turgot explained the importance of direction and control and Say was struck by the importance of planning. But management as a separate field of study can be said to have emerged only during the second half of the 19th century when with the introduction of joint stock companies a new industrial era began. This form of enterprise separated management of business organizations from their ownership and gave rise to problems of labour inefficiency and inadequate systems of wage payment. In search of solutions to these problems, people began to recognise management as a separate field of study.

During the last hundred years, management has become a more scientific discipline with certain standardised principles and practices. The evolution of management thought during this period can be studied in three parts as under:

*Early classical approaches*, represented by scientific management, administrative management and bureaucracy

*Neo-classical approaches*, represented by human relations movement and behavioural approach

*Modern approaches*, represented by quantitative approach, systems approach and contingency approach

The contributions made by all these approaches to management serve as a foundation for modern management.

#### 2.3 EARLY CLASSICAL APPROACHES

##### 2.3.1 Scientific Management

Frederick Winslow Taylor (1856–1915) is considered to be the Father of Scientific Management. He exerted a great influence on the development of management thought through his experiments and writings. During his career spanning a period of 26 years, he conducted a series of experiments in three companies: Midvale Steel, Simonds Rolling Machine and Bethlehem Steel. While serving as the Chief Engineer of Midvale Steel Company, Taylor made several important contributions which are classified under scientific management.

**Time and Motion Study** Since Taylor had been a machinist himself, he knew how piece-work employees used to hold back production to its one-third level because they feared that their employers would cut their piece rate as soon as there was a rise in production. The real trouble, Taylor thought was that no one knew how much work it was reasonable to expect a man to do. He, therefore, started time and motion study, under which each motion of a job was to be timed with the help of a stop watch and shorter and fewer motions were to be developed. Thus the best way of doing a job was found. This replaced the old rule-of-thumb-knowledge of the workman.



**Differential Payment** Taylor introduced a new payment plan called the differential piece work, in which he linked incentives with production. Under this plan a worker received low piece rate if he produced the standard number of pieces and high rate if he surpassed the standard. Taylor thought that the attraction of high piece rate would motivate workers to increase production.

**Drastic Reorganization of Supervision** Taylor suggested two new concepts: (i) separation of planning and doing and (ii) functional foremanship. In those days it used to be customary for each worker to plan his own work. The worker himself used to select his tools and decide the order in which the operations were to be performed. The foreman simply told the worker what jobs to perform, not how to do them. Taylor suggested that the work should be planned by a foreman and not by the worker. Further, he said that there should be as many foremen as there are special functions involved in doing a job and each of these foremen should give orders to the worker on his specialty.

**Scientific Recruitment and Training** Taylor emphasised the need for scientific selection and development of the worker. He said that the management should develop and train every worker to bring out his best faculties and to enable him to do a higher, more interesting and more profitable class of work than he has done in the past.

**Intimate Friendly Cooperation between the Management and Workers** Taylor said that for the above suggestions to succeed, "a complete mental revolution" on the part of management and labour was required. Rather than quarrel over whatever profits there were, they should both try to increase production. By doing so, profits would be increased to such an extent that labour and management would no longer have to compete for them. In short, Taylor believed that management and labour had a common interest in increasing productivity.

Taylor's concept of scientific management developed into a movement and dominated the industrial management scene for several decades after him. His principles and concepts were refined and enlarged by several of his followers, notable among them being Henry L. Gantt and the Gilbreths.

Gantt insisted that willingness to use correct methods and skills in performing a task was as important as knowing the methods and having the skills in the first place. Thus he saw the importance of the human element in productivity and propounded the concept of motivation as we understand it today.

He introduced two new features in Taylor's incentive scheme which was found to have too little motivational impact. First, every worker who finished a day's assigned workload was to win a 50 per cent bonus for that day. Second, *the foreman* too was to earn a bonus for each worker who reached the daily standard, plus an extra bonus if *all* the workers reached it. This, Gantt reasoned would spur a foreman to train his workers to do a better job. Gantt also developed the idea of rating an employee's work publicly. Every worker's progress was recorded on individual bar charts, inked in black on days he or she completed the standard, and red on days he or she fell below. Going beyond this, Gantt originated a charting system for production control. This system, called the "Gantt chart" is still in use today. It reflects each man's daily performance in relation to a predetermined quota or standard of performance. Frank and Lillian Gilbreth made their contribution to the scientific management as a husband and wife team. They made *motion and fatigue study* their lifework. Using motion picture cameras, Frank Gilbreth tried to find the most economical motions for bricklaying. He classified all movements employed in industrial work into 17 basic types, called "Therbligs", and provided a shorthand symbol for each so that the analyst could easily and quickly jot down each motion as he observed the worker in action. According to Gilbreths, motion and fatigue studies raised workers' morale, not only because of their obvious physical benefits but also because they demonstrated management's concern for the workers.

### 2.3.1 Contributions and Limitations of Scientific Management

First, the *time and motion studies* have made us aware that the tools and physical movements involved in a task can be made more efficient and rational. Second, the stress which scientific management placed on *scientific selection of workers* has made us recognise that without ability and training a person cannot be expected to do his job properly. Finally, the importance that scientific management gave to work design has encouraged managers to seek that "one best way" of doing a job. Both blue-collar production jobs and white-collar office and service jobs have become *specialized* (the employee does one task) and *standardized* (the employee performs the task the same way every time). This makes workers more efficient and the management's control over them easier.

Taylor's scientific management approach has evolved into what is now generally called job engineering. This is concerned with product, process and tool design; plant layout; standard operating procedures; work measurement and standards; and work methods and human-machine interactions. Scientific management is, however, severely criticized on the following grounds:

Taylor's scientific management emphasises the management of only muscular tasks at the floor level and neglects the areas of problem-solving and decision-making, which are of key importance at the other managerial levels. This has made March and Simon describes scientific management as "*physiological organization theory.*"

Taylor's belief that economic incentives are strong enough to motivate workers for increased production is wrong. No man is entirely an "economic man", that is, a man's behaviour is not always dictated by his financial needs. He has many other needs also, such as security needs, social needs or egoistic needs which motivate him far more potently than his desire for money, at least after he has risen above the starvation level.

Taylor's time and motion study is not entirely scientific. This is because two time studies done by two separate individuals may time the same job entirely differently. There is no such thing as "one best way" so far as the component motions are concerned, because no two individuals can be expected to work in the same way at the same rhythm, with the same attention and the same learning speed.

Separation of planning and doing and the greater specialization inherent in the system tend to reduce the need for skill and produce greater monotony of work. Having a man take orders from 7 to 8 different bosses results in confusion, besides increasing the overhead cost.

Taylor's scientific management could not develop rapidly because of the following factors:

Advances in methods and better tools and machines eliminated some workers, who found it difficult to get other jobs. This caused resentment among them.

Taylor had difficulty in persuading his followers to understand his ideas or carry them on. In the 1920's and 1930's, "efficiency experts" trained in the methods of Taylor, Gilbreth and others, were often held in contempt because of their alleged treatment of human beings as automations without attention to their needs or attitudes.

### 2.3.3 Main Features of Scientific Management

Taylor conducted various experiments at his workplaces to find out how human beings could be made more efficient by standardizing the work and better method of doing the work. These experiments have provided the following features of scientific management.

**Separation of Planning and Doing.** Taylor emphasised the separation of planning aspect from actual doing of the work. Before Taylor's scientific management, a worker used to plan about how he had to work and what instruments were necessary for that. The worker was put under the supervision of a supervisor commonly known as gang boss. Thus supervisor's job was merely to see how the workers were performing. This was creating a lot of problems, and Taylor emphasised that planning should be left to the supervisor and the worker should emphasise only operational work.

**Functional Foremanship.** Separation of planning from doing resulted into development of supervision system which could take planning work adequately besides keeping supervision on workers. For this purpose, Taylor evolved the concept of functional foremanship based on specialization of functions. In this system, eight persons are involved to direct the activities of workers. Out of these, four persons are concerned with planning: (i) route clerk, (ii) instruction card clerk, (iii) time and cost clerk, (iv) disciplinarian. The remaining four persons are concerned with doing aspect of the work. These are: (i) speed boss, (ii) inspector, (iii) maintenance foreman, and (iv) gang boss. All of them give directions to workers on different aspects of work. This is against unity of command principle as shown in the following figure:

**Job Analysis.** Job analysis is undertaken to find out the one best way of doing the thing. The best way of doing a job is one which requires the least movements, consequently less time and cost. The best way of doing the thing can be determined by taking up time-motion-fatigue studies. (i) Time study involves the determination of time a movement takes to complete. The movement which takes minimum time is the best one. This helps in fixing the fair work for a period. (ii) Motion study involves the study of movements in parts which are involved in doing a job and thereby eliminating the wasteful movements and performing only necessary movements. Elimination of unnecessary movements in doing work reduces time taken in performing a work and also the fatigue of workers. (iii) Fatigue study shows the amount and frequency of rest required in completing the work. After a certain period of time, workers feel fatigue and cannot work with full capacity. Therefore, they require rest in between. When the rest is allowed, they start working with full capacity. Thus job analysis, as given by Taylor, suggests the fair amount of a day's work requiring certain movements and rest periods to complete it.

**Standardization.** As far as possible, standardization should be maintained in respect of instruments and tools, period of work, amount of work, working conditions, cost of production, etc. These things should be fixed in advance on the basis of a job analysis and various elements of costs that go in performing a work.

**Scientific Selection and Training of Workers.** Taylor has suggested that workers should be selected on scientific basis taking into account their education, work experience, aptitude, physical strength, etc. A worker should be given work for which he is physically and technically most suitable. Apart from selection, proper emphasis should be given on the training of workers which makes them more efficient and effective.

**Financial Incentives.** Financial incentives can motivate workers to put in their maximum efforts. If provisions exist to earn higher wages by putting in extra effort, workers will be motivated to earn more. Taylor himself applied the concept of differential piece rate system which was highly motivating. According to this scheme, a worker who completes the normal work gets wages at higher rate per piece and one who does not complete gets at lower rate. Thus, there is considerable difference in wages between those who complete the work and those who do not complete. To make the differential piece rate system work, Taylor has suggested that wages should be based on individual performance and not on the position which he occupies. Further, the wage rate should be fixed on accurate knowledge and not on estimates.

**Economy.** While applying scientific management, not only scientific and technical aspects should be considered but adequate consideration should be given to economy and profit. For this purpose, techniques of cost estimates and control should be adopted. The economy and profit can be achieved by making the resources more productive as well as by eliminating the wastages. Taylor has clarified by giving examples of how resources are wasted by not following scientific management.

**Mental Revolution.** Scientific management depends on the mutual co-operation between management and workers. For this co-operation, there should be mental change in both parties from conflict to co-operation. Taylor feels that this is the most important feature of scientific management because in its absence, no principle of scientific management can be applied. In this regard, Taylor has observed as follows:

Scientific management is not any efficiency device, nor a device of any kind for securing efficiency; nor is it bunch or group of efficiency devices. It is not a new system of figuring costs; it is not a new scheme of paying men; it is not a piecework system; it is not bonus system; it is not a premium system; it is no scheme of paying men. It is not divided foremanship or functional foremanship; it is not any of the devices which the average man calls to mind when scientific management is spoken of . . . .

Now, in its essence, scientific management involves a complete mental revolution on the part of the working man engaged in any particular establishment or industry—a complete mental revolution on the part of these men as to their duties toward their work, toward their fellowmen, and toward their employers. And it involves the equally complete mental revolution on the part of those on the management's side—the foreman, the superintendent, the owner of the business, the board of directors—a complete mental revolution on their part as to their duties towards their fellow workers in the management, towards their workmen and towards all of their daily problems.¶

#### **2.3.4 Principles of Scientific Management**

Taylor has given certain basic principles of scientific management. The fundamental principles that Taylor saw underlying the scientific management may be given below:

**Replacing Rule of Thumb with Science.** Taylor has emphasised that in scientific management, organized knowledge should be applied which will replace rule of thumb. While the use of scientific method denotes precision in determining any aspect of work, rule of thumb emphasises estimation. Since exactness of various aspects of work like day's fair work, standardization in work, differential piece rate for payment, etc., is the basic core of scientific management, it is essential that all these are measured precisely and should not be based on mere estimates. This approach can be adopted in all aspects of managing.

**Harmony in Group Action.** Taylor has emphasised that attempts should be made to obtain harmony in group action rather than discord. Group harmony suggests that there should be mutual give and take situation and proper understanding so that group as a whole contributes to the maximum.

**Co-operation.** Scientific management involves achieving co-operation rather than chaotic individualism. Scientific management is based on mutual confidence, co-operation and goodwill. Co-

operation between management and workers can be developed through mutual understanding and a change in thinking. Taylor has suggested 'substitution of war for peace, hearty and brotherly co-operation for contentment and strife, replacement of suspicious watchfulness with mutual confidence, of becoming friends instead of enemies. It is along this line, I say, that scientific management must be developed.'

**Maximum Output.** Scientific management involves continuous increase in production and productivity instead of restricted production either by management or *by* worker. Taylor hated inefficiency

and deliberate curtailment of production. His concern was with the large size of the cake. In his opinion, 'there is hardly any worse crime to my mind than that of deliberately restricting output.' He decried quarrel over production but welcomed quarrel over distribution, provided the product to be distributed had, outgrown the size. Therefore, he advised the management and workers to 'turn their, attention towards increasing the size of the surplus until the size of the surplus becomes so large that it is necessary to quarrel over how it shall be divided.'

**Development of Workers.** In scientific management, all workers should be developed to the fullest extent possible for their own and for the company's highest prosperity. Development of workers requires their scientific selection and providing them training at the workplace. Training should be provided to workers to keep them fully fit according to the requirement of new methods of working which may be different from the non-scientific methods.

### 2.3.5 Followers of Scientific Management

Taylor's contribution to management invited mixed reactions. There were many of his disciples who took aggressive, mechanical view of production and invited the opposition from trade unions. Besides, opposition also came from management and general public. The opposition was so grave that Taylor had to defend his scientific management before a special Congressional Committee in 1912. However, Taylor's thinking created an awareness among various managers and thinkers to bring change in the old method of working. Although his message could not reign supreme in his lifetime, the foundations of scientific management were well laid and restructure was bound to come.

Other persons who worked to develop scientific management were Carl George Berth, Henry Gantt, Frank and Lillian Gilbreth, and Edward Felene to mention a few important. Berth worked with Taylor and later developed many mathematical techniques and formulae that made it possible to put Taylor's ideas into practice. Gantt developed graphic methods of depicting plans and making possible better managerial control. He emphasised the importance of time as well as cost in planning and controlling work. This eventually led to the development of famous Gantt Chart which is in wide use today and was the forerunner of such modern technique as PERT (Programme Evaluation and Review Technique). Frank and Lillian Gilbreth, a team of husband and wife, also tried to find out 'one best way of doing' under the given set of realities. They also tried to look at the problems of workers from social and psychological points of view. Felene invited Gilbreth to apply scientific management to manage his departmental store. The major areas of concern were employee training and evaluation and human element in business. Later, he created Twentieth Century Fund, a famous research organization still in existence.

The principles of scientific management were more concerned with problems at the operating levels and did not emphasise management of an organization from the manager's point of view. Therefore, it was more relevant 'from engineering point of view rather than management point of view. In fact, one author later suggested that Taylor can be regarded as the father of industrial engineering rather than the father of scientific management. Similarly, persons advocating scientific management should have considered psychological variables affecting human behaviour at workplace, both in terms of work efficiency and methods of motivating the workers. As such, the scientific management is more relevant to mechanisation and automation—technical aspect of efficiency—than the broader aspects of management of an organization.

### 2.3.6 Administrative Management

While Taylor is considered the Father of Scientific Management, Henri Fayol (1841–1925) is considered the Father of Administrative Management theory with focus on the development of broad administrative principles applicable to general and higher managerial levels. He was a French mining engineer turned a leading industrialist and successful manager. He wrote a monograph in French in 1916, entitled 'General and Industrial Administration'. Until this book was translated into English in 1929, little was known about him by the western world.

In his treatise, Fayol provided a broad analytical framework of the process of administration. (He used the word "administration" for what we call management.) His perspective, unlike that of Taylor extended beyond the shop level and the physical production processes and was of a macro nature, covering the general administrative and managerial functions and processes at the organizational level.

Fayol wrote that all activities of business enterprises could be divided into six groups: technical, commercial, financial, accounting, security and administrative or managerial. Fayol's primary focus, of course, was on this last managerial activity because he felt managerial skills had been the most neglected aspect of business operations. He defined management in terms of five functions: planning, organizing, commanding, coordinating and controlling.

Fayol's five management functions are similar to the functions of planning, organizing, directing and controlling. Many management theorists and even practitioners have found this classification very useful and realistic. Further, the process of management as a series of functions originated with Fayol. He emphasised repeatedly that this process is the same at every level of an organization and is common to all types of organizations. Fayol also presented 14 principles of management as general guides to the management process and management practice. These are discussed below.

**Division of Work** Division of work in the management process produces more and better work with the same effort. Various functions of management like planning, organizing, directing and controlling cannot be performed efficiently by a single proprietor or by a group of directors. They must be entrusted to specialists in related fields.

**Authority and Responsibility** As the management consists of getting the work done through others, it implies that the manager should have the right to give orders and power to exact obedience. A manager may exercise formal authority and also personal power. Formal authority is derived from his official position, while personal power is the result of intelligence, experience, moral worth, ability to lead, past service, etc. Responsibility is closely related to authority and it arises wherever authority is exercised.

An individual who is willing to exercise authority, must also be prepared to bear responsibility to perform the work in the manner desired. However, responsibility is feared as much as authority is sought after.

**Discipline** is absolutely essential for the smooth running of business. By discipline we mean, the obedience to authority, observance of the rules of service and norms of performance, respect for agreements, sincere efforts for completing the given job, respect for superiors, etc. The best means of maintaining discipline are (a) good supervisors at all levels, (b) clear and fair agreements between the employees and the employer, and (c) judicious application of penalties. In fact, discipline is what leaders make it.

**Unity of Command** This principle requires that each employee should receive instructions about a particular work from one superior only. Fayol believed that if an employee was to report to more than one superior, he would be confused due to conflict in instructions and also it would be difficult to pinpoint responsibility to him. (Note that the importance of such a restriction was not realised by F.W. Taylor when he recommended that there should be as many foremen as there are special functions in doing a job and each of these foremen should give orders to the worker on his speciality.)

**Unity of Direction** It means that there should be complete identity between individual and organizational goals on the one hand and between departmental goals *inter se* on the other. They should not pull in different directions.

**Subordination of Individual Interest to General Interest** In a business concern, an individual is always interested in maximising his own satisfaction through more money, recognition, status, etc. This is very often against the general interest which lies in maximising production. Hence the need to subordinate the individual interest to general interest.

**Remuneration** The remuneration paid to the personnel of the firm should be fair. It should be based on general business conditions, cost of living and productivity of the concerned employees and the capacity of the firm to pay. Fair remuneration increases workers' efficiency and morale and fosters good relations between them and the management.

**Centralization** If subordinates are given more role and importance in the management and organization of the firm, it is decentralization. The management must decide the degree of centralization or decentralization of authority on the basis of the nature of the circumstances, size of the undertaking, the type of activities and the nature of organizational structure. The objective to pursue should be the optimum utilization of all faculties of the personnel.

**Scalar Chain** Scalar chain means the hierarchy of authority from the highest executive to the lowest one for the purpose of communication. It states superior-subordinate relationship and the authority of superiors in relation to subordinates at various levels. As per this principle, the orders or communications should pass through the proper channels of authority along the scalar chain. But in case there is a need for swift action, the proper channels of authority may be short-circuited by making direct contact (called gang plank) with the concerned authority.

**Order** to put things in an order needs effort. Disorder does not need any effort. It evolves by itself. Management should obtain orderlines in work through suitable organization of men and materials. The principle of 'right place for everything and for every man' should be observed by the management. To observe this principle there is need for scientific selection of competent personnel correct assignment of duties to personnel and good organization.

**Equity** means equality of fair treatment. Equity results from a combination of kindness and justice. Employees expect management to be equally just to everybody. It requires managers to be free from all prejudices personal likes or dislikes. Equity ensures healthy industrial relations between management and labour which is essential for the successful working of the enterprise.

**Stability of Tenure of Personnel** in order to motivate workers to do more and better work, it is necessary that they should be assured security of job by the management. If they have fear of insecurity of job, their morale will be low and they cannot give more and better work. Further, they will not have any sense of attachment to the firm and they will always be on the lookout for a job elsewhere.

**Initiative** means freedom to think out and execute a plan. The zeal and energy of employees are augmented by initiative. Innovation which is the hallmark of technological progress, is possible only where the employees are encouraged to take initiative. According to Fayol, initiative is one of the keenest satisfactions for an intelligent man to experience and hence, he advises managers to give their employees sufficient scope to show their initiative. Employees should be encouraged to make all kinds of suggestions to conceive and carry out their plans, even when some mistakes result.

**Esprit de Corps** This means team spirit. Since 'union is strength' the management should create team spirit among the employees. Only when all the personnel pull together as a team, there is scope for realising the objectives of the concern. Harmony and unity among the staff are a great source of strength to the undertaking. To achieve this, Fayol suggested two things. One, the motto of 'divide and rule' should be avoided, and two, verbal communication should be used for removing misunderstanding. 'Differences grow more bitter when cleared through written communication.'

### 2.3.7 Contributions and Limitations of Administrative Management

Both Taylor and Fayol had essentially the same goal of increasing production but they tried to reach this goal from different directions. Taylor worked from the bottom of the hierarchy upward, whereas Fayol worked from the apex downwards.

Fayol's principles met with widespread acceptance among writers on management and among managers themselves. In the United States the most important acceptance of his principles came from two General Motors executives James D. Mooney and Alan C. Railey. These executives wrote a book *Onward Industry* in 1931, later revised and renamed *Principles of Organization*

The real explosion in the number of principles of management came with Colonel L. Urwick, distinguished executive and management consultant in U.K. He wrote a book, *The Elements of Administration*, in which he tried to assemble the concepts and principles of Taylor, Fayol, Mooney, Railey and other early management theorists. Some of the several dozen principles he advocated are as follows:

There should be clear line of authority, as in the military, from the top management down to the lowest employee.

The authority and responsibility of each employee should be communicated to him in writing.

Each individual should perform one function only.

The span of control of a manager should never exceed six.

Authority can be delegated, but not responsibility.

Drawing inspiration from Fayol, a new school of thought known as the Management Process School came into existence. Harold Koontz and Cyril O'Donnell are the champions of this school. They believe that management is a dynamic process of performing the functions of planning, organizing, staffing, directing and controlling. They also believe that these functions and the principles on which they are based have general or universal applicability. Managers, whether they are managing directors or

supervisors, perform the same functions of planning and control although the degree of complexity may differ. Similarly, management functions are not confined to business enterprises alone but are applicable to all organizations wherever group effort is involved. Management theory, as a body of knowledge, is not culture-bound but is transferable from one environment to another. This approach is also referred to as the *universalist approach*.

Ideas of Fayol and his followers have come to be criticised as follows:

Fayol's principle of division of work or specialization produces the following dysfunctional consequences:

It leads to the formation of small work groups with norms and goals often at odds with those of management. Each individual carries out his assigned part as something apart from the overall purpose of the organization as a whole. He does not care to know how his job fits into the entire picture.

It results in the dissatisfaction of workers because it does not provide them the opportunity to use all their abilities.

It results in an increase in the overhead cost because the more the specialization develops at one level, the greater becomes the need for coordination at a high level.

For many of Fayol's principles one can find an equally plausible and acceptable contradictory principle and there is nothing in Fayol's writings to indicate which is the proper one to apply. Simon substantiated this criticism by referring to the principle of unity of command and the principle of specialization or division of labour. Both the principles, he said, cannot be followed simultaneously. For example, if an accountant in a marketing department is subordinate to the marketing manager and if unity of command is observed, then the finance department cannot issue direct orders to him regarding the

technical, accounting aspects of his work. Similarly, the principle of limited span of control (advocated by Gulick, Urwick, and others) does not go hand in hand with another of their principles which says that the number of organizational levels should be kept at a minimum because on limiting the span of control, number of levels of management increases. In this way, many of these principles are full of contradictions and dilemmas. This provoked Simon to remark that these principles are no better than proverbs which give opposite messages.

These principles are based on few case studies only and have not been tested empirically. Indeed, whenever these principles have been tested empirically, they have fallen like autumn leaves. For example, Dale found considerable variation in the span of control of the chief executive even among highly successful firms as against the limit of six by Urwick.

These principles are often stated as unconditional statements of what ought to be done in all circumstances when what is needed are conditional principles of management. For example, it is not correct to say that the authority and responsibility of an employee should be explicitly described in all types of environments because as shown by Burns and Stalker, in a technologically turbulent environment an employee's job should be as little defined as possible, so that it can shape itself according to the changing needs of the situation.

These principles (viz., the principle of specialization, chain of command, unity of direction and span of control) result into the formation of mechanistic organization structures which are insensitive to employees' social and psychological needs. Chris Argyris contends that such structures inhibit the employees' self-actualisation and accentuate their dependence on superiors. They also develop among employees an orientation towards their own particular departments rather than towards the whole organization.

These principles are based on the assumption that organizations are closed systems. But this is not so. Organizations are open systems. Hence the rigid structures which these principles tend to create, do not work well under unstable conditions. (Read Systems Approach described later in this chapter.)

### **2.3.8 Bureaucracy**

Max Weber, a German sociologist, is known as the Father of Bureaucracy. About 1910 he made a study of different types of business and government organizations and distinguished 3 basic types of administration in them: leader-oriented, tradition-oriented and bureaucratic. Leader-oriented administration is one in which there is no delegation of management functions. All employees serve as loyal subjects of a leader. In tradition-oriented administration managerial positions are handed down from generation to generation. Who you are rather than what you can do, becomes the primary criterion for

work assignment. In bureaucratic administration delegation of management responsibilities is based on the person's demonstrated ability to hold the position. No person can claim a particular position either because of his loyalty to the leader or because the position has been traditionally held by members of his family. People earn positions because they are presumed to be best capable of filling them. Weber considers this last type as the ideal type of administration.

### 2.3.9 Important Features of Bureaucratic Administration

There is Insistence on following Standard Rules Weber believed that the authority in an organization should not be governed by the personal preferences of the employer but it should be governed by standard rules. In other words, the institutional cult should replace the personality cult He said that this would provide equality in the treatment of subordinates and continuity and predictability of action. This would also obviate the need for searching *ad hoc* solutions to problems.

There is a Systematic Division of Work This increases production by improving efficiency and saving time in changing over from one job to another.

Principle of Hierarchy is Followed Each lower officer is under the control and supervision of a higher one.

It is Necessary for the Individual to have Knowledge of and Training in the Application of Rules because these form the basis on which legitimacy is granted to his authority.

Administrative Acts, Decisions and Rules are Recorded in Writing This makes the organization independent of people besides making people's understanding more accurate.

There is Rational Personnel Administration People are selected on the basis of their credentials and merit and are paid according to their position in the hierarchy. Promotions are made systematically. There is emphasis on winning people's loyalty and commitment.

Contributions and Limitations of Bureaucracy

**Contributions** Bureaucracy can be viewed as the logical extension of management when it becomes impossible for one person to fulfill all management functions. The concept has enabled most modern large scale organizations which require functionally specialized staff to train and control the people with heterogeneous backgrounds and to delegate specific responsibilities and functions to them.

**Limitations** During the past years, however, bureaucracy has come in for a lot of criticism. Researches by Merton, Selznick, and Gouldner have revealed several dysfunctional consequences of bureaucracy. Bennis and Thompson are among the severest critics of bureaucratic organizations. In fact, Weber himself in his own life time became so much disenchanted with these organizations that he later on began to attack the concept which at one time he had helped to immortalise.

Important *dysfunctional consequences* of bureaucracy are discussed below.

**Overconformity to rules** In a bureaucratic organization employees observe 'stick to the rule' policy because they fear being penalised for the violation of these rules. They therefore follow only the letter of the law without going into its spirit. For example a doctor in the emergency ward spends precious time in filling up various forms before helping the accident victim. Violation of rule, begets more rules to take care of the violations.

**Buck-passing** In a bureaucratic organization the employees' initiative is stifled. In situations where there are no rules, employees are afraid of taking decisions independently lest they may be punished for the wrong decisions. They, therefore, either shift decisions to others or postpone them. As a result office work increases and the Parkinson's law comes into operation.

**Trained incapacity** In a bureaucratic organization the training and experience, repeated many times over, develop in an individual skills and abilities in a specialized area only. The individual finds himself incapable to respond appropriately to new situations in other areas.

**Displacement of goals** This is a very common phenomenon in a bureaucratic organization. It was first discovered some 80 years ago by the German sociologist, Robert Michels and is extensively described by him in his book. Goal displacement takes place when an organization substitutes for its legitimate goal some other goal for which it was not created, for which resources were not allocated to it, and which it is not known to serve. Displacement of goals can occur in several ways. Some of these are as under:

(a) After some time the leaders of an organization may begin to devote more and more of their attention and resources to preserve and maintain the organization itself rather than its initial purpose. This occurs because several interest groups develop in and outside the organization which begin to use the organizational goals as means to serve their own individual goals.



After some time the employees of an organization may so intensively internalise the rules that the goals which these rules were originally framed to achieve are totally forgotten. The means thus become more important than the ends. This type of behaviour is called „*professional auto, nation*. There can be many examples of this behaviour. A stranger enters an office and seeks some information from an employee sitting there. But the employee, instead of supplying him the required information asks him to follow the rules and to go to the enquiry counter.

employees develop “*professional automation*” when the management insists on following a certain way of doing things and praises or punishes employees on the basis of their adherence to that prescribed way (and not on the basis of their achievement of goals). If a librarian is praised for the neat and orderly look of the library and not for the increase in the number of book borrowers, if a factory worker is praised for his regular attendance and not for the quality of his performance and if a teacher is praised for the pass percentage of his students and not for the quality of his instruction, it is not surprising if they begin to feel after some time that the orderly look of the library, regular factory attendance and high pass percentage are all what are demanded of them. Story is told of a transport spokesman who countered complaints that buses often whizzed past waiting commuters by arguing that picking up passengers upset timetables. In fact, appraisals in many organizations are based on information that is easy to collect rather than that which is intrinsically important.

After some time, the secondary goals of an organization may completely subordinate its primary goals, so that the latter are no longer served effectively. A university may initiate certain social or extra-curricular activities to attract students to classes, but if the social activities consume the greater proportion of the university’s time and resources or become the major focus of the participants’ commitments, then they undermine the achievement of the teaching goal. A company may decide to put in a secret detective force in order to cut down on losses due to theft and carelessness. The net result may be that the cost of the service is greater than the amount of theft prevented and that production drops due to a lowering of the morale among the workers.

After some time, sectional interests may develop among the sub-units of an organization and the heads of these units may become so much enamoured with their sectional goals that they may forget organizational goals.

**5. No real right of appeal** The clients of a bureaucratic organization generally feel dissatisfied because they have no real right of appeal. Superiors very often side with the viewpoint of their subordinates.

**6. Neglect of *in formal groups*** Man is imbued with sentiments. Being a social creature, he forms informal groups which play a very important role in all organizations. An entirely new discipline called “group dynamics” has now come into existence which provides us with deep insight into the formation and working of these groups. Bureaucratic organizations often ignore the existence of informal groups which usually carry out a big chunk of organizational work.

**7. Rigid structure** Precise description of roles and overconformity to rules make bureaucratic structures rigid. Such structures, though they work well in stable environments, do not cope well with today’s changing environment. Organizations today need flexible structures to be able to frequently interact with their environment for collecting, processing and monitoring information and changing the job descriptions and the roles of their employees.

**8. Inability to satisfy the needs of mature individuals** The maturity-immaturity theory, propounded by Chris Argyris,<sup>6</sup> explains in great detail how bureaucratic organizations are unable to meet the needs of mature individuals who work in them. According to this theory, a mature individual wants independence, initiative, self-control, opportunity to use all his skills and information to plan his future. But the hierarchy and control features of a bureaucratic organization work against these needs.

## 2.4 NEO-CLASSICAL APPROACHES

These approaches are called neo-classical because they do not reject the classical concepts but only try to refine and improve them.

### 2.4.1 The Human Relations Movement

The human relations movement emerged in part because managers found that Taylor’s scientific management and Fayol’s administrative management did not quite achieve complete production efficiency and work place harmony. Managers still faced difficulties because employees did not always follow predicted or rational patterns of behaviour. Thus, there was an increased interest in helping managers deal more effectively with the “people side” of their organizations. The real inspiration for the

movement, however, came from the Hawthorne experiments which were done by Prof. Elton Mayo<sup>7</sup> and his colleagues at the Western Electric Company's plant in Cicero, Illinois from 1927 to 1932. The plant employed 29,000 workers to manufacture telephone parts and equipment. We briefly describe these experiments in the following four parts:

Illumination Experiments

Relay Assembly Test Room

Interviewing Programme

Bank Wiring Test Room

We will briefly examine these experiments and their results.

**Illumination Experiments** This was the first phase of this study. In this phase, the popular belief that productivity is positively correlated with illumination was tested. Experiments were done on a group of workers. Their productivity was measured at various levels of illumination. But the results were erratic. Puzzled with this phenomenon researchers improved their methodology. This time, they set up 2 groups of workers in different buildings. One group called the control group worked under constant level of illumination and the other group called the test group worked under changing levels of illumination. The post-test productivity of the 0 groups was then compared and it was found that illumination affected production only marginally.

**Relay Assembly Test Room** In this phase, the object of the study was broadened. It now aimed at knowing not only the impact of illumination on production but also of such other factors as length of the working day, rest pauses, their frequency and duration and other physical conditions. A group of six women workers, who were friendly to each other, was selected for this experiment. These women workers were told about the experiment and were made to work in a very informal atmosphere with a supervisor-researcher in a separate room. The supervisor-researcher acted as their friend, philosopher and guide. During the study, several variations were made in the working conditions to find which combinations of conditions was most ideal for production. Surprisingly, the researchers found that the production of the group had no relation with working conditions. It went on increasing and stabilised at a high level even when all the improvements were taken away and the poor pre-test conditions were reintroduced. How this phenomenon came about, nobody knew. The workers were also not able to explain this phenomenon. They were neither closely supervised, nor motivated by extra reward. Obviously, something else was happening in the test room which was responsible for this. Researchers then attributed this phenomenon to the following factors:

Feeling of importance among the girls as a result of their participation in the research and the attention they got

Warm informality in the small group and tension-free interpersonal and social relations as a result of the relative freedom from strict supervision and rules

High group cohesion among the girls

**Interviewing Programme** The knowledge about the informal group processes which was accidentally acquired in the second phase made researchers design the third phase. In this phase, they wanted to know as to what were the basic factors responsible for human behaviour at work. For this purpose they interviewed more than 20,000 workers. At first, direct questions were asked relating to the type of supervision working conditions, living conditions and so on. But since the replies were guarded, the technique was changed to non-directive type of interviewing, in which workers were free to talk about their favourite topics related to their work environment. This study revealed that the workers' social relations inside the organization had an unmistakable influence on their attitudes and behaviours. The study brought to light the all-pervasive nature of informal groups which had their own culture and production norms which their members were forced to obey.

**Bank Wiring Observation Room** This phase involved an in-depth observation of 14 men making terminal banks of telephone wiring assemblies, to determine the effect of informal group norms and formal economic incentives on productivity. It was found that the group evolved its own production norms for each individual worker, which were much lower than those set by the management. Workers would produce that much and no more, thereby defeating the incentive system. This artificial restriction of production saved workers from a possible cut in their piece rates or an upward revision of their standards by the management and protected weaker and slower workers from being reprimanded or thrown out of the job—these being the days of the Great Depression.

Those workers who in their foolishness tried to produce more than the group norm were isolated, harassed or punished by the group in several ways and were called "rate busters". Those who

were too slow were nicknamed as “chisellers”, those who complained to the supervisor against their co-workers were called “squealers”. The study also revealed that the members of an informal group gave informal rankings to each other, which decided the internal social structure of the group and its informal leaders.

The experience of the Hawthorne studies produced a profound impact on the luminaries of the human relations movement. They came to realise the important role played by informal groups in the working of an organization. Research scholars now began to concentrate on the human aspect of management and the principle, that when people work together to accomplish group objectives, people should understand people.

## 2.4.2 Contributions and Limitations of the Human Relations Movement

**Contributions** The contributions of the movement may be summarised as follows:

A business organization is not merely a techno-economic system but is also a social system. Hence it is as important for it to provide social satisfaction to the workers as to produce goods.

There is no correlation between improved working conditions and high production.

A worker’s production norm is set and enforced by his group and not by the time and motion study done by any industrial engineer. Those who deviate from the group norm are penalised by their co-workers.

A worker does not work for money only. Non-financial rewards (such as the affection and respect of his co-workers) also significantly affect his behaviour and largely limit the effect of economic incentive plan.

Employee-centred, democratic and participative style of supervisory leadership is more effective than task-centred leadership.

The informal group and not the individual is the dominant unit of analysis in organizations.

### Limitations

It is a swing in the opposite direction and is as much incomplete as the scientific management and administrative management approaches. If Taylor and Fayol viewed task and structure as their central tenets and ignored the human variable, the human relations writers saw only the human variable as critical and ignored other variables.

The implicit belief of this approach that an organization can be turned into one big happy family where it is always possible to find a solution which satisfies everybody is not correct. Every organization is made up of a number of diverse social groups with incompatible values and interests. These groups might cooperate in some spheres and compete and clash in others. Two groups within the organization whose interests frequently come into conflict are management and the workers. Thus in a recession, the management of a company may clash with the workers if it decides to layoff some of them. No amount of “human relations” can sugarcoat this reality indefinitely. Management can only put off its decision for some time.

This approach over-emphasises the importance of symbolic rewards and underplays the role of material rewards. One must realise that for symbolic rewards to be effective, the recipient must first identify with the granting organization and, even more important, the symbols must be appreciated by the recipient’s “significant others”, i.e., his wife, friends, neighbours, etc.

Many times a worker in a factory is ridiculed by his coworkers on receiving a symbolic reward from his employer. Hence such rewards generally fail to achieve their objective of higher production.

This approach provides an unrealistic picture about informal groups by describing them as a major source of satisfaction for industrial workers. Many organizational researchers have shown that the workers do not come to the factory to seek affection and affiliation and that the formation of informal groups among them is not very common. Moreover, informal groups, wherever they exist, can only make the worker’s day more pleasant and not his task, which continues to remain repetitive, monotonous and uncreative.

This approach is in fact production-oriented and not employee-oriented as it claims to be. Many of its techniques (such as granting the workers inexpensive symbols of prestige, arranging picnics for the employees, running subsidised canteens, socialising with workers,

etc.) trick workers into a false sense of happiness but there is no improvement in their well-being.

The leisurely process of decision-making of this approach cannot work during an emergency. How far, for example, can a platoon commander, under orders to capture a hill, practise human relations in the thick of the battle? When decisions have to be made very quickly, when secrecy is important, when work is reduced to a routine, or when subordinates do not particularly care to be consulted, this approach may not work.

This approach makes an unrealistic demand on the superior. It wants him to give up his desire for power. A desire for power is one of the main reasons why people want to become managers.

This approach is based on a wrong assumption that satisfied workers are more productive workers. Attempts to increase output by improving working conditions and the human relations skills of a manager generally do not result in the dramatic productivity increases that are expected.

### **2.4.3 Behavioral Approach**

This approach is an improved and a more mature version of the human relations approach to management. Douglas McGregor, Abraham Maslow, Kurt Lewin, Chester Barnard, Mary Parker Follett, George Homans, Rensis Likert, Chris Argyris, and Warren Bennis are some of the foremost behavioural scientists who made signal contributions to the development of the behavioural approach to management. These scientists were more rigorously trained in various social sciences (such as psychology, sociology, and anthropology) and used more sophisticated research methods. Thus, these people came to be regarded as 'behavioural scientists' rather than members of the 'human relations' school. The findings of these people have enormously helped us in understanding organizational behaviour.

Behavioural scientists are highly critical of the classical organization structures which are built around the traditional concepts of hierarchical authority, unity of command, line and staff relationships and narrow spans of control. They argue that in these organizations there is a lot of domination of the work place by managers which causes subordinates to become passive and dependent on them. Behaviorists prefer more flexible organization structures and jobs built around the capabilities and aptitudes of average employees.

The behavioural approach recognises the practical and situational constraints on human rationality for making optimal decisions. It says that in actual practice, the decision-making is done in a suboptimal manner. Also, behavioural scientists attach great weightage to participative and group decision-making because it is felt that business problems are so complex that it is neither fair nor feasible to make individuals responsible for solving them.

Behaviorists underline the desirability of humanising the administration of the control process and encouraging the process of self-direction and control instead of imposed control. They also favour participation in the establishment, measurement and evaluation of standards of performance, prompt information feedback to those whose performance is off the mark and the need for positive and reformative measures instead of punitive measures.

Behavioural scientists are concerned with studying organizations in the field and less interested in establishing normative models. They have, therefore, made wide-ranging studies of human groups big

and small. They have studied such issues as why individuals join groups, group size, structure and process, group cohesiveness, and so on.

Behavioural scientists have made extensive studies on leadership. Their view is that while in general, the democratic-participative style is desirable, the autocratic, task-oriented style may also be appropriate in certain situations.

To behavioural scientists, the realistic model of human motivation is complex. This model suggests that different people react differently to the same situation or react the same way to different situations. No two people are exactly alike, and the manager should tailor his attempts to influence people according to their individual needs.

The behavioural approach to organizational conflict and change is quite pragmatic. It recognises that conflict is inevitable and sometimes is even desirable and should be faced with understanding and determination, that every organizational change involves technological and social aspects and that it is generally the social aspect of a change which people resist.

## 2.5 MODERN APPROACHES

### 2.5.1 Quantitative Approach

This approach, because of its use of scientific methods for problem-solving and its emphasis on establishing normative models of managerial and organizational behaviour for maximising efficiency, is considered as a descendant of the scientific management movement. Towards the beginning of this approach – operations research (OR) was the only quantitative method of analysis, OR is also called the – management science. It gained momentum during the Second World War when the UK and USA were desperately trying to seek solutions to a number of new, complex problems in warfare. The interdisciplinary groups of scientists who were engaged for this purpose were known as operations research (OR) teams because their work consisted of analysing operations and carrying out applied scientific research.

In later years, when the war ended, people made use of this technique in solving problems of industry also. Today OR works in approximately the following manner. A mixed team of specialists from relevant disciplines is called in to analyse the problem and to propose a course of action to the management. The team constructs a mathematical model to simulate the problem. The model shows, in symbolic terms, all the relevant factors that bear on the problem and how they are interrelated. By changing the values of the variables in the model (such as increasing the cost of raw materials) and analysing the different equations of the model generally with a computer, the team can determine what the effect of each change would be. Eventually, the OR team presents the management with a rational base for making a decision.

Statistical methods, a second variety of quantitative analysis, are undoubtedly more pervasive in management than operations research, partly because they are older in application and partly because of their versatility. The best known uses of statistical methods involve sampling theory. It is often inferred from the characteristics appearing in a sample what the larger universe, from which the sample is taken, resembles. Moreover, the probability theory is finding new applications to problems that are not strictly of a sampling character, that is, the problems involving use of past experience in determining optimum policies for the future.

It is clear from the above description that the focus of the quantitative approach is on decision-making to provide quantitative tools and techniques for making objectively rational decisions. Objective rationality implies an ability and willingness to follow a reasoned, unemotional, orderly and scientific approach in relating means with ends and in visualising the totality of the decision environment.

This approach focuses on the manager as decision-maker. The keynote of this approach is precision and perfection which is achieved by expressing relationships and facts in quantitative terms. The approach has been widely used in planning and control activities where problems can be precisely identified and defined in quantitative terms. But its use is still uncommon in such areas as organizing, staffing and leading the organization where the problems are more human than technical in nature.

### 2.5.2 Systems Approach

A common pitfall of the classical, behavioural, and quantitative schools is that they stress one aspect of the organization at the expense of others. Whereas the classical approach emphasises the – task and – structure, the behavioural approach emphasises – people and the quantitative approach emphasises – mathematical decision-making.

However, it is difficult to know which aspect is most useful and appropriate in a given situation. What is needed is one broad, detailed, conceptual framework that can help a manager diagnose a problem and decide which tool or combination of tools will best do the job. The systems approach provides him this integrated approach to management problems.

Some important advocates of the systems approach are Chester Barnard, George Homans, Philip Selznick and Herbert Simon. The following are the *key concepts* of this approach.

**A system is a set of interdependent parts** that together form a unitary whole that performs some function. For example, the universe is a system of heavenly bodies that includes many subsystems of stars called galaxies and the human body is made up of different parts such as skeleton, circulatory system and nervous system. An organization is also a system composed of four interdependent parts, namely, task, structure, people and technology. The structure refers to the formal division of authority and responsibility, communication channels and work flow. The people subsystem refers to the employees with their motives, attitudes and values and the informal organization. The technology subsystem refers to the tools and equipment as well as techniques which are used by the organization to perform its task.

**Central to the systems approach is the concept of —holism** that means that no part of the system can be accurately analysed and understood apart from the whole system. Conversely, the whole system cannot be accurately perceived without understanding all its parts. Each part bears a *relation of interdependence* to every other part. This means that rather than dealing separately with the various parts of one organization, the systems approach tries to give the manager a way of looking at the organization as a whole. It tells him that to understand, for example, the operations of the research and development or manufacturing or the marketing division of a company, he must understand the company as a whole, for the activity of anyone part of the company affects the activity of every other part. This concept is called *—Gestalt* in the field of psychology.

The above concept facilitates more effective diagnosis of complex situations and increases the likelihood of appropriate managerial actions. Perhaps the best example of the application of this concept can be found in the study of 12 restaurants in Chicago by William Foote Whyte and his 3 associates. The employees of these restaurants were facing the common problem of sudden overwhelming load of orders during rush hours. That was when the waitresses broke out in tears because, they mixed up the orders and could not execute them in proper sequence cooks grew sentimental and walked off the job because they could not match their output rate with the sudden increase in the input rate and the managers lost their temper and dismissed employees summarily because of the customers' complaints.

The researchers diagnosed all the components and concluded that the real problem was the flow of *information*, which needed to be redesigned to make everybody's job easier. They suggested that a mechanical device *—spindle* be installed and waitresses instead of interacting with the cooks face to face should put their order slips on clips on this spindle. The spindle acted:

*As a queuing device* The waitresses could place their order slips on clips as they received them, and the cook could take each of them in its turn. Thus the orders, and not the waitresses, waited in line.

*As a visual sorting device* The cook could see if there were several orders of the same type, which could be prepared together.

*As a record of what went wrong* When a mistake occurred, correction could be made and the blame, if necessary, be correctly apportioned.

Had researchers limited their analysis only to the *—people* component this would have led them to exploring such inappropriate answers as incentive schemes, human relations training, selection procedures and time and motion studies.

**A system can be either open or closed.** An open system is one which interacts with its environment. A closed system is one which is independent of the environment. The classicists regarded organizations as closed systems. They ignored the effect of the environment. But all the living systems, whether biological organizations or social or business organizations are actually dependent upon their external environment for information, material and energy. These enter the system from the environment as inputs and leave the system as outputs. Hence they are rightly conceived as open systems by modern writers. The inputs of a business organization are raw materials, power, finance, equipment, human effort,

technology and information about market, new products, government policies, etc. The organization changes these inputs into outputs of goods, services and satisfaction. This transformation process is known as *—throughput*.

In general, transformation processes can be categorized as follows:

Physical (as in manufacturing)

Location (as in transportation)

Exchange (as in retailing)

Storage (as in warehousing)

Physiological (as in health care)

Informational (as in telecommunications)

These transformations are not mutually exclusive. For example, a retailer can (a) allow customers to compare prices and quality (informational), (b) hold items in inventory until needed (storage), and (c) sell goods (exchange).

It should be remembered that the output of a system is always more than the combined output of its parts. This is called *—synergy*. In organizational terms, synergy means that as separate departments within organization cooperate and interact, they become more productive than if they had acted in isolation. For example, it is obviously more efficient for each department in a small firm to deal with one financing department than for each department to have a separate financing department of its own.

One important mechanism which enables a system to adapt and adjust to the changing conditions of its environment and to exercise control over its operations is feedback. As operations of the system proceed, information is fed back to the appropriate parts so that the work can be assessed and if necessary, corrected. A system will be effective, i.e., able to achieve its objectives, when there is a match between the information processing requirements facing its parts and their information processing capacity. When this state is achieved with maximum efficiency the system is optimized.

**Every system has a permeable boundary.** Boundaries can be more clearly observed and therefore more precisely defined where they are physical. For example, we can define the physical boundaries of India very precisely. They can also be maintained psychologically through symbols such as titles, uniforms and indoctrination rituals. But it is difficult to define the boundary of an organization. Organizations being social systems do not have clearly observable boundaries. Generally, the activities necessary for their transformation process define their boundaries. The concept of boundary is useful in several ways such as discussed below.

It helps a system in determining where it ends and the other system begins.

It divides those elements that are a part of a system from those that are a part of its environment.

It enables a system to protect its transformation process from the vagaries of its environment.

Manufacturing organizations protect their core operations from fluctuations in market conditions by creating several units on the input and output sides of their boundaries. These units are known as *boundary-spanning units*. Examples of such units on the input side are the purchase and personnel departments. Purchase departments ensure a steady flow of standardized inputs into the production process. They protect the process against several unforeseen events such as a strike in a supplier's plant. Similarly, a personnel department's constant hiring and training programme for certain types of workers absorbs fluctuations in manpower. Examples of boundary spanning units on the output side are marketing, warehousing and quality control departments. Marketing department uncovers trends in the demand for its organization's products and communicates this information to purchasing personnel. Warehousing permits the technical core to produce at a constant rate but distribution to fluctuate with market conditions. Quality control department filters the output of the organization to prevent customer complaints from arising and penetrating organization's boundaries.

### 2.5.3 Contribution of Systems Approach

In the traditional approaches only that part of the organization is studied which is plagued with a problem. But in the systems approach a problem is studied both at the level of the sub system (i.e., the micro-level) and the total system (i.e., the macro-level).

The systems approach follows a logical process of deductive-inductive reasoning. The questions considered include the following:

How many distinguishable elements are there to this seeming problem?

What cause-and-effect relationships exist among these elements?

What function needs to be performed in each case?

What trade-offs may be required among resources, once they are defined?

The reasoning process always goes through several stages of development starting with general objectives and proceeding to plans, then back to redefining objectives and making more detailed plans, then back again and so forth.

However, application of this approach to business organization results in the requirements that executives, in addition to having skills in their own functional areas, should have enough knowledge of other areas also. They should be generalists.

There are some writers who contend that there is nothing new in this approach. They say that this approach simply combines the views of the classicists and the neo-classicists, which tantamount to pouring old wine into new bottles.

### 2.5.4 Contingency Approach

The contingency approach is the second approach (the first being the systems approach) that attempts to integrate the various schools of management thought. According to this approach, management principles and concepts of various schools have no general and universal applicability under all conditions. In other words, there is no one best way of doing things under all conditions. Methods and techniques which are highly effective in one situation may not work in other situations. What is good for the goose may not be good for the gander. Results differ because situations differ. Accordingly, the contingency approach suggests that the task of managers is to try to identify which technique will, in a

particular situation best contribute to the attainment of management goals. Managers have, therefore, to develop a sort of situational sensitivity and practical selectivity.

Contingency views are applicable in designing organizational structure, in deciding the degree of decentralization, in planning information decision systems, in motivational and leadership approaches, in establishing communication and control systems, in resolving conflicts and managing change, in employee development and training programmes and in several other areas of organization and management. A detailed description of these views is given at relevant places in the chapters ahead.

We have described all major approaches to management thought in terms of their chronological emergence. It often seems that the boundaries between these approaches are becoming progressively less distinct, as the classical approach, which is incorporating many insights and concepts of other approaches, continues to remain the most important approach. We now find several smart bureaucratic organizations making efforts to reduce the amount of work people have to do by getting rid of red tape or helping people understand that they are going to have a satisfying career even without ascending hierarchically.

### 2.5.5 Relationship between Systems and Contingency Approaches

Contingency approach has emerged out of the systems approach. Contingency theorists have accepted the basic tenets of systems approach. They accept the basic features of organization-environment relationship and dynamic nature of organization. However, they feel that systems approach is too abstract to apply for managerial action. This can be overcome by modifying systems framework and translating it into operational framework. Therefore, both approaches are related but they differ in certain context. A comparison between the two can be presented as follows:

**Model of Human Being.** The range of activities of human beings is different under two approaches. Systems approach usually employs a richer model of human beings than contingency approach. The former takes into account the full range of human behaviour in the organization while contingency approach, by and large, is interested in structural adaptation of organization to its task environment. Therefore, contingency theorists talk mostly in terms of structural change in the organization in response to a change in the environment.

**Organizational Variables.** Systems approach is very broad in considering the organizational variables. It tries to cover personal, social, technical, structural and environmental variables. Therefore, managing involves establishing relationships among these variables and considering them in taking any action. Contingency approach, on the other hand, concentrates on structural adaptation of organization. This approach tends to predict the ultimate outcome of a disturbance of the organizational equilibrium by a change in the task environment.

**Evolution.** Major contributors in systems approach have been social psychologists while sociologists have contributed to contingency approach. Contingency approach has been built up over systems approach. Therefore, it is possible that both approaches may merge or profoundly influence each other. In fact, there are signs of convergence of two approaches. This is likely to continue and systems approach may specify situations under which a particular type of organization can function well. In fact, equifinality character of open system suggests that different strategies can be adopted by an organization facing a particular problem. Similarly contingency approach may provide the process by which the organization may adapt to its task environment. Both these efforts are quite similar.

### 2.5.6 Implications of Contingency Approach

Contingency approach is an important addition to the paradigm of modern theory of management. It is the sophisticated approach to understand the increasing complexity of organizations. It emphasises the multivariate nature of organizations and attempts to understand how organizations operate under varying conditions. The approach is directed towards suggesting organizational designs and managerial actions most appropriate to specific situations. The major implications of contingency approach are as follows:

Management is entirely situational and there is nothing like universal principles of management or one best way of doing a particular thing. What managers do depends on the circumstances and environment. Lorsch and Lawrence have described the implication of situational management as follows:

Underlying this new approach (contingency approach) is the idea that the internal functioning of organizations must be consistent with the demands of the organization task, technology, or external environment, and the needs of its members if the organization is to be effective. Rather than searching for the panacea of the one best way to organize under all conditions, investigators have more and more



tended to examine the functioning of organizations in relation to the needs of their particular members and the external pressures facing them. Basically, this approach seems to be leading to the development of a 'contingency' theory of organization with the appropriate internal states and processes of the organization contingent upon external requirements and member needs.¶

The approach suggests suitable alternatives for those managerial actions which are generally contingent upon external and internal environment such as organizational design, strategy formulation, decision systems, influence systems, leadership, and organizational improvement. In all these cases, action alternatives cannot be arranged in advance but have to be identified and adjusted according to the situations in which decisions in respect of these have to be made.

Contingency approach suggests that since organization interacts with its environment, neither the organization nor any of its subsystems is free to take absolute action. Rather, it has to modify and adjust the actions subject to various forces like social, political, technical, and economic. Besides, the actions should be according to the needs of internal state of the organization or its subsystems. Thus the basic problem of managing is to align the internal state with the external state.

### 2.5.7 Limitations of Contingency Approach

In spite of the various contributions, contingency approach has not been acknowledged as a unified theory of management because it suffers from some limitations. These limitations are of the following nature:

**Inadequate Literature.** Contingency approach suffers from inadequacy of literature. Therefore, it has not adequately spelled out various types of actions which can be taken under different situations. It is not sufficient to say that 'managerial action depends on the situation.' The approach should provide 'if this is the situation, this action can be taken'. Unless this is done, the approach cannot offer much assistance to the practice of management. No doubt, researches have been conducted in this direction but, by and large, they have not satisfied the needs of managers.

**Complex.** The suggestion of the approach is very simple, that is, managers should do according to the needs of the situation. However, when put into practice, this becomes very complex. Determination of situation in which managerial action is to be taken involves analysis of a large number of variables with multifarious dimensions. Therefore, there is a possibility that managers, who are always short of time, may ignore the thorough analysis of all these variables and may resort to short-cut and easier way.

**Difficult Empirical Testing.** Contingency approach, being complex, presents problems in testing the precepts of the theory. For empirical testing of a theory, it is necessary that some methodology is available. No doubt, methodology is available but because of the involvement of too many factors, testing becomes difficult. For example, contingency theory suggests that greater the degree of congruence between various parts of organizational components the more effective will be organizational behaviour at various levels. This lacks the empirical validity and hence cannot be adopted to managerial actions.

**Reactive not Proactive.** Contingency approach is basically reactive in nature. It merely suggests what managers can do in a given situation. For a given organization suprasystem constitutes environment and management can be applied to suprasystem also. Therefore, managers are responsible to manage the environment in such a way that they avoid the undesirable aspects of environment. Since the managers are quite powerful in the society, they must be in a position to provide a sense of direction and guidance through innovative and creative efforts specially in coping with the environmental changes. No doubt, these limitations are valid, but the situation remains that at micro level, managers have to manage according to contingency approach. They should not ignore the importance of taking actions according to the needs of the situations. For analysing the situations, they will have to use their highest skills.

### 2.8 SUMMARY

The history of management can be divided into three periods—early, neo-classical and modern. The early period consists of three approaches, viz., the scientific management, the administrative management and bureaucracy. Neo-classical period consists of the human relations and behavioural approaches. Modern period consists of the quantitative, systems and contingency approaches.

Each one of the above approaches has made a distinct contribution to management theory. The stress in the scientific management approach is on the task aspect of group effort, in the administrative management approach, it is on laying down universal principles of management and in bureaucracy it is on following standard rules. In the human relations approach the stress is on the human aspect of group effort. The behavioural approach recognises the practical and situational constraints of human behaviour. Quantitative approach emphasizes the use of Operations Research or mathematical decision-making. Systems approach emphasises the concept of holism. Contingency approach attempts to integrate all previous approaches.

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## 2.10 SUGGESTED READINGS

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Principals of Management: P.C. Tripathi, P.N. Reddy (*Tata McGraw Hill Private Limited*)  
Business Organization & Management: R.K. Sharma, Shashi K. Gupta (*Kalyani Publishers*)

## 2.11 TERMINAL AND MODEL QUESTIONS

- Briefly describe the general principles of management as laid down by Henri Fayol. Is his list exhaustive?
- Give a brief account of the contribution of management thought made by Elton Mayo.
- Point out the distinctive contribution of Taylor to the theory of management. Why is he regarded as the father of scientific management?
- Describe the system approach to management. How does it differ from the contingency approach?
- What is the major task of manager according to the contingency approach? How is this approach an effort to integrate all previous approaches?
- What are the important features of a bureaucratic administration? Describe its dysfunctional consequences.

Activity 1

**Explain** the contingency approach.

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Activity 2.

**Examine** the contributions of F.W. Taylor's scientific management.

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## CHAPTAR - 3

### SOCIAL RESPONSIBILITIES OF BUSINESS

#### 3.1 Objective

**Define social** responsibility and describe its origin and growth

**Examine** the different views on social responsibility

**Discuss** the social responsibilities of business towards different groups

**Review** the social performance of business in India

**Explain** social audit

**Define** business ethics and analyse ethics and corruption in international business

**Explain** corporate governance and its benefits

**Describe** corporate governance in India

#### 3.2 INERODUCTION

In the preceding chapter we have learnt that every business organization is an open system it has a bewildering variety of dynamic forces in its environment which continuously impinge upon it and affect its working. Examples of these forces are state laws, political climate, social values, customer, suppliers, competitors, trade unions, and so on. These forces lay down criteria of judging an organization and require it to adjust its performance to meet these criteria. These criteria change with the times. A business organization today is judged by criteria which are very different from those of half a century ago. It has not only to be efficient to satisfy the industrialist by earning him more profits or satisfy the investor and the financier by paying them more dividend and interest; it has also to be conscious of its wider social responsibilities.

#### 3.3 MEANING OF SOCIAL RESPONSIBILIY

Social responsibility is a nebulous idea and hence is defined in various ways. Adolph Bend has defined social responsibility as the manager's responsiveness to public consensus. This means that there cannot be the same set of social responsibilities applicable to all countries in all times. These would be determined in each case by the customs, religions, traditions, level of industrialization and a host of other norms and standards about which there is a public consensus at any given time in a given society.

According to Keith Davis, the term "social responsibility" refers to two types of business obligations, viz., (a) the socio-economic obligation, and (b) the socio-human obligation.

The socio-economic obligation of every business is to see that the economic consequences of its actions do not adversely affect public welfare. This includes obligations to promote employment opportunities, to maintain competition, to curb inflation, etc. The *socio-human* obligation of every business is to nurture and develop human values (such as morale, cooperation, motivation and self-realisation in work).

Every business firm is part of a total economic and political system and not an island without foreign relations. It is at the centre of a network of relationships to persons, groups and things. The businessman should, therefore, consider the impact of his actions on *all* to which he is related. He should operate his business as a trustee for the benefit of his employees, investors, consumers, the government and the general public. His task is to mediate among these interests, to ensure that each gets a square deal and that nobody's interests are unduly sacrificed to those of others.

##### 3.3.1 Different Views on Social Responsibility

There are four different views on the social responsibility of business. These are as under:

**Communist View** This view advocates the imposition of social responsibilities on business through the instrumentality of the State. Communists hold that free industrial civilisation is not good because its values are of the wrong order. Business has been concerned only with material gain. Economic expediency is taken to be the sole criterion of decision. Therefore, business is evil. Compromise is impossible between the church and the idolatry of wealth which is the practical religion of capitalist societies. Because of this immorality of business standards, this view advocates an imposition of social responsibilities through legislation or force.

**Capitalist View** This view holds that economic expediency alone is a just standard for business decisions and that business has an unbridled and an uncontrolled right to make money free from all sorts of social responsibilities. It is argued that by maximising its profit objectives, business gratifies its personal desires and at the same time satisfies the needs of society. Therefore, business should not have any

responsibility beyond obeying certain legal codes in achieving its goals. Welfare of society is not the corporation's business. Its business is to make money. If business once begins to serve the public, it will never be able to serve enough. Levitt in a powerful attack on social responsibility of businessmen points out that if business assumes a large measure of social responsibility for employee welfare, it will lead to a sort of neofeudalism with all its paternalistic and autocratic ills. The result would be socially less desirable than in the days before businessmen were concerned with social responsibility Milton Friedman, who won a Nobel Prize in 1976, holds the view that business should go on with the business of producing goods and services efficiently and leave the solution of social problems to government agencies and concerned individuals. In short, managers should focus on what they know best: how to make a profit.

**Pragmatic View** This view acknowledges the importance of profits but simultaneously stresses the need for social responsibility. It holds that a company cannot make a social contribution if it is not profitable. Profits are the test of the efficient functioning of a business enterprise. A sick and bankrupt organization is a social liability and can hardly contribute in the area of social responsibility. Hence a businessman's first responsibility is to keep his business solvent. But he must also voluntarily assume social responsibilities beyond the legal minimum. This can be done at three levels. At the first level, the manager goes beyond the legal minimum and caters also to *public expectations*—*moving* as the winds of public opinion blow. At the second level, he *anticipates* public expectations and acts accordingly. At the third and highest level, he *creates* new public expectations by voluntarily setting and following the loftiest standards of moral and social responsibility.

**Trusteeship View** This view advocates the retention for personal use of so much as is necessary for an honourable livelihood, no better than that enjoyed by million others; and the utilisation of the rest for the welfare of the community. The trusteeship slogan is *enjoy thy wealth by renouncing it*. Earn your crores by all means but understand that your wealth is not yours; it belongs to the people.

### 3.3.2 Social Responsibilities of Business Towards Different Groups

Every businessman is at the centre of a network of relationships which consist of those between him at one end and his workers, employees, consumers, shareholders, other businesses, community and the government on the other. A businessman's social responsibilities to each of these parties are briefly enumerated below.

#### Towards the Consumer and the Community

Production of cheap and better quality goods and services by developing new skills, innovations and techniques, by locating factories and markets at proper places and by rationalising the use of capital and labour.

Leveling out seasonal variations in employment and production through accurate forecasts, production scheduling and product diversification.

Deciding priorities of production in the country's interest and conserving natural resources.

Providing for social audit (see section below).

Honouring contracts and following honest trade practices.

Some important but dishonest trade practices are: making misleading advertisements calculated to deceive the purchaser; misbranding of articles with respect to their material, ingredients, quality, origin, etc.; selling rebuilt or secondhand goods as new; procuring business or trade secrets of competitors by espionage, bribery or other means; restraining free and fair competition by entering into combination agreements; using containers that do not give a correct idea of the weight and quantity of a product; making false claims of being an "authorised dealer", "manufacturer" or "importer" of certain goods; giving products misleading names so as to give them a value which they do not possess; declaring oneself insolvent through questionable financial manipulations.

Making real consumer needs as the criterion for selecting messages to be given by product advertisements. Nearly all current advertising seeks to create wants. Thus, people no longer buy soap to make them clean. They buy the promise that it would make them beautiful. Toothpaste is bought not to kill bacteria but to create white teeth. Cars are bought for prestige rather than travel. Even foodstuffs such as oranges are bought for vitality, not nutrition. This kind of advertising promotes over-consumption, forces consumers to constantly compare themselves negatively with others, creates in them dissatisfaction with the old and outmoded, and makes them feel that without a particular brand of a product they are losers.

Preventing the creation of monopolies. Monopolies are bad in that they make the community face high prices, short supply and inferior quality of goods. Inequalities of wealth distribution are accentuated and the standards of public morality deteriorate as bribing the judges, legislators and the government to gain favours becomes very common.

Providing for after-sale servicing.

Ensuring hygienic disposal of smoke and waste and voluntarily assisting in making the town environment aesthetically satisfying.

Achieving better public relations (that is, creating a more favourable attitude towards the enterprise) by giving to the community, true, adequate and easily intelligible information about its working.

Supporting education, slum clearance and similar other programmes.

### **Towards Employees and Workers**

A fair wage to the workers (and not merely one determined by market forces of supply and demand), which is possible only when the businessman is willing to accept a voluntary ceiling on his own profits.

Just selection, training and promotion (without any discrimination on grounds of sex, race, religion and physical appearance).

Social security measures and good quality of work life.

Good human relations (i.e., maintaining industrial peace, creating conditions for collective bargaining, educating workers to produce their own leadership and participative management).

Freedom, self-respect and self-realisation. A businessman should devote his knowledge and ability not only to making his worker's life more affluent, but also to making it more satisfying and rewarding. There should be an awareness that the quality of man's life is as important as the quantity of his material wealth.

Increase in productivity and efficiency by recognition of merit, by providing opportunities for creative talent and incentives.

### **Towards Shareholders and Other Businesses**

Promoting good governance through internal accountability and transparency.

Fairness in relations with competitors. Competition with rival businessmen should always be fair and healthy, based on rules of ethics and fair play rather than on rules of warfare. Businessmen sometimes treat their rivals as enemies and try to harm each other by malicious propaganda, price-cutting, interference in production and distribution.

### **Towards the State**

Shunning active participation in and direct identification with any political party.

Observing all the laws of land which may have the following objectives:

To provide direction to the economic and business life of the community.

To bring about harmony between the limited enterprise interest and the wider social interest of the country.

To provide safeguard against errant business practices.

To compel business to play fair to all participants in the economy—employees, shareholders, minority shareholders, etc.

To prevent oppression or exploitation of the weaker partners in business, such as employees, minority shareholders, etc.

To enforce maximum production according to the priority of sectors and production lines laid down by the government.

To allocate limited resources according to social priorities and preferences.

To enforce distributive justice, especially to weaker sections of the community.

To implement rural uplift and secure balanced development of the country.

### **3.3.3 Arguments for Social Responsibility of Business**

**Public Requirements.** Business can exist only with public support and only if business fulfills needs of society. One of main arguments for social responsibility is that public expectations from business have changed. Therefore if business wishes to remain in existence in long term it must respond to society's needs and give society what society wants. The business must come upto expectations of public for its survival since the demand for products r services arises from customers who are a part of society. Since business is a part and parcel of society, it must think of its responsibilities.

**Favourable for Business.** Performance of social obligation by business will not only be in the interest of society but in its own interest also. The firm which is more responsive to improvement of community quality of life will as a result have better community in which to conduct its business. People with healthy environment, good health and education will make them good customers and employee. Recruitment of labour will be of higher quality. Turnover and absenteeism will be reduced. The society may reject an enterprise which does not care for social welfare. Crime rate will also decrease as a result of social improvements.

**Moral Justification.** Nowadays modern industrial society faces many serious social problems as a result of emergence of large companies. Therefore these large corporations have a moral responsibility to solve these problems. Also business which is using so many resources of our economy, has responsibility to devote some of these resources in overall development of society.

**Socio-cultural Norms.** In country like India where social and cultural values have long and rich heritage, a business promoting social equalities, healthy employer-employee relations, consumer service will enjoy better social position. A business working against traditional values will face criticism from society.

**Business can shoulder Responsibility.** Many people who feel frustrated with failure of other institutions in handling social problems are turning to the business for their solution to social problems. In such a situation, it becomes the duty of business to come upto expectation of public and fulfill its responsibilities towards society.

**Responsibility must Correspond with Power.** Business enjoy social power to a great extent. So they do affect economy, minorities and other social problems. Business should perform equal amount of social responsibility to match their social power. If they don't then it will reflect their irresponsible behaviour, which will ultimately affect the natural growth.

**Public Image.** Only that firm can enjoy better reputation in public which supports social goals. Each firm seeks an enhanced public image so that it may gain more customers, better employees, more responsive money markets etc. It is possible only if business performs its responsibilities towards society whole-heartedly which will result in raising the value of shares and debentures held by the owners.

**Government Regulations.** If business does not respond positively to the needs of society, then it may be compelled to do so through government laws and regulations. Before government stretches its long arms, the business should discharge its obligations to society. It has to regulate the business in public interest.

**Indebted to Society.** Business units benefit from society. In return it also has certain debts that it owes to society. Business uses vast pool of resources in terms of men, talents, expertise and money. Business is in a position to work for social goals with the help of these resources. Also corporations unlike citizens are created by society so they have certain civic duties and responsibilities.

### 3.3.4 Arguments Against Social Responsibility

**Deviation from Main Objective.** The main goal of business is 'profit maximisation'. Economic efficiency of business is a top priority and any deviation from this would divert the business from its mission. The welfare of employees and owners will also be served well by increasing profitability. Moreover performance of social obligations will also involve large sums of money which will adversely affect the financial position of the concern. Business's function is economic not social and economic values should be the only criteria to measure the success.

**Increase in Prices.** Cost of social responsibility will be passed on to the society in the form of increased prices. When a business house is required to spend money on performing social obligations, the money spent on social welfare will be collected from consumer only by way of increased prices of goods and services. So ultimately it is the consumer only who bears the burden of social obligation.

**Excessive Concentration of Power.** Combining social activities with economic activities of business would mean giving business excessive concentration of power. Business has already got enough social power, giving them more social power would mean letting them influence society in education, in home, in government and in market. This way society will also start depending upon business. This influence of business on society may create social, economic and political problems.

**Lack of Social Skill.** Businessmen who are good at managing business may not be good at solving social problems. A businessman devotes all his energies in running his business efficiently and smoothly. He may not have the required skill to solve complex social problems. Also why choose a group of people who do not have qualification and skill to solve social problems. The problem has, however,

been solved to great extent by institution like Xavier Institute of social science and IRMA (Institute of Rural Management Anand) which train students for social work only.

**Lack of Accountability.** Businessmen have no direct accountability to the people. So it is not a wise step to give responsibility to businessmen for areas for which they are not accountable. The management of a business is accountable to the owners for its performance. It is not accountable to anyone for its social obligation.

**Influence on Social Set-up.** When business concern spends money in solving social problems then they may try to influence society for their own good. The society will also start depending upon business which in turn may create many social, economic and political problems.

**Opposition from Society.** All groups in society may not support the involvement of business in social goals. Although few persons wish the business to become more actively involved in performance of social obligations but at the same time, others may oppose this idea. There is difference of opinion among general public, government and even among businessmen themselves.

**Complex Social Problems.** Some social problems like destruction of rain forests, AIDS, ozone depletions, sex discrimination are so complex that even most socially conscientious companies fail to solve these. Also business has its own problems like delivering goods of quality at less prices, earn profit for shareholders, paying taxes to government and stand in competitive world. How can we expect business to undertake social responsibility amidst so many problems of its own?

### 3.3.5 Limits of Social Responsibility

The social responsibility is a concept which has been well understood by the businessmen today and they are all set to realise the goals of social responsibility. But there are certain factors which limit the social responsibility actions of business houses and those are :-

- (j) Cost
- Efficiency
- Relevance
- Scope

**Cost :** To fulfill and implement social responsibility the main thing required is money. All the actions towards social responsibility involve cost e.g. donations to educational institution, adopting a village or district for different projects like adult education & health etc., construction of hospital, relief to needy people in times of storms, draughts or any other natural calamity. So at times the intentions for social benefit can not be put into actions for paucity of funds.

**Efficiency :** An effort towards social responsibility actions may bring down efficiency and ultimately the ability to stand in competitive market e. g. A company may continue its business even if it is running into losses with the feeling of its duty towards society and welfare of employees. As a result efficiency will go down. A number of projects being run for the benefit of the society still continue even if the company has to bear losses.

**Relevance :** How far the task of social responsibility is relevant. This question still remains controversial. Some critics are of the view that business has no social obligation to society. They are of the opinion that business has to ignore and tax its own employees and customers in an effort to fulfill social responsibility. The social problems should be the problem of government or concerned individuals, and business should concentrate on production of goods and services efficiently and effectively.

According to Friedman, "There is one and only one social responsibility of business, to use its resources and energy in activities designed to increase its profits so long as it stays within the rules of the game. . . (and) engages in open and free competition without deception and trend ..."

**Scope :** There are some social problems the permanent solution to which is not in the hands of human beings and those problems are too complex and deep rooted like drug addiction, sex discrimination, ozone depletions, environment pollution. As it is business also has number of complex problems which are to be solved and concentrated upon, so it will be unfair to expect from businessmen to solve another complex problem of social responsibility.

### 3.3.6 Barriers to Social Responsibility

To fulfill the task of social responsibility the following problems may be faced at organizational level which hinder the process of implementation of achieving the goal of social responsibility.



### **The Manager:**

The managers are extra cautious while planning and implementing the programmes related to social responsibility as the people at high level may not approve the plans of managers if they feel the plans to be non-profitable to organization. It is the manager who is ultimately responsible for social action programmes of any organization. The manager can also plan or implement the social action programme.

### **(ii) The Organization:**

The main objective of any organization is profit maximisation as shareholders want dividend ultimately or they may like the profits to be reploughed back for expansion of business and people working in the organization expect higher & higher salaries. So Social action projects need to be evaluated very carefully in terms of cost and benefit. So social responsibility may be overlooked while achieving the main objective of the organization i.e. profit maximisation.

### **(iii) The Industry:**

There are many competitors in the same industry for an organization. When a particular organization does some socially beneficial activity for the benefit of society only then it may not be appreciated by other competitors in the industry which makes individual organization very difficult to survive in the industry alone.

### **(iv) The Division:**

There are number of divisions in the organization which are competing among themselves and also strive towards main goal of organization i.e. profit. Any social responsibility decision and project which affects or reduces the profit might threaten the existence of that particular division. This is one of the main reasons that most of the divisions feel hesitant in initiating and implementing social responsibility programmes unless & until there are clear guidelines and instructions from the people at top level.

### **3.3.7 Social Responsibility—The Indian Situation**

The concept of social responsibility is very old in India. Businessmen were treated with great respect also because of prevalence of the concept of parting with one's wealth for the benefit of society. Merchants have always been charitable and provided relief in difficult times of draughts, famine or epidemics. Over the years this practice remained same except the shift from merchant charity to corporate citizenship.

The merchants were leaders not only in the economic but also the social fields and took active interest in social reforms and in public life as well.

J. K. D. Tata was first to conduct social audit in India. Number of leading companies have realised the social responsibility and recognised the concept of social responsibility of corporate sector. Number of schools, colleges, hospitals, research institutes, technological institutes, management

institutes, libraries, museums,, places of religions worship, institutes for old and orphans, have been set

up with the help of business community. There has been huge contributions from many businessmen for the poor and needy in times of droughts earthquakes, floods and other natural calamities. The problem of damage to ecology is a serious problem now-a-days which has been handled by many businessmen in very effective way, The number of measures taken to control Pollution in environment shows the efforts put in by them with the help of government. Public sector is guilty as private sector as far as the problem of pollution of environment is concerned. There are many public sector enterprises in India which have failed to discharge their primary responsibilities as well.

There has been change in attitudes of society and the business community itself about its obligations to society and the way of expressing it. Now there is more of direct engagement in the mainstream development concerns and in helping disadvantaged groups in the society.

An international seminar was held in New Delhi in March 1965 to define social responsibility of business followed by another seminar in March 1966 in Calcutta. A National Committee on Social Responsibilities of Business was also constituted. In 1980 big business houses adopted 100 villages for developing them as model villages.

JRD Tata has been pioneer and instrumental in conducting first social audit in India. Number of leading companies in India have come forward to discharge social responsibility by setting up of schools, colleges, hospitals, technological institutes research institutes, libraries, dharmshalas, institutes for deaf, dumb and blind. Some of business houses have also undertaken welfare measures like health and medical facilities for poor, helping drought and floods victims. The problem of environmental pollution caused by industries has also been solved to great extent by some enterprises taking pollution abatement measures.

The problem of industrial labour unrest has also been taken care of by ensuring participation of labour in management. The public sector in India has yet to prove that it is more responsive to society than the private sector. The performance of public sector has been very bad as it is evident from the huge losses incurred by it as a result of inefficiency, irresponsibility and mismanagement at different levels. This results in shortages, higher prices and more taxes. So a social audit is probably badly required for public sector than private sector.

Though the business units in India have started realising their responsibility towards society, but member of such units is very limited. Government should take legislative measures to force all business units to contribute something for social uplift. Besides legislative measures, awareness about social responsibility should be created. Business should prepare a code of ethics for social upliftment. The company law can also make a provision to make it obligatory for units having investment beyond a certain limit to spend a part of their profits on social welfare activities. The companies should also show in their balance sheets the amount they have spent on social obligations.

### 3.3.8 Social Responsibility Implementation

Business Responsibility is towards :-

**Employees.** The success of an organization depends to a very large extent on the morale of employees and their co-operation. Responsibility towards employees of an organization includes selection, training, promotion fair wages, safety, health, comfortable working conditions, participative management their education, installation of an efficient grievance handling system etc. TATA's first introduced many welfare measures for the benefit of their employees and the government made them compulsory later on for other business groups to follow (See Table)

**Consumers.** Responsibility towards consumer includes.

Produce & supply quality products at reasonable prices,

To take appropriate steps to remove black marketing or profiteering by middlemen.

To provide goods in time and after-sales services.

Preventing formation of monopolies with intention of exploiting customers.

To provide opportunity of being heard and to redress genuine grievances.

To provide product according to the needs of the customers.

In India consumer is not the king in our country despite the awareness of consumer rights. Government is interfering in a big way to protect the interests of consumers and consumers themselves are also forming into a movement called 'Consumerism' to protect their interests against business

malpractices.

**Table : Firsts of Tatas towards Employees**

|                         | <b>Tisco Introduction</b> | <b>Enforced by law</b> | <b>Legal Measures</b>      |
|-------------------------|---------------------------|------------------------|----------------------------|
| Five-Hour Working Day   | 1912                      | 1948                   | Factories Act              |
| Free Medical Aid        | 1915                      | 1945                   | ECI Act                    |
| Welfare Dept.           | 1917                      | 1948                   | Factories Act              |
| Works Committees        | 1919                      | 1947                   | Industrial Dispute Act     |
| Leave with Pay          | 1920                      | 1948                   | Factories Act              |
| Provident Fund (P.F)    | 1920                      | 1952                   | Employee's P.F. Act        |
| Accident Compensation   | 1920                      | 1924                   | Workmen's Compensation Act |
| Training of Apprentices | 1921                      | 1961                   | Apprentices Act            |
| Maternity Benefit       | 1928                      | 1961                   | Maternity Benefit Act      |
| Profit-sharing Bonus    | 1934                      | 1965                   | Payment of Bonus Act       |
| Gratuity                | 1937                      | 1972                   | Gratuity Act               |

(Source: R. M. Lala, Creation of Wealth p. 203)

**Shareholders/owners.** To safeguard the capital of owners or shareholders and to provide fair return on capital employed the company should build up its financial independence. So, responsibility towards owners covers not only fair & regular return on capital employed but also guaranteeing capital

appreciation and strengthening its financial position so that it can declare reasonable dividend during a lean period as well.

Community. A business has responsibility even towards the community around its location and to the society which includes :-

To provide pollution free environment.

Concentrate on overall development of locality.

Development of backward areas.

Making contribution for social causes like education, population control.

Taking steps to preserve scarce resources.

**Government.** Responsibility of business towards government covers.

Payment of taxes in time and honestly.

Complying with all legal requirements.

Executing government contracts.

The series of raids conducted on business houses clearly show that businessmen have failed to discharge their responsibility towards government.

### 3.4 SOCIAL AUDIT

A social audit is a systematic study and evaluation of the organization's social performance as distinguished from its economic performance. The term 'social performance' refers to any organization activity that effects the general welfare of society. The Concept 'Social responsibility' of business is becoming very important in today's world. The corporations have responsibility towards the employees, owners, consumers, government, environment and the society at large. The businessmen of today have understood their responsibilities and are discharging them also. To assess the performance of the business in the field of social responsibility, the technique of 'social audit' is used.

Social audit implies a report on the social performance of business unit. General & statutory audit is concerned with the economic performance of the organization and reflects on its economic quality of life. As distinguished from this audit, social audit reflects on the social quality of life of the organization.

A social audit is thus, a systematic study and evolution of an organization's social performance. ||

#### 3.4.1 Characteristics of Social Audit

The nature of social audit will be clear from its following characteristics of social.

The term social audit includes all those activities which have a significant social impact. These activities may relate to the consumers. These activities may relate to the consumers, employees, environment or the society at large.

Social audit is more of a process and audit rather than an audit for results. In other words, its main aim is to determine what the organization is doing in social areas. It is not concerned with the results from there social activities.

Social audit is a very difficult task because social performance is very difficult to audit. Social activities take place outside the walls of the organization and the organization has no means of securing data on the results. In some cases, even though data is available, it will be very difficult to establish that how many results can be attributed to the social performance of the organization.

Social audit uses both quantitative and qualitative data. In the areas of social responsibilities and human values, it is necessary to report in qualitative terms, as it will be misleading to report only in quantitative terms. Organizations like to use quantitative data, because this data is precise, convincing, respectable and objective. Normally the organizations use quantitative data as much as possible and supplement it with qualitative data.

#### Benefits

It supplies data for comparison with the organization's social policies and standards. The management can determine how well it is living up to its social objectives.

It develops a sense of social awareness among all employees. In the process of preparing reports and responding to evaluations, employees become more aware of the social implications of their actions.

It provides data for comparing the effectiveness of different types of programmes.

It provides data about the cost of social programmes, so that the management can relate this data to budgets, available resources, company objectives, etc.

5. It provides information for effective response to external groups which make demands on the organization.

### **Limitations**

A social audit is a *process audit* rather than an *audit of results*. This means that a social audit determines only what an organization *is doing* in social areas and not the amount of social good that *results* from these activities. An audit of social results is not made because:

They are difficult to measure. *If*, for example, following a company's S.C./S.T. employment programme in a certain region, there is a fall in the violent crime rate by 4 per cent, it is difficult to measure how much of the benefit is caused by this programme.

Their classification under 'good' or 'bad' is not universally accepted. In other words, the same social result may be classed as 'good' according to one opinion, and as 'bad' according to another.

Most of them occur outside the organization, making it difficult for the organization to secure data from these outside sources.

Even though social results cannot be proved, an audit of what is being done is still considered desirable, because it shows the amount of effort that a business is making in area deemed beneficial to society. Further, if effort can be measured, then informed judgments can be made about potential results.

Social audits can be made either by internal experts, outside consultants, or a combination of the two. The internal auditor has the advantage of familiarity with the business, but his judgments may be influenced by company loyalties. An outside consultant has the advantage of an outsider's view, but he lacks familiarity with organizational activities, so he may overlook significant data. In any case, if audit information is to be released to the public, the outside auditor has more credibility.

There is a difference of opinion on the issue whether social audit should be made public by means of a social performance report or not. Some say that these reports are too imprecise and inconcrete to satisfy the public and anyone can find reasons for criticising a firm's performance, which can increase social conflict. But some others assert that these reports contribute to public understanding for they replace rhetoric with facts.

### **3.4.2 Activities Covered By Social Audit**

According to Keith Davis & Blomstrom, the term social audit covers the following activities :

#### **Ecology and Environmental Quality**

- Clearup of existing pollution
- Design of processes to prevent pollution
- Aesthetic improvements
- Noise control
- Dispersion of industry
- Control of land use
- Required recycling

#### **Consumerism**

- Truth in labelling, in advertising and in all business activities
- Product warranty and service
- Control of harmful products

#### **Community Needs**

- Use of business expertise to solve community problems
- Reduction of role of business community power structure
- Aid with health care facilities
- Aid with urban renewal

#### **Governmental Relations**

- Restrictions on lobbying
- Control of business in political action
- Extensive new regulation of business
- Restrictions on international operations

#### **Business Giving**

- Financial support for artistic activities
- Donations to education
- Financial support for assorted characters

### **Minorities and Disadvantaged persons**

- Training of hard-core employment
- Equal employment opportunities and quotas for minority employment
- Operation of programmes for alcoholics and drug addicts
- Employment of persons with person records
- Building of plants and offices in minority areas
- Purchasing from minority businessmen
- Retraining of workers displaced by technology

### **Labour Relations**

- Improvement of occupational health and safety
- Prohibition of 'export of jobs' through operations in nations with low labour costs
- Provision of day care centres for children of working mothers
- Expansion of employee rights
- Control of pensions, especially vesting of pension rights.
- Matience with authoritarian structures, demand for participation.

### **Shareholders Relations**

- Opening of boards of directors to members of public representing various interest groups
- Prohibitions of operations in nations with 'racist' or 'colonial' governments (iii)
- Improvement of financial disclosures
- Disclosure of activities affecting the environment and social issues

### **Economic activities**

- Control of conglome rates
- Breakup of grant industry
- Restructiori of patent use.

### **3.4.3 CONDUCT OF SOCIAL AUDIT**

Social audit may be conducted by internal auditors or outside consultants or by a combination of the two. If the audit is conducted by the internal auditor, the auditor will have the advantage of familiarity with the business. On the other hand, the internal auditor may be influenced by his loyalty to the organization. An outside auditor will have the advantage of outsiders' view but he will not be familiar with the organization and may ignore certain significant facts. Therefore, the best method is to have a combination of the two.

### **3.4.4 Social Audit Report**

Another important issue is whether the social audit report be made public or not. Although, in case of statutory audit public reporting is must, but in case of social audit, the public reporting may do more harm than good. The main reasons for not publicly reporting the results of social audit are as follows: -

Social audit is, generally based on imprecise data and informed judgements. This information is not concrete enough to satisfy the public.

There are so many differences of opinion in the field of social performance that anyone could find reason's to criticise the organization's performance. As a result, social conflict will increase and the organizations would withdraw from social programmes in order to avoid reporting on them.

Therefore, social audit should not be publicly reported. It should be for inside use only.

### **3.4.5 Audit Programme**

Social audit is a very new concept. As a result there is no standard procedure to follow for the audit programme as there are no guidelines. Most of the organizations are just starting to experiment with the procedures. Social audit is more complex than the simple audit. All the organizations are at the beginning curve of the social audit and are trying to find procedures and programmes best suitable to them.

### **3.4.6 Social Audit In India**

J. R. D Tata of the Tata Iron & Steel Co. (TISCO) was instrumental in conducting the first social audit in India. It was a sort. of break through when in 1979, the TISCO appointed a committee to conduct the social audit. Starting with TISCO, the concept of social audit picked up in India. UTI, the premier financial institution of India had also planned for a social audit. In the Annual Report of 1993-94, the

chairman of UTI had declared that to address the question as to what extent the unique organization. has been able to fulfill its responsibilities vis-a-vis its various publics and society at large, an independent social audit committee of five eminent citizens has been set up.||

With the environmental audit being made mandatory, companies in the 17 notified industries have taken up social audit seriously.

Shriram Foods & Fertilizers Industries, JK Synthetics, ESCORTS, National Fertilizers Ltd. , Steel Authority of India Ltd., National Thermal Power Corporation and many more companies have been testing and monitoring their plant facilities, firming up their environment cells and searching around for appropriate auditors who could do the job.

### 3.5 BUSINESS ETHICS

Business ethics is the application of moral principles to business problems. However, ethics extend beyond the question of legality and involve the goodness or badness of an act. Therefore, an action may be legally right but ethically wrong. For example, a small village community located twenty miles from the closest urban shopping area has a single grocer's shop. The owner of the shop can charge any exorbitant price for his product though legally but not ethically.

Sexual harassment, discrimination in pay and promotion and the right to privacy are some other issues specially relevant to the study of ethics.

Sexual harassment in the workplace can be defined as unwelcome sexual advances, sexual favour or other verbal or physical conduct of a sexual nature. Although the landmark judgment of the Supreme Court in the case of Vishaka & others vs State of Rajasthan makes it a mandatory duty of the employer to prevent this misconduct at the workplace, it does not appear that the sensitivity of today's organizations has kept pace. The negative aspects of sexual harassment are: costly lawsuits, decreased productivity, increased absenteeism, lower morale and higher staff turnover.

Discrimination against women in pay and promotion opportunities is also unethical, which continues to exist despite there being the Equal Remuneration Act, 1976. One of the most commonly cited reasons for the lack of promotions of women is the *glass ceiling effect*—a term used for artificial barriers based on attitudinal or organizational bias that prevent qualified women from progressing in the organization into senior management level positions.

Employees' right to privacy raises several questions some of which are: Can a company refuse to hire smokers and/or make current smokers quit smoking||? and Can a company conduct drug tests on its prospective employees||?

it should be remembered that the corporate shield|| which protects a company's management from unlimited legal liability does not protect it against unlimited public condemnation for its unethical and immoral actions. The credibility of a business depends on its high business ethics and integrity.

How does a manager decide what is ethical or unethical? There are *four* important factors which affect his decision.

Government legislation.

Business codes. (But being voluntary in nature these codes, though pointed to with pride, are usually ignored in practice.)

Pressure groups. (For example, in recent years Indian carpet industry has been facing consumer boycott from the west for employing child labour.)

Personal values of the manager himself. (But a manager with strong personal values mostly finds himself in a dilemma when an unethical course of action becomes his only choice to achieve the company's goal. This has prompted many major business houses, to teach executives the importance of remaining true to their convictions, whether rooted in organized religion or personal morality, amid the conflicting demands and temptations they confront when taking decisions. New approaches (e.g., asking participants to write their autobiographies as if they are at the end of their lives) are being tried to make them inspiring decision-makers, with a sense of morality. Under-promise over-deliver|| is a much revered motto at Infosys. The company can excuse incompetence but not lack of ethics.)

#### 3.5.1 Ethics and Corruption in International Business

With the arrival of the global economy, ethics and corruption have become a major concern in international management.

On an international scale, it is difficult to clearly define what constitutes corrupt business practices. The primary difficulty involved is differing cultural understandings related to these issues and

the coinciding laws and norms under which various societies operate. However, four forms of corruption which are considered typical to international business are smuggling, money laundering, piracy and counterfeiting, and bribery.

Although there exist more than 40 codes of conduct worldwide but the observance of these codes being voluntary and not legally enforceable, MNEs differ in their approach. Thus we have, on the one hand, Shell Energy with a clear anti-corruption policy, which does not sanction giving or receiving any type of bribe or illegal payment and on the other, we have Shell's competitor BP, which admits that it has been paying "facilitating payments" (recorded as "petty disbursements") as they were necessary to safeguard competitiveness.

Studies have shown that developing and transitional economies are more prone to corruption partly because of the inadequate legal framework, weak enforcement and lack of open and independent media.

### **3.5.2 Sources Of Business Ethics**

In every society there are three sources of business ethics-Religion, Culture and Law: The HR manager in every organization, thus, has to be well versed with the unique system of values developed by these three sources. These sources are discussed as follows :

#### **1. Religion.**

Religion is the oldest source of ethical inspiration. There are more than 1,00,000 religions which exist across the whole world, but all of them are in agreement on the fundamental principles. Every religion gives an expression of what is wrong and right in business and other walks of life. The Principle of reciprocity towards one's fellow beings is found in all the religions. Great religions preach the necessity for an orderly social system and emphasise upon social responsibility with an objective to contribute to the general welfare. With these fundamentals, every religion creates its own code of conduct.

#### **2. Culture.**

Culture is the set of important understandings that members of a community share in common. It consists of a basic set of values, ideas, perceptions preferences concept of morality, code of conduct etc. which creates a distinctiveness among human groups. When we talk about culture we typically refer to the pattern of development reflected in a society's pattern of knowledge, ideology, values, laws, social norms and day to day rituals. Depending upon the pattern and stage of development, culture differs from society to society. Moreover culture is passed from generation to generation. Culture facilitates the generation of commitment to something larger than one's individual self interest. Culture encourages the members of the organization to give priority to organizational goals over and above their personal interests. Culture also serves as a sense making and control mechanism that guides and shapes the attitudes and behaviour of people.

Managers have to run an industrial enterprise on the cutting edge of cultural experience. The tension that their actions create make the business ethically more complex.

#### **3. Law.**

The legal system of any country, guide the human behaviour in the society. Whatever, ethics the law defines are binding on the society. The society expects the business to abide by the law. Although it is expected that every business should be law abiding, seldom do the businesses adhere to the rules and regulations. Law breaking in business is common eg. tax evasion, hoarding, adulteration, poor quality & high priced products, environment pollution etc.

### **3.5.3 Importance of Business Ethics**

The importance of ethics in business in general and HR in particular, is discussed as follows :

#### **1. Corresponds to Basic Human Needs.**

The basic need of every human being is that they want to be a part of the organization which they can respect and be proud of, because they perceive it to be ethical. Every body likes to be associated with an organization which the society respects as a honest and socially responsible organization. The HR managers have to fulfill this basic need of the employees as well as their own basic need that they want to direct an ethical organization. The basic needs of the employees as well as the managers compel the organizations to be ethically oriented.

## **2. Credibility in the Public.**

Ethical values of an organization create credibility in the public eye. People will like to buy the product of a company if they believe that the company is honest and is offering value for money. The public issues of such companies are bound to be a success. Because of this reason only the cola companies are spending huge sums of money on the advertisements now-a-days to convince the public that their products are safe and free from pesticides of any kind.

## **3. Credibility with the Employees.**

When employees are convinced of the ethical values of the organization they are working for, they hold the organization in high esteem. It creates common goals, values and language. The HR manager will have credibility with the employees just because the organization has credibility in the eyes of the public. Perceived social uprightness and moral values can win the employees more than any other incentive plans.

## **4. Better decision making.**

Respect for ethics will force a management to take various economic, social and ethical aspects into consideration while taking the decisions. Decision making will be better if the decisions are in the interest of the public, employees and company's own long term good.

## **5. Profitability.**

Being ethical does not mean not making any profits. Every organization has a responsibility towards itself also *i.e.*, to earn profits. Ethical companies are bound to be successful and more profitable in the long run though in the short run they can lose money.

## **6. Protection of Society.**

Ethics can protect the society in a better way than even the legal system of the country. Where law fails, ethics always succeed. The government cannot regulate all the activities that are harmful to the society. A HR manager, who is ethically sound, can reach out to agitated employees, more effectively than the police.

### **3.5.4 Ethical Responsibilities For Managers**

Following are given some rules which decide the ethical responsibilities for the managers:

**Rule No. 1** You are always responsible for your own actions.

**Rule No. 2** You are equally responsible for actions you initiate and undertake at the direction of others. You cannot take the excuse that you are just following orders

**Rule No. 3** You cannot blame others (Clients, co-workers) for your unethical behaviour.

**Rule No. 4** Unethical actions taken by your subordinates at your direction makes you just as unethical if not more so because you have abused your power within the organisation.

**Rule No. 5** You are responsible for your actions as part of a group. Because of diffusion of responsibility, groups often make riskier decisions than individuals do (called the Risky-shift phenomenon)

**Rule No. 6** Inaction can be as unethical as action if your inaction results in unethical behaviour.

### **3.5.5 Principles for Being an Ethical HR Manager**

According to the code of ethical conduct for the Society of Human Resource Management, following are the principles to be followed if one wants to be an effective HR manager :

#### **1. Professional Responsibility.**

As a professional, the HR manager is responsible for adding value to the organization he is serving and he must contribute to the ethical success of the organization. He should accept responsibility for his personal decisions and actions. He is also an advocate for the profession by engaging in activities that enhance its value and credibility. The purposes of this principle are :

- To build respect, credibility and strategic importance for the HR profession within the organization, the business community and the society.
- To assist the organization in achieving its objectives and goals.
- To inform and educate the current and future HR managers, the organization and the general public about the principles and practices that help the profession.
- To positively influence the workplace and recruitment practices.
- To encourage professional decision making and responsibility.



- To encourage social responsibility.

#### **Professional Development.**

As professionals, the HR managers must strive to meet the highest standards of competence and commit to strengthen their own competencies on a continuous basis. The purposes of this principle are :

- To expand their knowledge of HRM to further their understanding of how their organizations function.
- To advance their understanding of how organizations work (the business of the business)

#### **Ethical Leadership.**

HR professionals are expected to exhibit individual leadership as a role model for maintaining the highest standards of ethical conduct. The purposes of ethical leadership are :

- To set the standard and example for others
- To earn individual respect and increase credibility with those they serve.

#### **Fairness And Justice.**

The HR managers are responsible for promoting and fostering fairness and justice for all employees and their organization. The purpose of this principle is to create an environment that encourages all individuals and the organization to reach the fullest potential in a positive and productive manner.

#### **5. Conflicts of Interest.**

HR managers must maintain a high level of trust with all their stake holders. They must protect the interests of their stakeholders as well as their own professional integrity and should not engage in activities that create actual, apparent or potential conflicts of interests.

The purpose of this principle is to avoid activities that are in conflict or may appear to be in conflict with any of the provisions of this code of ethical and professional standards in HRM or with one's responsibilities and duties as a member of the HR profession and/or as an employee of any organization.

### **3.6 USE OF INFORMATION**

HR managers consider and protect the rights of individuals, especially in the acquisition and dissemination of information while ensuring truthful communication and facilitating informed decision making. This principle will help in building trust among all organizational constituents by maximising the open exchange of information, while eliminating anxieties about inappropriate and/or inaccurate acquisition and sharing of information.

### **3.7 MOST UNETHICAL SITUATIONS**

According to a study, the 10 most unethical situations reported by HR L managers are :

- Hiring, training or promotion on favouritism (friends or relatives) : 30.7%
- Allowing differences in pay, discipline, promotions etc. due to friendships with top management : 30.7%
- Sexual Harassment: 28.4%
- Sex discrimination in promotions : 26.9%
- Using discipline inconsistently : 26.9%
- Not maintaining confidentiality: 26.4%
- Sex discrimination in compensation : 25.8%
- Non performance factors (eg. religion) used in appraisals : 23.5%
- Arrangements with vendors or consulting agents that result in personal gain : 23.1 %
- Sex discrimination in recruitment or hiring : 22.6%

### **3.8 HR ETHICAL ISSUES**

Ethical issues and HR always go hand in hand. Various areas of ethical misconduct in HR are as follows :

#### **1. Employment Issues.**

HR professionals are likely to face maximum ethical dilemmas in the areas of hiring of employees. Major challenges in this area are :

- Pressure to hire a friend or relative of a highly placed executive.
- Faked credentials submitted by a job applicant.

- Discovery that an employee who has been with the organization for some time, is skilled and has established a successful record, had lied about his educational credentials.

#### **Cash and Incentive Plans.**

Cash and incentive plans include issues like basic salaries, annual increments or incentives, executive perquisites and long term incentive plans :

**Basic Salaries.** HR managers have to Justify a higher level of basic salaries or higher level of percentage increase than the competitors to retain some employees. In some situations, where the increase is larger than normal they have to elevate some positions to higher grades.

**Annual increment/incentive Plans.** This situation is particularly true in case of top management executives. The fear of losing some outstanding executives, the HR managers are forced to give higher incentives to them than what the individuals actually deserve.

**Executive Perquisites.** In the name of executive perquisites, sometimes excesses are often committed, the ethical burden of which falls on the HR managers. Sometimes the costs of these perquisites is out of proportion to the value added. For example, the CEO of a loss making company buys a mercedes for his personal use or wants a swimming pool built at his residence.

**Long term incentive Plans.** Long term incentive plans are to be drawn by the HR managers in consultation with the CEO and an external consultant. Ethical issues arise when the HR manager is put to pressure to favour top executive interests over the interests of the other employees and the investors.

#### **Employees' Discriminations.**

A framework of laws and regulations have been evolved to avoid the practices of treatment of employees on the basis of their caste, sex, religion, disability, age etc. No organization can openly practise any discriminatory policies, with regard to selection, training, development, appraisal etc. A demanding ethical challenge arises when there is pressure on the HR manager to protect the firm or an individual at the expense of someone belonging to the group which is being discriminated against.

#### **Performance Appraisal.**

Ethics should be the basis of performance evaluation. Highly ethical performance appraisal demands that there should be an honest assessment of the performance and steps should be taken to improve the effectiveness of employees. However, HR managers, sometimes, face the dilemma of assigning higher rates to employees who are not deserving them ; based on some unrelated factors eg. closeness to the top management. Some employees are, however, given low rates, despite their excellent performance on the basis of factor like caste, religion or not being loyal to the appraiser.

#### **Privacy.**

The private life of an employee which is not affecting his professional life should be free from intrusive and unwarranted actions. HR managers faces three dilemmas in this aspect.

The first dilemma relates to information technology. A firm's need for information particularly about employees while on job may be at odds with the employee's privacy. Close circuit cameras, tapping the phones, reading the computer files of employees etc. breach the privacy of employees.

The second ethical dilemma relates to the AIDS testing. AIDS has become a public health problem. HR managers is faced with two issues: Whether all the new employees should be subject to AIDS test and what treatment should be melted out to an employee who is affected with the disease. It is however generally understood that since AIDS cannot be contracted by casual and normal workplace contracts, employees with this illness should not be discriminated against and they should be allowed to perform jobs for which they are qualified.

The third ethical dilemma relates to Whistle Blowing. Whistle blowing refers to a public disclosure by former or current employees of any illegal, immoral or illegitimate practices involving their employers. Generally, employees are not expected to speak against their employers, because their first loyalty is towards the organization for which they work. However, if the situation is such that some act of the organization can cause considerable harm to the society, it may become obligatory to blow the Whistle. The HR manager is in the dilemma how to solve this issue between the opponents and defenders of whistle blowing.

## **6. Safety and Health.**

Industrial work is often hazardous to the safety and health of the employees. Legislations have been created making it mandatory on the organizations and managers to compensate the victims of occupational hazards. Ethical dilemmas of HR managers arise when the justice is denied to the victims by the organization.

### **Restructuring and lay offs.**

Restructuring of the organizations often result in lay offs and retrenchments. This is not unethical, if it is conducted in an atmosphere of fairness and equity and with the interests of the affected employees in mind. If the restructuring company requires closing of the plant, the process by which the plant is chosen, how the news is to be communicated and the time frame for completing the lay offs are ethically important.

### **3.8.1 TECHNIQUES FOR MANAGING THE ETHICS**

Ethics is no longer related to the conscience of the manager. Businesses today have to use managerial techniques, designed particularly to encourage ethical behaviour. Some of the managerial actions are discussed as follows :

#### **1. Top Management.**

The top management or the CEO of the company should take the initiative of ensuring ethical standards in his organization. Business strategies, schedules and reward systems should be prepared in such a way that these do not place unreasonable pressures on HR managers and the employees.

#### **2. Code of Ethics.**

A trend has become visible in the corporate sector to have the code of ethics of their own. The code constitutes a primary level, self regulating character for enlightened citizenship amongst business entities. The codes of various organizations vary from book length formulations to summarised statements in one or two pages. The basic purpose of code of ethics is to provide guidance to managers and employees when they face an ethical dilemma. The most effective codes are those drawn up with the cooperation and widespread participation of employees. An internal enforcement mechanism including penalties for violating the code, adds strength to the code. The Federation of Indian Chambers of Commerce and Industry (which includes the MNCs also) has recently issued a declaration on Norms of Business Ethics consisting of 10 points.

#### **3. Ethics Committees.**

Most of the modern organizations have established ethics committees to advise the organizations on ethical issues. Such committees would comprise of the CEO of the organization and the board of directors. The committee helps the company in establishing policies in new or uncertain areas, advise the company on ethical issues and oversee the implementation of code of ethics. The committee can install an ethics I-hot line where the troubled employee can call whenever he is troubled about any ethical issue which he cannot discuss with his immediate supervisor. Any member of the committee receives the call and quickly investigates the situation in a confidential manner while protecting the identity of the caller. In this technique, employees are encouraged to report unethical behaviour and the matter is settled internally. Disgruntled employees do not have to take their complaints to the outside world or to the media, when their complaints are settled in an amicable and satisfactory way within the organization itself.

#### **4. Ethics Training Programmes.**

Companies also resort to provide ethics training programmes to their managers and other employees. In this training programmes the participants are made familiar with the official policy on ethical issues. They are also made aware that how these policies can be translated into specific everyday decision making. Stimulation as well as the job training methods are used by the companies to impart ethics training. To make such training effective, it is important that it focuses on the specifics of the work environment rather than having abstract philosophical discussions.

### **3.8.2 Difficulties In Ethical Decision Making**

The HR managers have to face the following difficulties in decision making:

HR managers have to face various dilemmas in making decisions relating to various aspects of HR functions.

2. They confront situations where distinctions between 'What is' and 'What ought to be' have to be made while making decisions. In reality, 'What is' can never define 'What ought to be'. A decision which is good in one situation may prove to be evil in other situation. The HR managers get in a fix deciding whether to treat it as good or evil. Good and bad are, in fact, inter related.

In an uncertain environment, consequences of an action cannot be predicted. The utilitarian principle of decision making assumes that the consequences of an act are defined. In practical life, decision making particularly ethical decision making is not possible since the knowledge about the consequences of an action is limited.

Every organization may have an ethical stand based on premises that may be different from the ethical stand of the critics. An industry which is supplying a necessity article in a particular locality may be criticised by people on account of environmental pollution. To stop the production will go against the interests of the community whereas according to the critics the production results in pollution.

Some ethical standards may vary with the passage of time. Donations to political parties were forbidden earlier but these are allowed now.

Unethical practices are abundant in number and are available in every aspect of life. An honest HR manager, is not able to do anything as he is surrounded by unethical behaviour every where. One has to learn to live with the system rather than fight against it.

The 21st century presents the HR managers with new and emerging ethical problems which cannot be solved with traditional ethical guidelines. For example, restructuring an organization amounts to lay offs. Restructuring is a must to strive in the global environment. How will it balance against the job loss, capital investment etc.

### 3.9 SUMMARY

The term 'social responsibility of business' refers to two types of business obligations. First, business should see that the economic consequences of its actions do not adversely affect public welfare. Second it should develop human values such as morals, cooperation, motivation and self-actualisation in work.

There are four views about a businessman's responsibility to the community. According to the first view (communist), a businessman can never voluntarily act in a socially responsible manner. Hence social responsibilities should be imposed on him through force or legislation. According to the second view (capitalist), a businessman should not be asked to discharge any social responsibility. Social responsibility is not his business. His business is to make profits only. According to the third view (pragmatic), a businessman should no doubt earn his profits, but should also voluntarily assume some social responsibility. According to the fourth view (trusteeship), a businessman should hold everything in trust and carry on his business as a trustee for the benefit of the community.

A businessman's social responsibilities are towards his consumers, workers, shareholders and the State. There are a number of ways in which he can discharge these responsibilities. His social performance can be evaluated by means a social audits.

Many business organizations in India have contributed greatly in the area of social responsibility. The Tata Iron and Steel Company is the first industrial organization in India to have carried out a social audit of its performance in 1979.

Over the past few years great emphasis is being laid on business ethics Business ethics is the application of moral principles to business problems.

The term 'business ethic' refer to the system of moral principles and rules of the conduct applied to business.

In every society there are three sources of business ethics-religion, culture and law.

Ethics is no longer related to the conscience of the manager. Business today have to use managerial techniques, designed particularly to encourage ethical behavior.

**3.10 REFERENCES**

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**3.11 SUGGESTED READINGS**

Business Environment: Joshi R., Kapoor S. (Kalyani Publishers)  
Principles of Management: P.C. Tripathi, P.N. Reddy, (Tata McGraw Hill Private Limited)  
Management: Stephen Robbins (Pearson Publishers)

**3.12 TERMINAL AND MODEL QUESTIONS**

- Explain the meaning of social responsibility of business. Discuss the responsibility of business towards different segments of society.
- Define social responsibility. Why is it important for the business?
- What components of society affect and are affected by activities of a business enterprise?
- List various causes which have forced the business to assume social responsibilities.
- Describe in detail Business Ethics.
- What is social audit? What are the features of social audit?

Activity 1

Define social responsibility and describe its origin.

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Activity 2

Define corporate governance in India.

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## CHAPTER - 4

### PLANNING

#### 4.1 OBJECTIVES

**Describe** the nature and importance of planning

**Present** the various types of plans

**Explain** the steps in planning and the strategic planning process

**Identify** the limitations of planning and suggest ways to make it effective

**List** the skills required for effective planning

**Understand** strategic planning in Indian industry

**Define** the Meaning and feature of decision making

**Explain** the nature and steps involved in the decision making

#### 4.2 INTRODUCTION

Change is the rule of present-day business. A manager is supposed to operate in a dynamic economy where there is no scope for complacency. Planning is a tool in the hands of a manager who wants to face problems created by change. Successful managers deal with foreseen problems and unsuccessful managers struggle with unforeseen problems. The difference lies in planning. Every enterprise which strives to survive and grow must place heavy emphasis upon planning. A planner foresees opportunities and devises ways and means to take advantage from them. There may be cases where little bit of planning helps in achieving objectives. This may happen in favourable situations. In a competitive business world a manager cannot wait for favourable circumstances, he has to decide in the face of uncertainties. There is no place for guesswork or chance. The need is for proper planning.

Planning helps in determining the course of action to be followed for achieving various organizational objectives. It is a decision in advance; what to do, when to do, how to do and who will do a particular task. Planning is a process which involves 'thinking before doing.' It is concerned with a mental state of the manager. He thinks before undertaking a work. Other functions of management like organizing, controlling and directing are also undertaken after proper planning.

In the past four decades every type of enterprise has shown a tremendous interest in planning. In the present economic, technological, political and social set up planning is essential for the survival of an enterprise. The change and growth bring new opportunities but they also bring more risks. The task of planning is to minimise risk while taking advantage of opportunities.

#### Definitions

The meaning of the word 'planning' is a paradox. To some, it means everything a person does, to others it is a specific activity. Some take planning as synonymous with decision-making. This is erroneous. A person may take decisions the whole day but accomplish no planning. However, for planning, decision-making is a must. The words 'planning' and 'a plan' may also be taken as similar but their meanings are different. A plan is a commitment to particular course of actions whereas planning is an activity consisting of a process. To clear the meaning of planning further, some definitions have been discussed :

**Geogre Terry.** "Planning is the selecting and relating of facts and the making and using of assumptions regarding the future in the visualization and formulation of proposed activities believed necessary to achieve desired results." According to Terry planning is based on certain assumptions which are required to formulate policies of the business. The purpose of planning is to achieve business objectives.

**Hart.** "The determination in advance of a line of action by which certain results are to be achieved." Planning is the deciding of a course required for reaching organizational goals. The line of action is decided in advance so that actual execution becomes easy later on.

**Koontz and O'Donnell.** "The selection from among alternatives for future courses of action for the enterprise as a whole and each department with it." Although the exact future can seldom be predicted and factors beyond control may interfere with the best-laid plans, unless there is planning, events are left to chance. It is an intellectually demanding process and requires the selection of a course of action.

**Alfred and Beaty.** "Planning is the thinking process, the organized forecast, the vision based on fact and experience that is required for intelligent action." Planning is a process in which decisions are

taken in advance. The pros and cons of the decisions and their implications in the future are discussed beforehand. A wrong decision may create difficulties for the management and may result in financial loss too.

**Louis A. Allen.** Management planning involves the development of forecasts, objectives, policies, programmes, procedures, schedules and budgets. According to Allen, planning is essentially deciding about future. The ways and means required to achieve organizational goals form the essential part of planning.

#### 4.3 NATURE OR FUNCTION OF PLANNING

Planning is an integral part of management. A manager anticipates future problems, analyses them and anticipates their probable effect on the activities of the enterprise. It is continuously performed at every level of management. The following discussion will explain the nature of planning.

**Planning, an Intellectual Process.** Planning is intellectual in nature; it is mental work. The facts relevant to the situation are related to the manager's experience and knowledge. A planner must visualise the situations likely to develop in future. He should develop a future course of action to be taken for implementation of plans.

Decisions cannot be made on guess work. A mental exercise is required to foresee the pros and cons of various alternatives. The selection of best alternative from the available ones will require deep thinking. It is a hard work which managers try to shirk. It requires creative thinking on their part.

Planning may be an easy task for some while difficult for others, depending upon their capabilities. A planner has to think about the following aspects :

- (a) What is to be done ?
- (b) How is it to be done ?
- (c) When is it to be done ?
- (d) By whom is it to be done ?

A decision on these aspects will depend upon the capability of decision-maker. Proper thinking about the practical aspects of various decisions will enable a right choice at the opportune moment. In the words of Marshall Dimock, "This is not the work of a theorist locked up in an office and handling out blueprints through a crack in the door. It is planning that makes it possible for him effectively to combine knowledge with power in order to achieve the objectives of his enterprise."

**Primacy of Planning.** Planning is the first function of a planner. Other functions like organizing, staffing, directing, controlling, etc. are followed by planning. Without planning no other function can be performed. How can a manager set up an organization without having a plan in mind? How can he appoint and direct staff without deciding the objections? It can be said that planning is the function that needs to be done first of all.

The functions like organizing, staffing, directing, controlling overlap. It is not that the other can start only when first is completed. There may also be a need for re-planning or adjustment of planning. Controlling is one function which goes side by side with planning. One is incomplete without the other.

**All Managers Plan.** Every manager in an organization has a planning function to perform. It may also be said that planning is a fundamental managerial function. The pervasiveness of planning is generally over-looked. It is felt that planning is done at top levels only. This may be true to certain extent that people at top level devote most of their time to planning than the managers at middle and lower levels of management but every manager at his level of activity as to plan his activities.

The degree, importance and magnitude of planning depends on the level at which it performed.

Planning at top level will be fundamental, broad, far-reaching and basic. The chief executive will see

to it that persons at other levels of management do not plan beyond their purview. The scope and extent of planning tend to decrease as it goes to lower levels of management. All managers plan in the organization irrespective of their rank in the hierarchy.

There is a difference of opinion as to whether planning and execution should be with the same persons or should be performed by different persons. One view is that planning should be an independent function and the planner may devote his full-time for this work. The execution part should be exclusively in the purview of different persons. This will bring specialization to these fields and will help in improving

their performance. The other view is that both the functions should be undertaken by the same person. A planner will be able to execute his plans in a better way. This will help in coordination between planning and execution. A manager should plan as well as execute the things as he perceives them.

**Planning: A Rational Approach.** Planning process is a rational approach to the achieving of organizational goals. An action is rational if it is objectively and intelligently decided. The aim of management is to reach the goals with the application of appropriate resources. Planning suggests a

number of alternatives for reaching the goals. Future is always uncertain but planning process provides a rational approach for suggesting alternative approaches to various situations.

It is a problem to select an alternative which will help in achieving desired results. The balancing of ends and means is also in the purview of planning. Planning helps in taking rational decisions for achieving the goals of the enterprise.

**Focus on Objectives.** An organization employs a number of persons. Each one of them has different personality and attitude. There will be a difference of opinion about the objectives of the enterprise and the methods to achieve them. Planning focuses attention on setting up organizational objectives and suggests ways to achieve them.

The objectives influence the future course of every business. If the objectives are not properly set then the efforts spent on them will go waste. The main purpose of planning is to focus attention on setting up of appropriate objectives.

**Leads to Efficiency and Economy.** Planning involves the efficient utilization of various resources like capital, labour, machines, materials etc. Every factor of production is put to efficient and economical use so that the output, i.e., results, is more than the efforts employed. An effort is made to achieve organizational objectives with minimum resources. Planning helps in controlling duplication of efforts which also ensures economy.

**Limiting Factors.** A planner should consider limiting factors like money, manpower materials, market, etc. before taking up planning. If a planner ignores limiting factors then planning is bound to fail. The planning should start only after considering the availability of limiting factors. For example, a consideration may be of getting a quota for raw materials. The availability of raw materials will be the limiting factor. The planner should first determine how much raw materials will be available during the period. The planning of other things like production, labour, marketing etc. should be consistent with that of raw materials.

**Co-ordination.** Co-ordination is essential for harmonious working of the organization. Planning co-ordinates the what, who, how, why and where of planning. In the absence of planning different segments of the organization may pursue divergent objectives.

**Flexibility.** Planning process should be adaptable to the changing business environment. If planning is made rigid then it will not be able to achieve business goals. Planning is a dynamic process and it adjusts with the needs and requirements of the situations.

**Realistic.** Planning is based on future forecasts. Though the future is always uncertain but the predictions should be as realistic as possible. The objectives should be realised with normal efforts. If planning is based on wishful thinking then it will not be possible to achieve the goals. Planning is always based on hard realities.

**Planning is Continuous.** Planning is a never-ending activity of a manager. Planning is always tentative and subject to revision and amendment as new facts become known. Even in execution of planning there may be a change in settings and conditions necessitating modification on a some what continual basis. Generally, managers follow the practice of re-examining plans regularly and modify them, if necessary, in view of the new situations. In this way, it will be possible to heed to new situations and overcome problems. Planning is necessary for situations when things are going well as well as when troubles are faced. All types of situations require continuous planning.

#### 4.3.1 The six P's of Planning

The six P's state the fundamental requirement of planning. These P's are as follows :

**Purpose.** The first need of planning is the purpose. An effective planning requires a clear understanding of the purpose of planning. The reasons for the existence of the organization must be stated. The purpose of an organization may be to increase profits or increase market share or introduce more products etc. The purpose should be clear and elaborate.

**Philosophy.** It states the beliefs as to how the organization's purpose is to be achieved. The philosophy of an organization may be based on profitability through quality or increasing turnover through consumer satisfaction etc. For a long term survival and growth the philosophy must adopt ethical conduct.

**Promise.** It is an assessment of the strengths and weaknesses of the organization based on the knowledge and assumptions of the environment. With the help of business forecasting and other methods some conclusions are made for the future environment trends. By knowing the strengths and weakness of the organization management can deal with changing environment in a more effective way.



**Policies.** Policies are the general statements for the guidance of the personnel. They are the guidelines and constraints which aid in management thinking and action. An organization may have production policies, financial policies, marketing policies, accounting policies, personnel policies, etc. These policies form a basis for managerial actions.

**Plans.** These are the objectives and action statements. Objectives are the goals of an organization and action statements are the means of achieving them. Plans guide us for reaching the goals and helping in knowing the progress at different stages.

**Priorities.** An organization must fix goal priorities. The resources of finance, materials, personnel, etc. are limited and these are to be allocated as per the priorities set. The high priority goal will have preference for allocation of resources. The priorities of goals must be based on the philosophy and premises of the organization as well as on economic, political and social environment.

#### 4.3.2 Characteristics of A Good Plan

Plans are prepared to achieve organizational goals. A good plan will be that which helps in achieving objectives of an enterprise. A good plan should have the following characteristics:

**Clear Objective.** A good plan should be based on clearly defined objectives. Planning is a tool to reach organizational goals. If the goals are not clear then there will be a confusion and chaos. The statement on objectives should be clear, concise, definite and accurate.

**Proper Understanding.** The implementation of a plan will depend upon its proper understanding by those who are to execute it. If the concerned persons have not properly followed the plan or are not clear about the ways of undertaking it then there will be no use of such a plan. It will be appropriate to convey the plan properly and then give clarification, if required. A good plan is that which is well understood by those who are to execute them.

**Comprehensive.** The plan should cover each and every aspect of the business for proper fulfillment of objectives. Various parts of the plan must fit together and their purpose and timing should be so arranged that necessary co-ordination results.

**Flexible.** A plan should be flexible to accommodate future uncertainties. The future cannot be accurately predicted and there is always a likelihood of new things coming up. A flexible plan will be one which will smoothly adjust requirements of changing conditions. The plan should be broad so that it permits various changes without seriously affecting its main objectives. The manager should never take a plan as rigid. He should be ready to meet needs as required by the changing situation.

**Economical.** The cost evolved in preparing and executing a plan should be considered. A plan should be as economical as possible, depending upon the resources available with the enterprise.

#### 4.3.3 Making Planning Effective

Planning will be useful only when it is effectively implemented. The following factors will be essential for effectively implementing the plans

**Consciousness for Planning.** Planning will be effective only when there is a proper climate for it. The superiors should try to set objectives, review various goals and redraft them as is required for their effective implementation. The hurdles in the ways of planning should be removed. The subordinates should be regularly informed about the progress of plans. Everybody should extend willing co-operation for making the plans successful.

**Initiative at top Level.** The initiative and support of top level management is essential for making the plans effective. The objectives of the organization are set at top level. The allocation of resources for achieving various targets is also done by the top management. The involvement of lower level management is also essential because execution will be more at these levels.

The formulation of plans at top level will ensure co-ordination among plans of different departments. The thinking of top management will be reflected in the formulation of plans. Planning will be effective only if it involves top management.

**Proper Communication.** Communication among different levels in the organization is very essential. The objectives of the business should be communicated to those who are to implement them. The policies, procedures, programmes suggested for achieving business goals should be known at the operational level. If plans are not properly understood by those who are to implement them then these may not achieve the desired results.

Communication should not only be from top to bottom and it should be upward also. The reactions, suggestions and view points of subordinates about objectives should also reach top level

management at the earliest possible. Communication provides a channel for the exchange of information among various persons. Without a proper communication system planning is bound to fail.

**Participation in Planning.** Planning process should involve persons from different levels and fields. A functional manager will be able to plan properly for his department. Similarly, persons associated with different tasks will be in a better position to plan for these activities. Management should try to elicit views of different persons while planning is undertaken.

The method and extent of participation will depend upon the type of organization. There may be committees for formulating various plans. These committees may have persons from different fields. Another method of participation can be by preparing budgets at grassroots and then moving upward. Participation of persons at different levels may help in proper implementation of plans.

**Emphasis on Long-term and Short-term Planning.** Both long-term and short-term plans should get proper emphasis. Both the plans should be integrated for their proper implementation. General tendency is to concentrate on short-term plans. In fact, short-term plans only fulfill a part of long-term plans. Long-term plans will set the ultimate goals and these should be achieved through short-term plans. For effective implementation of planning both long-term and short-term plans should be given an equal weightage.

#### 4.3.4 Purpose of Planning

Planning is the first step in management. The increasing complexities of business, technological changes, increasing marketing competition, changing consumer preferences have necessitated proper planning. Following reasons emphasise the need for planning :-

**Essential for Modern business.** The growing complexities of modern business, rapid technological changes, opening of economies to international competition, changes in consumer tastes necessitate planning not only in the current context but also in the future environment. Planning has a future outlook and it takes into account all possible future developments.

**Related to performance.** Planning helps in setting goals for each function and for each employee. The concerns having formal planning have performed better as compared to those where planning is not taken up as a regular activity. The variables for assessing performance may be return on investment, sales target, earning per share etc. Studies have proved that planning has been an instrument in improved performance.

**Focus on Objectives.** The thrust of formal planning is on setting objectives and providing guidelines for reaching them. Objectives provide a direction and all planning decisions are directed towards achieving them. It ensures maximum utilization of managerial time and efforts.

**Proper Allocation of Resources.** The needs of the organization are anticipated with the help of planning. The acquisition and allocation of resources can be properly planned thus minimising wastages and ensuring optimal utility of these resources.

**Facilitates Control.** Planning can be used to devise a mechanism of control. There can be quantitative targets and their comparison with actual performance can bring to notice any deviations. A periodical review can also help in pointing out low performance. The deviations in production, sales, profits etc. may come to light during periodic investigations and remedial action can be taken.

**Helpful in Decision making.** Planning is helpful in the process of decision-making. Since planning helps in specifying the actions to be taken for achieving organizational objectives, it serves as a basis for decision-making for the future. The objectives, plans, policies, schedules, rules etc. serve as guidelines for routine decision making.

**Avoiding Business Failures.** Business failures may be due to wrong and unscientific planning. A bad planning may result into wastage of human and physical resources. The enterprise may not be able to face competition from well planned units. Good planning will help in utilizing available resources in a best possible way thus reducing the chances of failures.

#### 4.3.5 Principles of Planning

A number of fundamental principles have been devised over the years for guiding managers undertaking planning. Some of these principles are discussed as under :-

**Principle of Contribution to Objectives.** All types of plans are prepared to achieve the objectives of the organization. Both major and derivative plans are prepared to contribute to the objectives of the enterprise. Planning is used as a means to reach the goals.

**Principles of Primacy of Planning.** This principle states that planning is the first or primary function of every manager. He has to plan first and then proceed to carry out other functions. Other managerial functions are organized to reach the objectives set in planning.

**Principle of Planning Premises.** In order to make planning effective, some premises or presumptions have to be made on the basis of which planning has to be undertaken. Plans are, generally not properly structured. The reason being that planning premises are not properly developed. This principle lays emphasis on properly analysing the situation which is going to occur in future.

**Principle of Alternatives.** Planning process involves developing of many alternatives and then selecting one which will help in achieving desired business goals. In the absence of various alternatives proper planning will be difficult.

**Principle of Timing.** Plans can contribute effectively to the attainment of business goals if they are properly timed. Planning premises and policies are useless without proper timing.

**Principle of Flexibility.** This principle suggests flexibility in plans if some contingencies arise. The plans should be adjusted to incorporate new situations. The dangers of flexibility should be kept in mind. The changes may upset the earlier commitments. So the cost of changes should be compared to the benefits of flexibility.

**Principle of Commitment.** There should be a time frame for meeting the commitments made. This will ensure the achieving of targets in time.

**Principle of Competitive Strategies.** While formulating own plans a manager should keep in mind the plans of competitors. The plans should be framed by thinking of what the competitors will do in similar situations.

#### 4.3.6 Advantages of Planning

Planning is one of the crucial functions of management. It is basic to all other function of management. There will not be proper organization and direction without proper planning. It states the goals and means of achieving them. Above all other things, planning is important for the following reasons :

**Attention on Objectives.** Planning helps in clearly laying down objectives of the organization. The whole attention of management is given towards the achievement of those objectives. There can be priorities in objectives, important objectives to be taken up first and others to be followed after them.

**Minimising Uncertainties.** Planning is always done for the future. No body can predict accurately what is going to happen. Business environments are always changing. Planning is an effort to foresee the future and plan the things in a best possible way. Planning certainly minimises future uncertainties by basing its decisions on past experiences and present situations.

**Better Utilization of Resources.** Another advantage of planning is the better utilization of resources of the business. All the resources are first identified and then operations are planned. All resources are put to best possible uses.

**Economy in Operations.** The objectives are determined first and then best possible course of action is selected for achieving these objectives. The operations selected being better among possible alternatives, there is an economy in operations. The method of trial and error is avoided and resources are not wasted in making choices. The economy is possible in all departments whether production, sales, purchases, finances, etc.

**Better Co-ordination.** The objectives of the organization being common, all efforts are made to achieve these objectives by a concerted effort of all. The duplication in efforts is avoided. Planning will lead to better co-ordination in the organization which will ultimately lead to better results.

**Encourages Innovations and Creativity.** A better planning system should encourage managers to devise new ways of doing the things. It helps innovative and creative thinking among managers because they will think of many new things while planning. It is a process which will provide awareness for individual participation and will encourage an atmosphere of frankness which will help in achieving better results.

**Management by Exception Possible.** Management by exception means that management should not be involved in each and every activity. If the things are going well then there should be nothing to worry and management should intervene only when things are not going as per planning. Planning fixes objectives of the organization and all efforts should be made to achieve these objectives. Management should interfere only when things are not going well. By the introduction of management by

exception, managers are given more time for planning the activities rather than wasting their time in directing day-to-day work.

**Facilitates Control.** Planning and control are inseparable. Planning helps in setting objectives and laying down performance standards. This will enable the management to check performance of subordinates. The deviations in performance can be rectified at the earliest by taking remedial measures.

**Facilitates Delegation.** Under planning process, delegation of powers is facilitated. The goals of different persons are fixed. They will be requiring requisite authority for getting the things done. Delegation of authority is facilitated through planning process.

#### 4.3.7 Limitations of Planning

Despite of many advantages of planning, there may be some obstacles and limitations in this process. Planning is not a panacea for all the ills of the business. Planning will only help in minimising uncertainties to a certain extent. The following are some of the limitations of planning.

**Lack of Reliable Data.** Planning is based on various facts and figures supplied to the planners. If the data on which decisions are based are not reliable then decisions based on such information will also be unreliable. Planning will lose its value if reliable facts and figures are not supplied.

**Time Consuming Process.** Practical utility of planning is sometimes reduced by the time factor. Planning is a time-consuming process and actions on various operations may be delayed because proper planning has not yet been done. The delay may result in loss of opportunities. When time is of essence then advance planning loses its utility. Under certain circumstances an urgent action is needed then one cannot wait for the planning process to complete.

**Expensive.** The planning process is very expensive. The gathering of information and testing of various courses of action involve greater amounts of money. Sometimes, expenses are so prohibitive that small concerns cannot afford to use planning. The long-term planning is a luxury for most of the concerns because of heavy expenses. The utility derived from planning in no case should be less than expenditure incurred on it. According to Hainman, "The cost of planning should not be in excess of its contribution, and wise managerial judgement is necessary to balance the expense of preparing the plans against the benefits derived from them."

**External Factors may reduce Utility.** Besides internal factors there are external factors too which adversely affect planning. These factors may be economic, social, political, technological or legal. The general national and international climate also acts as limitation on the planning process.

**Sudden Emergencies.** In case certain emergencies arise then the need of the hour is quick action and not advance planning. These situations may not be anticipated. In case emergencies are anticipated or they have regularity in occurrence then advance planning should be undertaken for emergencies too.

**Resistance to Change.** Most of the persons, generally, do not like any change. Their passive outlook to new ideas becomes a limitation to planning. McFarland writes, "The principal psychological barrier is that executives, like most people have more regard for the present than for the future. The present is not only more certain than the future, it is also more desirable. Resistance to change is commonly experienced phenomenon in the business world. Planning often implies changes which the executive would like to ignore, hoping they would not materialise." The notion that things planned for future are unlikely to happen is not based on logical thinking. It is the planning which helps in minimising future uncertainties.

#### 4.3.8 Planning Process

Planning process involves the setting up of business objectives and allocation of resources for achieving them. Planning determines the future course of action for utilizing various resources in a best possible way. It is a combination of information handling and decision making systems based on information inputs, outputs and a feedback loop.

##### Steps in Planning Process

Planning involves a number of steps ranging from determining the problem to follow-up action. Following steps are taken in planning process:

**Recognizing Need for Action.** The first step in planning process is the awareness of business opportunity and the need for taking action. Present and future opportunities must be found so that planning may be undertaken for them. The trend of economic situation should also be visualised. For example, if thinking of the government is to develop rural areas as industrial centers, a farsighted

businessman will think of setting up units suitable to that environment and will avail the facilities offered for this purpose.

Before venturing into new areas the pros and cons of such projects should be evaluated. A beginning should be made only after going through a detailed analysis of the new opportunity.

**Gathering Necessary Information.** Before actual planning is initiated relevant facts and figures are collected. All information relating to operations of the business should be collected in detail. The type of customers to be dealt with, the circumstances under which goods are to be provided, value of products to the customers, etc. should be studied in detail. The facts and figures collected will help in framing realistic plans.

**Laying Down Objectives.** Objectives are the goals which the management tries to achieve. The objectives are the end products and all energies are diverted to achieve these goals. Goals are a thread which bind the whole company. Planning starts with the determination of objectives. The tie between planning and objectives helps employees to understand their duties. Objectives are the guides of employees. It is essential that objectives should be properly formulated and communicated to all members of the organization.

**Determining Planning Premises.** Planning is always for uncertain future. Though nothing may be certain in the coming period but still certain assumptions will have to be made for formulating plans. Forecasts are essential for planning even if all may not prove correct. A forecast means the assumption of future events. The behaviour of certain variables is forecasted for constituting planning premises. Forecasts will generally be made for the following :

- (a) The expectation of demand for the products.
- (b) The likely volume of production.
- (c) The anticipation of costs and the likely prices at which products will be marketed.
- (d) The supply of labour, raw materials etc.
- (e) The economic policies of the government.
- (f) The changing pattern of consumer preferences.
- (g) The impact of technological changes on production processes.
- (h) The sources for supply of funds.

It is on the basis of these forecasts that planning is undertaken. The success or failure of planning will depend upon the forecasts for various factors mentioned above. If the forecasts are accurate then planning will also be reliable. The effect of various factors should be carefully weighed.

**Examining Alternative Course of Action.** The next step in planning will be choosing the best course of action. There are a number of ways of doing a thing. The planner should study all the alternatives and then a final selection should be made. Best results will be achieved only when best way of doing a work is selected. According to Koontz and O'Donnell, "There is seldom a plan made for which reasonable alternatives do not exist." All the pros and cons of methods should be weighed before a final selection.

**Evaluation of Action Patterns.** After choosing a course of action, the next step will be to make an evaluation of those courses of actions. Evaluation will involve the study of performance of various actions. Various factors will be weighed against each other. A course of action may be suitable but it may involve huge investments and the other may involve less amount but it may not be very profitable. The evaluation of various action patterns is essential for proper planning.

**Determining Secondary Plans.** Once a main plan is formulated then a number of supportive plans are required. In fact secondary plans are meant for the implementation of principal plan. For example, once production plan is decided then a number of plans for procurement of raw materials, purchase of plant and equipment, recruitment of personnel will be required. All secondary plans will be a part of the main plan.

**Implementation of Plans.** The last step in planning process is the implementation part. The planning should be put into action so that business objectives may be achieved. The implementation will require establishment of policies, procedures, standards and budgets. These tools will enable a better implementation of plans.

#### 4.4 Types of Plans

A plan is a commitment to a particular course of action for achieving specific results. From this it follows that there are a number of plans for achieving different goals. Managers, normally, commit the mistake of taking major programmes only as plans. But a number of future courses of action

are also plans. For example, starting the production of a new product or setting up a new factory are considered plans. The plans may be classified according to origin, use, purpose, kind etc. Some of the plans are in the form of standing plans while others are single use plans. Single use plans are used only once and not over and over again whereas repeat use plans are used again and again. For example, objectives, policies, strategies, rules, procedures etc., are standing plans because once formulated, they will be used for a long period and repeatedly. On the other hand, programmes and budgets are single use plans because once these are achieved, these are to be formulated again.

#### **4.4.1 Purpose or Mission**

The mission or purpose identifies the basic function or task of an enterprise. Every organization has or should have a purpose so that its working becomes meaningful. The purpose or mission is assigned to every organization by the society. The purpose of a business is to produce and distribute goods or services, the purpose of public works department is to construct and maintain roads, the purpose of courts is to interpret and apply laws and so on. The purpose is a standing plan in a business organization which defines its basic purpose in the light of which other actions are designed. An organization's purpose consists of a long term vision of what it seeks to do and the reasons why it exists. The organization's mission indicates exactly what activities the organization intends to engage in now and in future. The basic questions to be answered by an organization are (i) What business we are in? (ii) What will our business be? (iii) Who are our customers? (iv) What are our values and beliefs? (v) What will be our utility to the society? And so on.

#### **Objectives**

Objectives or goals are the ends towards which every activity is aimed—they are the results to be achieved. Objectives are a prerequisite for planning. No planning is possible without setting up of objectives. While enterprise objectives are the basic plan of the firm, a department may also have its own objectives. Though departmental objectives will contribute to the attainment of enterprise objectives but the two sets of goals may entirely be different. For example, the objective of the enterprise may be to earn a certain amount of profit, while selling its products.

Enterprise objectives influence the management philosophy and practice. Objectives have great influence on the working of an organization. All other types of plans such as policies, strategies, procedures, rules, budgets etc. assist in the attainment of stated enterprise objectives in an economical and efficient manner. Objectives are related to the future and are an essential part of the planning process.

#### **Advantages of Laying Down Objectives**

Objectives are the targets to be achieved by the management. They do not help one or two functions but all the functions are facilitated by the formulation of objectives.

The objectives are helpful in creating unity in planning. Different departments make their own departmental plans. In the absence of common objectives there is a possibility of inconsistency or confusion.

The formulation of objectives helps in decentralization of authority. The goals of various levels of management are fixed and requisite authority is needed to be delegated for achieving those targets. The decentralization of authority will involve more persons in decision-making process.

Objectives are helpful in exercising control over various activities. Every department, section or individual is responsible for its performance. The comparison of standards and actual performance will enable the management in pin-pointing weak spots. The control is facilitated through the setting of objectives.

The setting up of objectives stimulates motivation in individuals. When a person knows his goal then he will try to achieve it as early as possible. The performance of various individuals improves through this process.

Objectives are the essence of planning. Planning process is not possible without objectives. The planning starts with the setting up of objectives. It is the objectives for which planning is undertaken.

#### **Difficulties in Setting Objectives**

Though objectives act as guidelines for devising various plans and policies but setting objectives is a difficult exercise. One has to reconcile various interests while setting objectives. Following difficulties are often faced for setting objectives :

**Difficult to Define.** Objectives are to be set up for every area of the business. It is easy to set up quantifiable objectives like sales target to be achieved, goods to be produced in a particular period,

amount of raw materials to be produced, etc. If the objectives are not measurable in money or quantity then it becomes difficult to set them. The objectives like consumer satisfaction, industrial relations, employee morale, etc. are difficult to be defined.

**Difficult to Devise Means.** Another problem in objectives is to devise suitable means for achieving them. Generally, ambitious objectives are set. They are not related to the availability of resources. \_Instead of improving efficiency they may become a source of frustration. If the employees are not able to achieve the objectives even with more efforts then their enthusiasm is dampened.

**Difficult to Reconcile Objectives.** The objectives of different fields are sometimes contradictory. It becomes a problem to reconcile various objectives. The object of increasing productivity may be achieved by improving efficiency of workers. The workers, on the other hand, may not like the disciplinary sanctions imposed on them for not improving their work. So, it becomes a problem to reconcile various objectives.

#### **4.4.2 Policies**

Policies are general statements or understandings which provide guidance in decision- making to various managers. These are standing plans providing guidance to management in the conduct of managerial operations. Policies define boundaries within which decisions can be made and decisions are directed towards the achievement of objectives. Policies also help in deciding issues before they become problems and making it unnecessary to analyse the same situation every time it comes up. Managers can delegate authority within the given parameters and can still retain control over what their subordinates do. In the words of Koontz and Weihrich, "Policy is a means of encouraging discretion and initiative, but within limits].

#### **4.4.3 Strategies**

The word 'strategy' has long been used in the content of military action plans. It was used to state the grand plans made in the light of what it is believed an adversely might or might not do. Managers now use strategies in the broader areas of business operations. A strategy is a comprehensive and integrated plan designed to assure that business objectives are accomplished. The long term objectives of the enterprise are determined and requisite resources are allocated and deployed to achieve the desired results. The purpose of strategies is to determine a picture of the kind of enterprise that is envisaged. Strategies donot attempt to outline the programmes for achieving objectives but they furnish a framework for guiding thinking and action.

#### **Features of a Policy**

The above discussion reveals the following features of a policy :

A policy is a standing plan which provides answers to recurring problems of a similar nature. It provides answers/guidelines to the members of an organization for deciding the future course of action. A policy provides and explains what a member should do rather than what he is doing.

A policy limits an area within which a decision is to be taken for the achievement of organizational goals. It avoids repeated analysis of situations and allow delegation of powers and still retaining control over actions.

Policies are models of thought and principles underlying the activities of an organization. They guide the behaviour and decisions of the executive.

Policies are framed by all managers in the organization. There is a need for giving guidelines for future course of action at every level of management. However, the importance of policy differs according to the level of management. At higher level of management important policies are decided while at lower level some less important or minor policies are required.

#### **Purpose of Policies**

Policies are regarded as important for realising the objectives of the organization. They also ensure co-ordination of efforts and activities in the enterprise. The policies arc formulated for the following purposes :

The main purpose of policies is to ensure that there is no deviation from the planned course of action. The framework is set within which everybody is expected to work. Policies ensure that the broad guides for action are adhered to.

Since policies chalk out a framework for each and every person, it ensures proper delegation of authority also. A manager knows the extent of authority required by a subordinate to undertake the work allotted to him. Policies serve the purpose of delegating adequate authority downwards.

Policies allow the scope for interpretation. The main aspects are given in a policy but the actual mode of implementation is decided by the concerned person.

Policies are helpful for future planning also. The impact and influence of policies help in thinking about the future.

Policies also ensure consistency of action. The guidelines are similar for everybody and actions must conform to the broad outlines.

#### **4.4.4 Procedures**

Procedures are details of action or the guidelines for the achievement of business objectives. Procedures give details of how things are to be done. No room is left for judgement. These should help in implementation of policies. Procedures also determine the policy of responsibility and accountability. According to Terry, "A procedure is a series of related tasks that make up the chronological sequence and the established way of performing the work to be accomplished."

Procedures should be distinguished from policies. A procedure is a guide to action whereas a policy is a guide to thinking. Policies are guidelines for taking decisions and procedures consist of various methods to accomplish each phase of work. Policies offer scope for interpretation in order to see that they fit in a particular situation whereas procedures are tailor-made and do not offer any scope for interpretation.

A procedure is explained with the help of taking the case of purchasing raw materials for a concern :

Every department needing raw materials will send a purchase requisition to the purchase department giving quantity specifications, type and quality materials required.

The purchase department will consolidate the requirements of various departments. A combined order is prepared and sent to the suppliers. The purchase department maintains the list of suppliers and regularly collects quotations from them. The copy of the purchase order is also sent to the receiving and inspecting department.

The receiving department compares the goods received with the order placed. Any discrepancy in quantity, quality, etc. is reported to the purchase department. If the goods are proper and according to the order then a report about it is submitted to the purchase department.

After receiving a satisfactory report from receiving and inspecting department, purchase department forwards the bill to accounting department for payment.

Accounting department checks the bill and then makes the payment to the supplier.

Whenever a material purchase is needed then the same procedure is followed. Different tasks

require different procedures and they are followed in the same way.

#### **Advantages of Procedures**

**Basis of Control.** Procedures give a detail of sequences to be followed for completing a task. It can be seen whether the work is proceeding according to the plan or not. Procedures are used as a control mechanism because any discrepancy in completing the work can be determined at once.

**Consistency.** Procedures help to ensure consistency and uniformity of performance. Once the procedures are established, they can be similarly used again and again.

**Standardization.** The standardization of procedures reduce the need for decision- making in similar situation. Whenever a task is to be performed, the same procedure will be followed for doing it. This increases efficiency in doing a work.

**Co-ordination.** Procedures establish a sequence to be followed for each work. This helps in co-ordinating the activities of different departments or sections because same procedures will be followed by all of them.

#### **Limitations**

**Rigidity.** Rigidity is followed in following procedures. They are continuously used over and over again. This discourages initiative and discoveries.

**Constant Review.** The same procedures cannot be followed for long terms. The changing situations necessitate the review of procedures. To keep them effective they should be constantly updated. They should be suitably adjusted to suit the present situation.



#### 4.4.5 Rules

A rule is a plan that lays down a required course of action with regard to a situation. A rule is in the nature of a decision made by management regarding what is to be done and what is not to be done in a particular situation. A rule is definite and rigid and allows no deviation or discretion to the subordinates. Like procedures, rules do not prescribe a chronological sequence of steps to be taken to achieve a given objective. A rule may or may not be a part of the procedure. A rule such as 'No smoking in the factory' will not form a part of the procedure. On the other, a rule to make payment within 21 days will be the part of a procedure.

Rules prescribe the limits of acceptable behaviour of the members of the organization. Rules will enable managers to predict the behaviour of their subordinates, how will they act in a given situation. Rules channel the behaviour of workers in a desired direction. Workers sometimes resent rules for stifling their actions. The problem does not lie with the rules, but the manner in which they are put to the workers. Management should try to frame only those rules which are necessary and those too should also be explained properly to the employees.

#### 4.4.6 Programmes

A programme is a sequence of activities designed to implement policies and accomplish objectives. It is devised to meet a particular situation. Programme may be taken as a combination of policies, procedures, rules, budgets, task assignments, etc. developed for the specific purpose of carrying out a particular course of action. Separate programmes are prepared for accomplishing different tasks. The same programme may not be used for achieving other goals. It is a single use plan laid down for new and non-repetitive activities.

In the words of Koontz and O'Donnell, 'Programmes are complexes of goals, policies, procedures, rules, task assignment, steps to be taken, resources to be employed and other elements necessary to carry out a given course of action.' To quote George Terry, 'A programme can be defined as a comprehensive plan that includes future use of different resources in an integrated pattern and establishes a sequence of required actions and time schedules for each in order to achieve the standard objectives.'

#### Advantages of Programmes

Following are the advantages of programmes :

Programmes lay down a course of action to be followed for achieving organizational goals.

The details of actions to be taken and time schedule to be followed are all decided in advance. This enables smooth implementation of plans.

Programmes are helpful in creating better co-ordination in the organization. The policies, procedures, rules, budgets, etc. are in order to provide proper co-ordination.

The programmes are action-oriented plans and provide motivation to employees.

#### Disadvantages of Programmes

If the programmes are not carefully framed, there is a danger of their being failing. The actions to be taken and the procedures to be followed may be properly selected. Such lapses at the initial stage will make the programmes ineffective.

There is always a risk of inadequate co-ordination. In case various elements of programmes like policies, procedures, rules, etc. are not balanced properly then the programmes will not be properly co-ordinated.

The major programmes have a number of sub-programmes. All the sub-programmes should be successfully carried out for completing the main programme. Any lapse in implementing a small programme can endanger the whole exercise.

#### 4.4.7 Budgets

A budget is the monetary or/and quantitative expression of business plans and policies to be pursued in the future period of time. The term budgeting is used for preparing budgets and other procedures for planning, co-ordination and control of business enterprise.

According to Institute of Cost and Works Accountants, London, 'A budget is a financial statement and/or quantitative statement prepared prior to a defined period of time, of the policy to be pursued during that period for the purpose of attaining a given objective.' In the words of George R. Terry, 'A budget is an estimate of future needs, arranged according to an orderly bases, covering some or all of the activities of an enterprise for a definite period of time.' In words of Crown and Howard a budget has been defined as,

—A pre-determined statement of management policy during a given period which provides a standard for comparison with the results actually achieved.||

### **Characteristics of Budget**

A budget should be based on past figures. The possibilities in future should also be taken into account.

A budget be flexible so that it is modified according to the requirements of the situation.

Rigidity in budgets sometimes creates difficulties.

The persons at various levels should be involved in preparing a budget. This will help in getting willing cooperation of everybody while implementing budgets.

A budget should be a specific statement. The quantities or monetary information should be clearly mentioned in a budget.

There should be an active involvement of top management while preparing a budget.

### **Need for preparing Budgets**

Budgeting is essential for policy planning and control. The budgets are essential due to following reasons :

Budgets are required for formulating future policies.

They are needed for ensuring co-ordination among various departments or segments of an enterprise.

Budgets act as a tool of control in the hands of management. Budgets fixed for various persons will be the criterion fixed for assessing performance.

Budgets act as motivation for various employees. When targets for performance are fixed then persons will try to achieve them at the earliest. They have been given a go for which they should work.

### **Classification and types of Budgets**

The budgets are usually classified according to their nature. The following are the types of budgets which are commonly used.

#### **A. Classification on the Basis of Time**

1. Long-term budgets.

2. Short-term budgets.

Current budgets.

#### **Classification on the Basis of Functions**

Functional or Subsidiary Budget.

Master Budget.

#### **Classification on the Basis of Flexibility**

1. Fixed budget.

2. Flexible budget.

### **A. Classification According to Time**

**Long-term Budgets.** The budgets are prepared to depict a long-term planning of the business. The period of long-term budgets varies between five to ten years. The long-term planning is done by the top level management ; it is not generally known to lower level of management. Long-term budgets are prepared for some sectors of the concern such as capital expenditure, research and development, long-term finances, etc. These budgets are useful for those industries where gestation period is long *i.e.* machinery, electricity, engineering, etc.

**Short-term Budgets.** These budgets are generally for one or two years and are in the form of monetary terms. The consumers goods industries like sugar, cotton, textile, etc. use short-term budgets.

**Current Budgets.** The period of current budgets is generally of months and weeks. These budgets relate to the current activities of the business. According to I.C.W .A., London, Current budget is a budget which is established for use over a short period of time and is related *10* current conditions.||

### **Classification on the Basis of Functions**

**Functional Budgets.** These budgets are related to different functions, the number of these budgets depends upon the size and nature of the business. The commonly used functional budgets are :

Sales Budget.

Production Budget including

(i) Raw material Budget ;

(ii) Labour Budget;

(iii) Plant utilization Budget.

(c) Purchase Budget.

(d) Cash Budget.

(d) Finance Budget.

**Master Budget.** Various functional budgets are integrated into master budget. This budget is prepared by the ultimate integration of separate functional budgets According to I.C.W .A., London, "The Master Budget is the summary budget incorporating its functional budget." Master budget is prepared by the budget office and it remains with the top level management. This budget is used to co-ordinate the activities of various functional departments and is also helping as a control device.

#### **Classification on the Basis of Flexibility**

**Fixed Budget.** The fixed budgets are prepared for a given level of activity the budget is prepared before the beginning of the financial year. If the financial year starts in January then the budget will be prepared a month or two earlier i.e. November or December. The changes in expenditure arising out of the anticipated changes will not be adjusted in the budget.

There is a difference of about twelve months in the budgeted and actual figures According to I.C.W .A., London, "Fixed budget is a budget which is designed to remain unchanged irrespective of the level of activity actually attained." Fixed budgets are suitable under static conditions. If sales, expenses and costs can be forecasted with greater accuracy then this budget can be advantageously used.

**Flexible Budget.** A flexible budget consists of a series of budgets for different levels of activity. It, therefore, varies with the levels of activity attained. A flexible budget is prepared after taking into consideration unforeseen changes in the conditions of the business. A fixed budget is defined as a budget which by recognizing the difference between fixed, semi-fixed and variable cost is designed to change in relation to the level of activity.

The flexible budgets will be useful where level of activity changes from time to time. When the forecasting of demand is uncertain and the undertaking operates under conditions of shortage of materials, labour, etc., then the budget will be more suited.

#### **Advantage of Budgeting**

Budgets act as a tool in the hands of management. They help in improving the efficiency of the business. The following are some of the advantages of budgeting :

**Improves Efficiency.** Budgeting helps in improving efficiency in the organization. Every person gets a target for achievement. Since performance is evaluated against the targets given, employees try to improve their efficiency.

**Co-ordination.** The working of different departments and sectors is properly co-ordinated with the help of budgeting. The budgets of different departments have a bearing on one another. The co-operation of various executives and subordinates is necessary for achieving budgeted targets.

**Economy.** The planning of expenditure will be systematic and there will be an economy in spending. The finances will be put to optimum use. The benefits derived for the concern will ultimately extended to industry and then to national economy.

**Consciousness among Employees.** Budgeting creates consciousness among employees. By fixing targets for the employees, they are made conscious of their responsibility. Everybody knows what he is expected to do and he continues with the work uninterrupted.

**Time Bound.** The budgets are prepared for specific periods and the performance is judged at the end of these periods. The results of employees' working can be known after a specified time.

#### **4.5 Decision-making**

Decision-making is an important job of a manager. Everyday he has to decide about doing or not doing a particular thing. A decision is the selection from among alternatives. It is a solution selected after examining several alternatives chosen because the decider foresees that the course of action he selects will be more than the others to further his goals and will be accompanied by the fewest possible objectionable consequences. It is the selection of one course of action from two or more alternative courses of action. In the words of MacFarland, "A decision is an act of choice wherein an executive forms a conclusion about what must be done in a given situation. A decision represents a course of behaviour chosen from a number of possible alternatives." The way an executive acts or decides the course of action from among various alternatives is an act of decision-making. George Terry says, "Decision-making is the selection based on some criteria from two or more possible alternatives." Though there are many alternatives available for a manager but he has to choose the best out of them.

#### 4.5.1 CHARACTERISTICS

Following are the characteristics of decision-making :

Decision-making is based on rational thinking. The manager tries to foresee various possible effects of a decision before deciding a particular one.

It is a process of selecting the best from among alternatives available.

It involves the evaluation of various alternatives available. The selection of best alternative will be made only when pros and cons of all of them are discussed and evaluated.

#### 4.5.2 Nature of Decision-Making

A decision is always related to some problem, difficulty or conflict. Decisions help in solving problems or resolving conflicts. There are always differences of opinions, judgements, etc. Managerial decision helps in maintaining group effectiveness. All problems may not require decision-making but merely the supply of information may be sufficient. For example, when will different groups report for re-orientation? The supply of information about training programme may be enough.

Decision problems necessitate a choice from different alternatives. A number of possibilities are selected before making a final selection. Decision-making requires something more than a selection. The material requiring a decision may be available but still a decision may not be reached. A decision needs some sort of prediction for the future on the basis of past and present available information. The effect of a decision is to be felt in future so it requires proper analysis of available material and a prediction for the future. If decision premises do not come true, then decision itself may be wrong.

Sometimes decisions are influenced by adopting a follow-the-leader practice. The leader of the group or an important manager of a concern sets the precedent and others silently follow that decision. Whatever has been decided by the leader becomes a guide for others and they also follow suit. The decisions may also emerge from answers to pertinent questions about the problem. Such answers try to narrow down the choice and help in making a decision.

#### 4.5.3 Steps Involved In Decision-Making

A decision cannot be taken in isolation. It is influenced by past experience, present conditions and future expectations. Once a decision is taken then it becomes difficult to reverse it. It is pertinent to discuss the problem involved and then take a decision after considering various possibilities. Decision-making involves the following steps :

**Defining the Problem.** The first step in decision-making is to find out the correct problem. It is not easy to define the problem. It should be seen what is causing the trouble and what will be its possible solutions. No problem presents itself in a manner that an immediate decision is taken. If the problem is not correctly defined then the efforts and money spent on a wrong decision will go waste. Moreover, a wrong problem may create fresh difficulties instead of solving them.

Before defining the problem the manager has to identify critical or strategic factor of the problem. Chester Bernard has pointed out that the theory of the strategic factor is necessary for the appreciation of the process of decision-making. He emphasises that in decision-making the analysis required is actually a search for the strategic factors. These factors may be the root cause of obstacles in developing a proper solution to the problem under discussion. If we wish to increase the yield of grain in a certain field, on analysis it may be found that there is a lack of potash. The potash will be a strategic or limiting factor in this case. Once the problem is properly defined then it will be easily solved. So the first important factor is the determination of problem.

**Analysis of Problem.** After defining the problems the manager should analyse it. He should collect all possible information about the problem and then decide whether it will be sufficient to take a decision or not. Generally, managers complain that they seldom get sufficient information which they would have liked to have. Sometimes it may be costly to get additional information or further information may not be possible. In the words of Peter Drucker, "To make a sound decision, it is not necessary to have all the facts ; but it is not necessary to know what information is lacking in order to judge how much of a risk the decision involves, as well as the degree of precision and rigidity that the proposed course of action can afford." Whatever information is available should be used to analyse the problem. If there are deficiencies in information then manager must judge the degree of risk involved in the decision.

**Alternative Courses of Action.** Every problem has a number of solutions. If there is only one solution then there is no need for decision-making. A manager must try to find out various alternatives in order to get satisfactory results of a decision. Unless manager develops several alternative solutions, he is only too prone to fall into the either or kind of thinking. Having more alternatives is not a guarantee

against wrong decisions. It should be kept in mind that alternative solutions are no guarantee of wisdom or of the right decision. But at least they prevent one making wrong decision.

There are several alternatives even in discouraging situations. For example, the plant of the company needs replacement because its products cannot compete with those of others. The choices before management may be to go for a new plant, can rent new premises, consolidate this plant with another plant at other premises, could become the distributors of similar products of other firms. The management has to evaluate various alternative proposals and then take a decision. Unless otherwise all possible alternatives are developed, a solution may not be good.

**Evaluation of Alternatives.** After developing various alternatives, the next step is to evaluate them and select the right one. The pros and cons of different proposals should be foreseen. The desirable and undesirable consequences of adopting each alternative should be tested. This exercise will enable the manager to see the risk involved in each course of action.

The alternatives should be evaluated in relation to time and money involved in them. Only that alternative which gives maximum economy should be selected. A decision becomes easy when one alternative has more favourable consequences as compared to others. When more than one alternatives have similar good points then it becomes difficult to make a choice. In such cases two or more alternatives can be combined. There may be a situation where none of the alternatives present favourable situation. Not accepting any alternative is also an important decision. The manager should develop new alternatives in such a situation.

**Experience.** The oftenly repeated proverbs like ‘\_history repeats itself’ or ‘\_experience is the best teacher’ provide help in decision-making. The past experience acts as a guide. The difficulties faced and problems encountered earlier can be well judged and collective measures can be taken in advance. The past experience should not blindly be relied upon. In case the situations in the past and at present are similar then earlier alternative may be selected. But there may be a change in situation and the old decisions may not hold good in future. Hence the decisions should not be the same. While relying on experience the conditions prevailing in the past, at present and possible effects in future should be properly considered before making a decision. The experience is an asset with a manager but it should not be blindly relied upon.

**Experimentation.** Experimentation is used in scientific enquiry. The alternatives are put to actual practice and the one giving better results is selected. Experimentations however, is not possible in management. It will be costly to put every alternative to practice. However, it may be used in a limited way. For example, when a new product is put in the market, it can be marketed in a limited area to see the reaction of consumers. If the management wants to instal a new organizational set up then it may be first applied in a branch before being used in the whole business. It will always be better to take a decision on the basis of facts, study, analysis of results, etc.

**Taking Decision and Following up.** When various alternatives are properly evaluated then a final decision is taken. The decision is communicated to the concerned persons for action. The implementation of a decision will require the co-operation of subordinates. They should be properly briefed about various aspects of the decision.

It is not enough to take a decision, it should also be seen whether it is properly implemented or not. The follow up action of a decision may show that it is was based on certain wrong premises or facts. In such situations the decision should be reviewed and necessary changes may be made if required. To follow up is also an important aspect of decision-making.

#### **4.5.4 Techniques or Basis for Decision-Making**

Decision-making has become a complex problem. A number of techniques, extending from guessing to mathematical analyses, are used for decision-making process. The selection of an appropriate technique depends upon the judgement of decision-maker. Following techniques of decision-making are generally employed :

**Intuition.** Decision-making by intuition is characterized by inner feeling of the person. He takes a decision as per the dictates of his conscious. He thinks about the problem and an answer is found in his mind. The decision-maker has his own preferences, influences, psychological make-up and these things play a vital role in taking a decision. The past knowledge, training and experience of the decision-maker plays an important role in intuitive decisions.

With this technique of decision-making, decisions are taken quickly and the decision-making capability of the person is also used. In case the intuition of the decision-maker is wrong then decision will also be incorrect. The other techniques of decision-making are also neglected.

**Facts.** Facts are considered to be the best basis of decision-making. A decision based on facts has its roots in factual data. Such decisions will be sound and proper. The increasing use of computers has helped in systematic analysis of data. The information has become a major tool in managerial decision-making.

It may not be possible to secure all relevant facts for taking decisions. Managers, generally, complain of insufficient information. It is also essential that facts should be properly diagnosed, classified and interpreted. Facts alone may not be sufficient for decision-making. The imagination experience and beliefs of the decision-making also required to comprehend the facts in proper perspective.

**Experience.** Past experience of a person becomes a good basis for taking decisions. When a similar situation arises then the manager can rely on his past decisions and takes similar decisions. The person sees and understands things in terms of concepts with which he is familiar. Experience should not be followed blindly. The new situations should be analysed on the basis of past knowledge. A successful decision in the past may not prove useful this time also, on the other hand, a decision once failed need not be avoided for all times in future. Though past experience is a good basis but present situations should be properly analysed and assessed before taking a decision.

**Considered Opinions.** Some managers use considered opinions as a basis for decision-making. Besides pertinent statistics, opinions are also given due weightage. Somethings discussed and considered by more persons become logical and may form a sound basis for decision-making. A marketing manager, before deciding whether to market a new product or not, will like to see marketing statistics as well as considered opinions before finally making a choice.

**Operations Research.** The traditional methods of taking decision on the basis of intuition, experience, etc. are replaced by systematic techniques based on analysis of data. The operations research is one of the techniques used by modern management for deciding important matters. It helps managers by providing scientific basis for solving organizational problems involving interaction of components of the organization.

**Linear Programming.** This technique is used to determine the best use of limited resources for achieving given objectives. This method is based on this assumption that there exists a linear relationship between variables and that the limits of variations could be ascertained. Linear programme can be used for solving problems in areas like production, transportation, warehousing, etc.

#### 4.5.5 Rationality in Decision Making

There is an agreement on the desirability of rationality in decision making. It is said that effective decision making must be rational. There is no agreement on what rationality really means? When does a person think or decides rationally. Decision making involves the achievement of a goal. Rationality demands that the decision maker should properly understand the alternative courses of action for reaching the goals. He should also have full information and the ability to analyse properly various alternative courses of action in the light of goals sought. There should also be a desire to select the best solutions by selecting the alternative which will satisfy the goal achievement.

Herbert A. Simon defines rationality in terms of objective and intelligent action. It is characterized by behavioural nexus between ends and means. If appropriate means are chosen to reach desired ends, the decision is rational.

It is not possible to have complete rationality in decision making, particularly in managing. The decisions are affected for future and it invariably involves uncertainties. Secondly, it is very difficult to recognise all the available alternatives for reaching the goals. It may be particularly true when it involves opportunities to do something which has not been done before. Thirdly, all the alternatives may not be evaluated properly even with the modern techniques like computers.

#### 4.5.6 Limitation on Rationality

There is a limitation on rationality. The limitations of time, information and certainty limit rationality even though managers try to be rational. They must settle for limited rationality or bounded rationality. Managers cannot be completely rational in actual practice, they sometimes allow their dislike of risk to interfere with their desire to reach best solutions under the circumstances. Mostly the risk element acts as a limitation on rationality. Many managers try to play safe, as far as possible, some try to take risk within the limits of rationality and in the light of nature and size of risk involved.

#### **4.5.7 Decision Making Conditions**

Decision making involves the selection of one of the alternatives available. A decision taken at present will have effect in future. A decision-maker tries to visualise the conditions in future and take decisions accordingly. So decisions are made in an environment of atleast some uncertainty. There are certain risks involved in decision making and the conditions vary from certainty to complete uncertainty. The strategy of taking decisions under different conditions vary. The conditions under which decisions are taken are as follows :

##### **Certainty**

Under the conditions of certainty, people are reasonably sure about what will happen when they take a decision. The required information is available and it is reliable and the cause and effect relationships are known. The manager makes decisions under such situations at different times with the same results. Under such situations a deterministic model is used, in which all factors are assumed to be exact with the chance playing no role.

##### **Risk**

In a risk situation, factual information may exist but it may be insufficient. Most of the business decisions are taken under risk conditions. The available information does not answer overall questions about the outcome of the decision. A manager has to develop estimates of the likelihood of the various states of events occurring. The estimates may be based on past experience, other available information or intelligence. In order to improve decision-making under these conditions, one may estimate the objective probabilities of an outcome by using, for example, mathematical models. On the other hand, subjective probability, based on judgement and experiences, may be used. There are a number of tools available which help a manager in taking decisions under such conditions.

##### **Uncertainty**

Under conditions of uncertainty a manager has only little information and he is not sure about its reliability also. Since the manager does not have proper information on which he can develop, the best he can do is to be aware that he has no chance of predicting the events. The interaction of various variables cannot be evaluated for taking decisions. The decision making under uncertainty is a difficult proposition. For example, if a company wants to enter a foreign market, it may not be sure about the consumer preference for the product, economic situation above all the political conditions. The conditions in a new market may so fluctuate that proper decision taking becomes a problem. The use of a number of modern techniques may improve the quality of decisions under uncertain conditions. The use of risk analysis, decision trees preference theory can help in making proper decisions under those situations.

#### **4.5.8 Types of Decisions**

Different decisions differ in nature and significance. Some decisions are taken in routine while some may have to be carefully evaluated. Various decisions are discussed as follow :

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

Programmed decisions are of a routine nature and are taken within the specified procedures. These decisions are made with regard to routine and recurring problems which require structured solutions. A manager is not required to go through the problem solving procedures again and again for taking programmed decisions. The decision rules for programmed decisions should be prepared carefully and intelligently so that lower level executives are able to take the decisions without making references to higher managerial levels. No judgement or discretion is needed to find out solutions to such problems. These decisions remain consistent for a relatively longer period of time and over many solutions.

Non-programmed decisions are related to problems which are unique and non-repetitive. The information and knowledge about such decisions is not available. Such decisions are made under new and unfamiliar circumstances. The standard and pre-determined procedures and rules are rendered ineffective in programmed decisions because every decision will have to be taken separately. Non-programmed decisions are usually made for solving unstructured problems which keep on changing from time to time. Every problem has to be restructured and analysed by the manager by using his skill, judgement and creativity. For example, a decision regarding adding a new product, purchase of new machinery, opening a new branch, appointment of a new chief executive are all non-programmed decisions and require separate attention for each decision.

### Comparison Between Programmed and Non-programmed Decisions

| Programmed Decisions   | Non-Programmed Decisions  |
|--|---|
| (i) These are for solving day to day and routine problems and are repetitive in nature.                  | These are for solving non-repetitive, tactical or unique problems.                        |
| (ii) Rules and procedures are described for taking these decisions.                                      | Every decision will have to be taken separately by analysing and evaluating each problem. |
| (iii) These decisions remain consistent for a relatively longer period of time and over many situations. | Every decision is different and there is no consistency.                                  |
| (iv) These decisions are made for solving both simple and complex problems.                              | Such decisions are for solving complex problems.  |
| (v) Decisions are of routine nature requiring no judgement.  | Such decisions require judgement in each case.  |

### 2. Strategic and Tactical Decisions

Strategic decisions relate to policy matters and need the development and analysis of alternatives. These decisions influence organizational structure, objectives, working conditions, finances etc. Strategic decisions exercise great influence on the functioning and direction of the origination and have long-term implications. They also define and establish the relationship of the organization with external environment. Such decisions require more resources, judgement and skill. Because of their importance, strategic decisions are taken at top managerial levels.

The decisions such as adding a new product or service, introduction of new technology, taking over of another organization, selection of a location are all strategic decisions. These decisions once taken cannot be easily reversed. The impact of these decisions is fairly long because expansion, growth, development and profitability of the organization is linked to them. Strategic decisions some what resemble to non-programmed decisions because they possess the characteristics of the latter.

In order to implement strategic decisions, management has to make some tactical, operational or routine decision. One strategic decision may require many operational decisions. These decisions are concerned with routine and repetitive matters arising out of the working of the organization. Such decisions do not require managerial judgement and are taken at lower levels of the management. Tactical decisions are more specific, functional and have short-term implications. Such decisions are taken by referring to established rules, procedures and standards.

### Comparison Between Strategic and Tactical Decisions

| Strategic Decisions   | Tactical Decisions   |
|---|--|
| (i) Strategic decisions are taken at top management.  | Tactical decisions are taken at lower level of managers.   |
| (ii) These decisions are important and have long term implications.                                 | These decisions have short term implications.  |
| (iii) These decisions are related to the growth, development and profitability of the organization. | These decisions are concerned with simple, routine and repetitive problems.                                |
| (iv) More judgement and skill is required for taking these decisions.                               | These decisions are taken with reference to predetermined rules and procedures and require less judgement. |

### 3. Individual and Group Decisions

A decision taken by one person is known as individual decision. In a small concern normally the owner takes most of the decisions, in a bigger concern the routine or simple decisions may be left to a particular manager. Such decisions are generally taken as per predetermined rules and procedures and require less application of judgement and skill. When a manager is required to take a decision, he is supplied with information and other inputs needed for this purpose. All managers, whether at top level or at lower level, take decisions for carrying out their activities.



When decisions are taken by two or more persons, these are known as group decisions. Generally, strategic or other important decisions are taken by groups instead of individuals because of risk involved. The decisions of Board of Directors or Committees come under this category. Group decisions are normally important and have long-term implications for the concern. A decision regarding introducing a new product, shifting to latest technology, trying labour saving devices etc. may be better taken by a group of specialists than by an individual. Group decisions are generally time consuming but otherwise these are well discussed decisions.

#### 4.6 SUMMARY

Planning has a primacy over the management functions and is a pervasive element in organizations. By planning, managers minimise uncertainty and help focus the sight of their organization on its goals.

There are two important forms of planning: strategic and tactical. Strategic planning involves deciding the major goals of the organization. It is always done at the top management level. Tactical planning is concerned with the implementation of strategic plans. It is done at the middle and lower management levels.

Besides objectives, which are the end goals of the organization, there are two broad categories of plans: single-use plans and standing plans. Single-use *plans* are developed for a specific activity that is usually not repeated. They include programmes and budgets. Conversely, *standing plans* are used for repetitive activities. They include policies, procedures, methods and rules.

There are eight steps in the process of planning: (a) establishing verifiable goals; (b) establishing planning premises; (c) deciding the planning period; (d) searching alternative courses of action;

evaluating and selecting a course of action; (f) developing derivative plans; (g) establishing and deploying action plans; and (h) measuring and controlling the progress.

The major limitations of planning are: (a) it is time-consuming and expensive; (b) it stifles the initiative of the manager; (c) its flexibility cannot be maintained in rapidly changing situations; (d) it is sometimes based on inaccurate premises; and (e) it sometimes faces people's resistance.

Managers spend a great deal of time in making decisions that must be carried out by others. One can classify decisions in several ways. For example, there are programmed and non-programmed decisions, major and minor decisions, routine and strategic decisions, individual and group decisions and so on.

A decision is rational if appropriate means are chosen to reach desired ends. There are seven steps of a rational decision-making process: (i) recognizing the problem; (ii) deciding priorities among problems; (iii) diagnosing the problem; (iv) developing alternative solutions or courses of action; (v) measuring and comparing the consequence of alternative solutions; (vi) converting the decision into effective action and (vii) follow-up of action. According to Herbert Simon, a manager uses only limited rationality in his decisions. He only tries to reach satisfactory, rather than ideal, decisions. Search for ideal decisions may promote paralysis by analysis!

Weighing and measuring of the consequences of each alternative can be done in three types of conditions: certainty, risk and uncertainty. Under conditions of certainty, managers know precisely as to what the results of each of the alternatives available to them will be. Under conditions of risk, they know within a small margin of error the probable outcome of each alternative. Under conditions of uncertainty, the probabilities are not known precisely. Most management decisions are made under some degree of uncertainty.

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Business Organization & Management: R.K. Sharma, Shashi K. Gupta (*Kalyani Publishers*)

#### 4.9 TERMINAL AND MODEL QUESTIONS

Explain the concept of planning. Discuss the nature of planning.

Describe the procedure as a type of plan. How does it differ from policy and rule ?

Discuss programmes as type of plan. Describe the limitations of programmes.

Explain the steps followed in a planning process.

What is mean by a budget ? Discuss the classification and types of budgets.

What do you mean by decision-making? Explain various steps involved in it.

Explain decision-making process. Discuss various types of decisions.

##### Activity 1

Describe the nature of planning.

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##### Activity 2

Define the feature of decision making.

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## CHAPTER - 5

### ORGANIZATION AND DEPARTMENTATION

#### 5.1 OBJECTIVES

**Examine** the meaning, characteristics and typology of organizations

**Learn** the principles and process of organizing

**Understand** the meaning and significance of the span of management and the factors governing it

**Describe** the advantages and disadvantages of different bases of departmentalization

**Analyse** the advantages and disadvantages of two broad categories of organization structures, viz., mechanistic and organic

#### 5.2 INTRODUCTION

There is no standard definition of the word 'organization'. Different writers have defined the word differently. According to Amitai Etzioni, an organization is a social unit or human grouping *deliberately structured* for the purpose of attaining specific goals. Sehein defines an organization as the *rational coordination of the activities* of a number of people for the achievement of some common explicit purpose or goal, through division of labour and function, and through a hierarchy of authority and responsibility. Allen defines the term as the process of *identifying and grouping of the work* to be performed, *defining and delegating responsibility and authority* and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing their objectives. According to Pfiffner and Sherwood, an organization is the pattern of ways in which large numbers of people, too many to have intimate face to face contact with all others, and engaged in a complexity of tasks, relate themselves to each other in the conscious, systematic establishment and accomplishment of mutually agreed purposes.

In terms of all the above definitions, corporations, armies, schools, hospitals, churches, prisons, etc. are organizations. But tribes, ethnic and friendship groups and families are not organizations because they do not involve any significant amount of conscious planning, coordination or deliberate structuring.

#### Definitions

**Louis Allen.** 'Organization is the process of identifying and grouping work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives.' In the words of Allen, organization is an instrument for achieving organizational goals. The work of each and every person is defined and authority and responsibility is fixed for accomplishing the same.

**Wheeler.** 'Internal organization is the structural framework of duties and responsibilities required of personnel in performing various functions within the company. It is essentially a blue print for action resulting in a mechanism for carrying out function to achieve the goals set up by company management.' In Wheeler's view, organization is a process of fixing duties and responsibilities of persons in an enterprise so that business goals are achieved.

**Koontz and O'Donnell.** 'The establishment of authority relationships with provision for co-ordination between them, both vertically and horizontally in the enterprise structure.' These authors view organization as a coordinated point among various persons in the business.

**Oliver Sheldon.** 'Organization is the process so combining the work which individuals or groups have to perform with the facilities necessary for its execution, that the duties so performed provide the best channels for the efficient, systematic, positive and co-ordinated application of the available effort.' Organization helps in efficient utilization of resources by dividing the duties of various persons.

**Spriegel.** In its broadest sense organization refers to the relationship between the various factors present in a given endeavour. Factory organization concerns itself primarily with the internal relationships within the factory such as responsibilities of personnel, arrangement and grouping of machines and material control. From the standpoint of the enterprise as a whole organization is the structural relationship between the various factors in the enterprise. Spriegel has given a wide definition of the organization. He has described it as the relationship among persons, factors in the enterprise. All factors of production are co-ordinated in order to achieve organizational objectives.

**George Terry.** 'Organizing is the establishing of effective authority relationships among selected work, persons, and work places in order for the group to work together efficiently.' According to Terry

organization is the creation of relationship among persons and work so that it may be carried on in a better and efficient way.

**C.H. Northcott.** "The arrangement by which tasks are assigned to men and women so that their individual efforts contribute effectively to some more or less clearly defined purpose for which they have been brought together." According to Northcott the purpose of organization is to co-ordinate the activities of various individuals working in the organization for the attainment of enterprise goals.

**L.H. Haney.** "Organization is a harmonious adjustment of specialized parts for accomplishment of some common purpose or purposes." Organization is the adjustment of various activities for the attainment of common goals.

### 5.3 CHARACTERISTICS OF AN ORGANIZATION

An attempt to synthesize some important definitions indicates that every organization has:

A purpose, goal or goals which as already indicated in a previous chapter are the task of planning

A clear concept of the major duties or activities required to achieve the purpose,

classification of activities into jobs, and

establishment of relationships between these jobs in order to ensure coordination. This is

achieved through division of labour and delegation of authority.

A group of organizations sharing a common profile of characteristics is called an organizational configuration.

#### 5.3.1 Typology of Organizations

To the untrained eye, all organizations appear alike. But this is not so. Every organization has certain unique combination of the above characteristics which distinguish it from all other organizations. This makes classification of organizations into specific types difficult. Yet, in order to enable generalizations to be made on the basis of certain characteristic features of organizations within a particular grouping, it is necessary to group similar types of organizations together. Blau and Scott group organizations into four categories using the criterion of *cui bono*—*who* benefits:

Organizations which benefit their *owners*. All business organizations fall in this category.

Organizations which benefit their *members*. A wide class of unions, cooperatives and clubs come under this category.

Organizations which benefit their *clients*. Examples are insurance companies, private schools. etc.

Organizations which benefit the *whole society* (commonweal organizations) such as governmental departments, the armed services and the police.

#### 5.3.2 Nature of Business Organization an Art or A Science

Generally, a controversy arises as to whether business organization is a science or an art. This controversy has created a good deal of confusion about the nature of business organization. To determine whether business organization is a science or an art, we must understand clearly the meanings of the terms 'art' and 'science'.

##### Business Organization—An Art

An art is a system of rules for the attainment of a given end. T.L. Massie says, "In any activity that is classed as an art the emphasis is on applying skills and knowledge and accomplishing an end through deliberate effort." In the words of G.R. Terry, art is "bringing about of a desired result through application of skill." C.I. Barnard has remarked, "The function of an art is to accomplish concrete ends, effect result, produce situations that would not come about without the deliberate effort to secure them."

Art is, thus, concerned with the application of knowledge and skills. In this sense, business organization is an art as one has to use his skill and knowledge in solving many complicated problems of business to achieve the enterprise objectives. Organization is one of the most creative art as it is concerned with getting work done through others by motivating them to work and co-ordinating their activities. It was more so in the ancient times, when it was felt that the skills of organizing business cannot be codified and communicated. But with the passage of time, it was realised that the principles of business organization can be codified and communicated, which gave birth to business organization as a science.

## **Business Organization-A Science**

The word science literally means knowledge. It is systematized body of knowledge acquired by mankind through observation and experimentation and which is capable of verification. In the words of Keynes, 'science is a systematized body of knowledge which establishes relationship between cause and effect.' Science has three basic features (i) it is a systematized body of knowledge that uses scientific methods for observation, (ii) the principles are evolved on the basis of continued observation, and (iii) the principles are exact and have universal applicability without any limitation.

Business Organization is viewed as a science as it is an organized body of knowledge built up by management practitioners, thinkers and philosophers over a period of years. It has certain principles and rules developed after continued observation. But it must be noted that organization is a science but unlike Physics, Chemistry and Biology, it is not an exact or accurate science. The principles of organization cannot be considered as fundamental truths. At times, they may bring desired results and may not have universal applicability. The main reason for the inexactness of science of organization is that it deals with human beings whose behaviour cannot be predicted. Thus, we can say that organization is a 'soft science' or 'behavioural science'.

### **5.3.3 Formal and Informal Organization**

When the activities of two or more persons are consciously co-ordinated towards a given objective, it is called a formal organization. Chester Bernard defines formal organization as a 'system of consciously co-ordinated activities or forces of two or more persons.' He found that the essence of formal organization is conscious common purpose and that formal organization comes into being when persons

are able to communicate with one another, (2) are willing to act, and (3) share a purpose. Informal organization, on the other hand, refers to the relationships between people in an organization based not on procedures and regulations, but on personal attitudes, whims, prejudices, likes and so on. It refers to what people actually do based not on procedures and regulations but on same taste, culture, etc. People work together because of their personal likes and dislikes. People with common interests may work beyond the confines of formal relationships.

Modern management realises the importance of both formal and informal organizations. Persons in the organization are encouraged to meet privately because it serves the management in a number of ways. Informal communication may help in sorting out many issues which may not find solution in a formal set up.

### **5.3.4 Importance of Organization**

Organization is the mechanism which determines the relationship of various persons. With the help of a well defined organization management is able to perform the functions of direction, co-ordination and control. An ill-defined organization plan will not enable the management to make an effective exhibition of its managerial talents to realise business goals. Following are some of the advantages of a good organization:

**Helps in Optimum Utilization of Technological Innovations.** The test of a good organization is its success in adjusting to the new and changing situation. The technological improvements are taking place every time and management is required to make use of them to exist in competitive world. The organization should be flexible to incorporate all new requirements.

The adjustment to new changes will require re-scheduling and re-adjustment of duties and responsibilities in the organization. There may also be a need to delegate new powers for making best utilization of technological changes.

**Helps in Administration.** An organization provides sound foundation for effective managerial control. Various managerial functions will be effectively performed with the help of an organization. The functions like co-ordination and control require a proper division of various functions and their assignment to suitable persons.

An important function of planning will be effective only if there is an organization to implement it. Best plans may fail if these are not executed properly. The assignment of responsibilities among various persons for carrying out different functions will be essential for making the plans effective. There will be a need of proper authority to carry out the functions systematically and effectively.

A good organization is an asset to the management. It helps in achieving organization goals through the exercise of effective controls. Organization provides a channel for better management.

**3. Promotes Growth and Diversification.** Area and activities of a business grow if it has a well knit organization. There will be a need for employing more persons whenever expansion and diversification takes place. A flexible organizational structure will enable the employment of more persons without disturbing the working. Additional activities will not put any strain on the management.

**Easy Co-ordination.** Every enterprise has a number of departments and sections. These are assigned different duties for achieving business objectives. There is a need for co-ordinating the working of various segments. A good organization will divide and sub-divide the activities in such a way that the activities of different segments become complementary. This will bring an automatic co-ordination in the business.

**Training and Development of Personnel.** A good organization offers an opportunity for the training and development of personnel. A clearly defined authority provides a scope for the use of talent. There will be a sufficient scope to try new ideas in improving the working of the organization.

The new entrants get sufficient training in their work. They are attached to experienced persons who guide them on undertaking various jobs. The job training is much better and gives good results as compared to class room training. A well devised organizational system will provide a sufficient opportunity for the training of new trainees and development of existing staff.

**Encourages Initiative.** A good organizational structure will provide sufficient scope for taking initiative. Persons are allowed to try new ideas for improving upon their work. The policies and procedures are laid down for the guidance of managerial personnel. But within these limits people are given freedom to show their talent.

The initiative and creativeness encouraged in the organization will make it dynamic and responsive to the new situations. If persons are not encouraged to take new initiative then the management may not be able to cope with the changing business environment. A good organization clearly defines the scope of work of every person and allows them to grow in that sphere.

**Better Human Relations.** Human relations improve in a good organizational set up. An organization consists of human beings and their satisfaction will help in improving human relations. A clearly defined work, authority, responsibility, accountability will enable individuals to work in a free atmosphere. Everybody will know his limitations and may try to remain in that sphere. This will give job satisfaction to employees.

### **5.3.5 Process of Organizing**

Organizing means designing the organization structure. In performing the organizing function, the manager differentiates and integrates the activities of his organization. By differentiation is meant the process of departmentalization or segmentation of activities on the basis of some homogeneity. Integration is the process of achieving unity of effort among the various departments (segments or subsystems). We now describe this differentiation and integration in terms of a seven-step procedure.

#### **Consideration of Objectives**

The first step in organizing is to know the objectives of the enterprise. Objectives determine the various activities which need to be performed and the type of organization which needs to be built for this purpose. Management writers, such as Alfred D. Chandler refer to this phenomenon as one in which "structure follows strategy." For example, the structure required for an army is different from the structure required for a business enterprise. In view of this, consideration of objectives is the first step in the process of organizing.

#### **Deciding Organizational Boundaries**

After the consideration of objectives, the next step is to decide what to do inside and what outside the boundaries of the organization. This means making manufacture-versus-buy choices for different goods and services and choices about strategic alliances with other firms. Also choices have to be made about the extent to which the different parts of the organization interact directly with the outside environment. Should customers be allowed to interact directly with workers in the manufacturing plant or should they only interact with the sales force? Overall, these choices define the boundaries of the organization and how it interacts with its environment.

### **Grouping of Activities into Departments**

The next step is to group all closely related and similar activities into departments and sections. For example activities of a manufacturing concern may be grouped into such departments as production, marketing, financing and personnel.

It should be remembered that sometimes even diverse activities may be deemed closely related and grouped in one department. Thus, one may find intraplant transportation, warehousing and entire traffic management function being placed with the major production department because it makes most use of it. Similarly, closely related activities may be deemed diverse and placed in different departments for development and enforcement of specific policies. For example, in order to ensure that the pressure for output imposed upon the average foreman may not influence inspection employees controlling the quality of his output, product inspection may be separated from product manufacturing.

The topic of departmentalization has been dealt with in a separate section in this chapter.

### **Deciding which Departments will be Key Departments**

Key departments are those which are rendering key activities, i.e., activities essential for the fulfillment of goals. Such key departments demand key attention. Other departments exist merely to serve them. Experience suggests that where key departments are not formally identified, the attention of top management is focused on the minor issues raised by vocal managers. This is known as the "decibel system" of management. The key departments should be placed directly under higher management.

Which department needs to be emphasised how much will depend, of course, on the company's objectives and the way it seeks to be distinctive. For example, a company which believes that advertising is a primary key to success will set up a separate advertising department that reports directly to the president. But another company which considers it much less important may only create a separate section for it under its sales department. Similarly, product development, which is treated as a key department in all chemical and pharmaceutical companies, with those in charge reporting directly to the president, may be treated only as a section of the production department in textile companies. The importance of an activity may also grow with times. Thus, personnel management which was hitherto considered less important is now treated as an important activity and has risen in organizational status.

### **Determining Levels at which Various Types of Decisions are to be Made**

After deciding the relative importance of various departments, the levels at which various major and minor decisions are to be made must be determined. Each firm must decide for itself as to how much decentralization of authority and responsibility it wants to have. Extreme decentralization may lead to loss of control and effective coordination as a result of which the firm as a whole may fail to achieve its overall objectives. Extreme centralization, on the other hand, may lead to wrong decisions at wrong times and complete breakdown of the morale of employees.

### **Determining the Span of Management**

The next step to be taken in designing a structure is to determine the number of subordinates who should report directly to each executive. The narrower the span, the taller would be the structure with several levels of management. This will complicate communication and increase the payroll. For these reasons, a flat structure is generally desirable. However, the span of management for each executive position must be tailored in the light of the description of this topic given in a subsequent section.

### **Setting up a Coordination Mechanism**

A direct consequence of departmentalization is the need to coordinate the independent activities of the members of the organizations. Effective integration is as important as careful differentiation. As individuals and departments carry out their specialized activities, the overall goals of the organization may become submerged or conflicts among organization members may develop. For example, production managers in a manufacturing company may press for a standardized product line to hold down costs, when the larger interests of the company may be best served by a diversified product line. In a university various schools or departments may begin to compete for limited funds.

Managers have considerable discretion in the choices they make regarding the above seven issues. These are features of the organization that they can willfully manipulate and change. However, there are three other structural features of organizations that are equally important but over which managers have a limited influence.

### 5.3.6 Principles of Organizing

In order to develop a sound and efficient organization structure, certain principles need to be followed because if an organization is not founded on principles, then those directing it have nothing to fall back on, but personalities. In the words of E.F.L. Brech, "if there is to be a systematic approach to the formation of organization structure, there ought to be a body of accepted principles." These principles are as follows:

**Objectives** The objectives of the enterprise influence the organization structure and hence the objectives of the enterprise should first be clearly defined. Then every part of the organization should be geared to the achievement of these objectives.

**Specialization** Effective organization must promote specialization. The activities of the enterprise should be grouped according to functions and assigned to persons according to their specialization.

**Span of Control** As there is a limit to the number of persons that can be supervised effectively by one boss, the span of control should be as far as possible, the minimum. That means, an executive should be asked to supervise a *reasonable number* of subordinates only say six.

**Management by Exception Principle** As the executives at the higher levels have limited time, only exceptionally complex problems should be referred to them and routine matters should be dealt with by the subordinates at lower levels. This will enable the executives at higher levels to devote time to more important and crucial issues.

**Scalar Principle** This principle is sometimes known as the "chain of command". The line of authority from the chief executive at the top to the first-line supervisor at the bottom must be clearly defined.

**Unity of Command** Each subordinate should have only one superior whose command he has to obey. Multiple subordination must be avoided, for it causes uneasiness, disorder, indiscipline and undermining of authority.

**Delegation** Proper authority should be delegated at the lower levels of organization also. The authority

delegated should be equal to responsibility, i.e., each manager should have enough authority to accomplish the task assigned to him. Inadequate delegation often results into multiplication of staff and service activities.

**Responsibility** The superior should be held responsible for the acts of his subordinates. No superior should be allowed to avoid responsibility by delegating authority to his subordinates.

**Authority** The authority is the tool by which a manager is able to accomplish the desired objective. Hence, the authority of each manager must be clearly defined. Further, the authority should be equal to responsibility.

**Efficiency** The organization structure should enable the enterprise to function efficiently and accomplish its objectives with the lowest possible cost.

**Simplicity** The organization structure should be as simple as possible and the organization levels should, as far as possible, be minimum. A large number of levels of organization means difficulty of effective communication and coordination. Too many committees and excessive procedures also unduly complicate the structure.

**Flexibility** The organization should be adaptable to changing circumstances and permit corrections of

demonstrated deficiencies in the existing structure without dislocation and disruption of the basic design. **Balance** There should be a reasonable balance in the size of various departments, between centralization and decentralization, between the principle of span of control and the short chain of command and among all types of factors such as human, technical and financial.

**Unity of Direction** There should be one objective and one plan for a group of activities having the same objective. Unity of direction facilitates unification and coordination of activities at various levels.

**Personal Ability** As people constitute an organization, there is need for proper selection, placement and training of staff. Further, the organization structure must ensure optimum use of human resources and encourage management development programmes.

**Acceptability** The structure of the organization should be acceptable to the people who constitute it. Two things generally happen if people oppose the structure: it is modified gradually by the people, or it is used ineffectively.



### **5.3.7 Requisites of an Efficient Business Organization**

An efficient organization is essential for the success of a business enterprise. The defining of duties and fixing responsibilities of all employees in the organization is essential. An effective

organizational system ensures proper supervision and control. It facilitates expansion and diversification. An effective organization has the following pre-requisites :

**Able Organisers.** Success of an organization depends upon the competence and caliber of those who are at the helm of affairs. The entrepreneur should understand all aspects of the business so that he may properly organize various aspects of the concern. A well-defined organizational set-up will be helpful in smooth running of the business. The persons at the top should be well versed with everything. He should be dynamic and should be able to cope with the changing business environment.

**Sound Business Policies.** The management should be clear about the objective to be achieved. Various policies should be aimed to achieve the business goals. There should be no conflict and confusion regarding different policies. The policies should be clearly defined and different levels of management should be clear about the policies.

**Proper Supervision and Control.** The success of an organization will depend upon the effective supervision and control. If the activities of different individuals are not properly controlled, then business goals will not be achieved. The targets of work should be fixed and the performance should be recorded. A corrective action is necessary if the performance is less than the goals. The number of persons to be supervised (span of control) by the supervisors should also be realistic. The supervisors should be able to devote enough time in checking the work of every employee under his control.

**Co-operation and Co-ordination.** It is necessary to get the co-operation of everybody in the organization to make it a success. The goals of the business are common and everybody should try to achieve them in their respective fields. There should be some agency to co-ordinate the activities of various departments. Sales department must know the plans of purchase and finance department should also work in co-ordination with each other. The employees should develop an attitude of co-operation. A central agency should act as a co-ordinating body.

**Efficient Personnel Organization.** Management of personnel is an important aspect of organization. Proper personnel organization is necessary for enabling all persons to optimise their contribution towards realising the corporate objective. Personnel organization includes recruitment, training, job evaluation, merit rating and fixing of remuneration. Working conditions should be improved so that workers are encouraged to work more efficiently and have job satisfaction.

**Capacity for Business Expansion.** The organization should be elastic to enable expansion and diversification of the business. The production may be raised in the same line or more products may be added. The organizational structure should be such that it allows increase or decrease of production, as the case may be without disturbing the whole organization. If some change in production and sales require a change in organizational set up, it will discourage the growth of the enterprise.

### 5.3.8 Objectives of Organization

The organization aims at the achievement of the following aims :

**To Help Management.** The organization helps management to have a control over various business \_functions. The work is divided properly and control centres are established. The authority is delegated and responsibilities are fixed. It helps management to have a co-ordinated administration.

**To Increase Production.** The duties are assigned according to the principle of division of labour. The efficient system of organization encourages every employee to make his best contribution in raising output. The increase in output and control of wasteful expenditure help to decrease the cost of production. The profitability of the concern will also go up.

**Co-operation of Employees.** The organizational structure will succeed only if employees co-operate with others. The manager introduces various incentive schemes and gives monetary and other benefits to the employees so that they work in a team spirit.

### 5.3.9 Organization Structure

Organization structure is the established pattern of relationships among components or parts of the organization. It prescribes the relationships among various positions and activities in business. Since various positions are held by persons so structure creates relationship among them. The organization structure provides a framework which holds the various functions together in accordance with the pattern determined by managers. A planned structure outlines the required functions, correlates the functions in a systematic manner and assigns authority and responsibility.

Every business sets some goals to be achieved. In order to achieve goals some activities are to be performed. These activities are to be specified, classified and grouped. The grouped activities are assigned to individuals or groups. The responsibility and authority is assigned to carry out various

activities. A system of proper co-ordination is established to reach the organizational goals. The establishment of systematic relationship among various activities and persons is the framework of organization structure. There may be problems and difficulties if the structure is faulty. The structure should be suitable to the working of the organization and be helpful in achieving business goals.

#### 5.3.10 Developing Organization Structure

While developing an organization structure, the two variables *i.e.* basic structure and operating mechanism are to be taken into consideration. The basic structure involves issues such as how the work of the organization is to be divided and assigned among positions, groups, departments, divisions etc. and how to bring the required coordination for achieving organizational goals. The operating mechanism includes factors like information system, control procedures and application of organizational principles and practices.

The development of organization structure requires decisions such as (i) the functions which are to be performed and (ii) the form of structure. The functions to be taken up will be decided by studying organizational needs and division of these activities and form of structures can be decided by studying the application of many organizational principles and practices. The organization structure establishes formal relationship among various positions in the organization. These relationships can be classified as :

- Relations between senior and subordinates and vice-versa
- Relations between line positions and specialists
- Staff relations
- Lateral relations.

#### 5.3.11 Determining the Kind of Structure

Organizational structure acts as a channel for achieving organizational goals. Proper care should be taken to determine a structure which will suit the business needs. The following steps will help in deciding a specific structure.

**Activities Analysis.** In first place the activities should be specified which will help in attaining enterprise objectives. Every business has to perform a number of functions like manufacturing, purchasing, personnel, finance, marketing etc. These functions should be specified after proper analysis. Every organization may have one or two dominating functions. For example, a manufacturing concern may have production as a main function, designing may be an important function for ready made garments producer, etc. After specifying all activities into functional areas, these may be listed in order of their importance. The activities may further be divided and sub-divided into smaller homogeneous units so that the same may be assigned to different individuals. The chief executive may divide the activities into functional departments and delegate authority to departmental managers. The departmental managers may be assisted by deputy managers, assistant managers, supervisors etc. A job is a basic binding block in designing an organization structure.

**Decision Analysis.** In order to attain enterprise goals some decisions are required for reaching performance levels. What type of decisions are required? Who will take such decisions? When should these decisions be taken? Which managers should participate in these decisions? These are the questions which should be analysed and decided. Though it may not be possible to predict the future course of things yet the subject has a high degree of predictability. The foreseeable decisions to be taken at different levels of management will require a degree of authority and responsibility.

**Relations Analysis.** The type of relationship required at various levels should also be analysed. The relationship between superior- subordinates, line and staff, upward, downward, sideways relations must be analysed to determine the organization structure.

#### Role of Organization Structure

An organization structure serves various functions of the business. It is designed to serve specific motives. There should also be efforts to match organization structure with changing needs. A good structure not only facilitates communication but also brings efficiency in different segments. The structure provides the following roles :

**Encourages Efficiency.** The main objective of an organization structure is to infuse efficiency in various functions. A systematic structure will not leave anything to chance and every activity is co-ordinated to perform to its maximum. The organizational members try to maximise the output of goods and services from the given inputs. There is an effort to have systematic, rational and co-ordinated effort

to control various waste and loss. Various organizational models are developed to bring efficiency in operations.

**Communication.** Communication is the number one problem of every organization. A good structure provides proper communication channel among persons working in the organization. A reporting relationship is established and a hierarchy of who reports to whom is also specified in a good structure. There is a need for horizontal, vertical and lateral communication process and it is done by a well planned structure.

**Optimum Use of Resources.** The proper allocation of resources helps in their optimum utilization also. The organization structure gives higher place to activities which are more important to the achievement of organizational objectives. The activities are placed according to their importance in the structure and proper guidelines are given for resource allocation. The optimum allocation of resources is important for the growth of a business.

**Job Satisfaction.** A good organization structure provides clear cut assignment of duties and responsibilities to various people working in the business. The jobs are assigned as per their knowledge, expertise and specialization. People get an opportunity to explain their jobs. There will be job satisfaction when persons are free to operate within prescribed limits.

**Creative Thinking.** In a good organization structure there is a freedom to plan and executing one's own work. It allows a person to think and develop new and better ways of doing work. Organization structure tries to put people at places where they are most suitable. Many people have contributed to the development of management thinking because of their creativity in a particular organizational structure.

**Facilitates Management.** There are a number of persons working in a business. Their work will have to be specified and duties will be assigned as per the requirements of the organization. A good structure will help in establishing relationship among persons working at different positions. An organization structure is a mechanism through which management directs co-ordinates and controls the activities of various persons. A well designed structure will help both management and operation of a business. It is ensured that no activity remains unattended and work is assigned as per the capacity of the persons undertaking it. A well thought organization structure is a great help for good administration.

### 5.3.12 Designing Organization Structure

An organization structure should satisfy the requirements of the business. It should ensure optimum utilization of manpower and different functions should be properly performed. There is a need for harmonious relationship among persons at different positions. Designing of a structure is an important task and it should be undertaken carefully. Following steps are essential for designing an organization structure :

**Identifying Activities.** The activities which are required to be performed in achieving organizational objectives should be identified. The functions to be performed for achieving different goals should be ascertained and activities relating to these functions should be identified. The major activities are classified into a number of sub-activities. While identifying activities it should be borne in mind that no activity has escaped, there is no duplication in activities and various activities are performed in a co-ordinated way.

**Grouping of Activities.** The closely related and similar activities are grouped together for departments, divisions or sections. The co-ordination among activities can only be achieved through proper grouping. The grouped activities can be assigned to different positions. The assignment of activities to individuals creates authority and responsibility. The authority is delegated to the lower levels of various departments and responsibility is fixed.

**Delegation of Authority.** Delegation is an administrative process of getting things done by others by giving them responsibility. When different positions are created in the organization then work is assigned to these persons. For getting the work done there is a need for authority. The authority is delegated to different persons in accordance with the assignment of responsibility. Through the process of delegation, authority, structure is created in the organization defining who will formally interact with whom.

### 5.3.13 Features of a Good Organization Structure

A good organization structure should meet various needs and requirements of the enterprise. The following are the features of a good organization structure :

**Clear line of authority.** There should be a clear line of authority from top to the bottom. The delegation of authority should be step by step and according to the nature of work assigned. Every body in the organization should be clear about his work and the authority delegated to him. In the absence of this clarity there will be confusion, friction and conflict.

**Adequate delegation of authority.** Delegation of authority must be commensurate with the responsibility assigned. If the authority is not sufficient for getting the assigned task then the work will not be completed. Sometimes managers assign work to subordinates without giving them proper authority, it shows lack of decision-making on their part.

An inadequate authority will create problems for the subordinates because they may not be able to accomplish the task.

**Less managerial levels.** As far as possible minimum levels of management may be created. More the number of these levels, more the delays in communication. It will take more time to convey the decisions from the top to the bottom. Similarly, information from lower levels will take much time in reaching at the top.

The number of managerial levels depends upon the nature and scale of operations. No specific number of levels may be specified for each and every concern but efforts should be made to keep them at the minimum.

**Span of control.** Span of control refers to the number of people a manager can directly supervise. A person should supervise only that number of subordinates to whom he can directly keep under contact. The number of people to be supervised may not be universally fixed because it will be influenced by the nature of work. Efforts should be made to keep a well managed group under a supervisor otherwise there will be inefficiency and low performance.

**Simple and flexible.** Organizational structure should be very simple. There should not be unnecessary levels of management. A good structure should avoid ambiguity and confusion. The system should also be flexible to adjust according to the changing needs. There may be an expansion or diversification which required reclassification of duties and responsibilities. The organization structure should be able to incorporate new changes without altering the basic elements.

## 5.4 ORGANIZATION CHARTS

Organization chart is a diagrammatical presentation of relationships in an enterprise. The functions and their relationships, the channels of authority and relative authority of different managers etc. are depicted in an organizational chart. George Terry defines an organization chart as "a diagrammatical form which shows important aspects of an organization, including the major functions and their respective relationships, the channel of supervision and the relative authority of each employer who is incharge of each respective function." So a chart is a pictorial and indicating functions and their relationship, clear lines of authority and responsibility, channels of communication and span of control and supervision. Organization charts can be divided into (i) master charts and (ii) supplementary charts. The master chart shows the whole formal organizational structure while supplementary chart shows details of relationships, authority and duties within the prescribed area of a department.

### 5.4.1 Types of Organization Charts

There are three ways in which organization charts can be shown: (i) Vertical (ii) Horizontal  
Circular

**Vertical or Top to Bottom.** In this chart major functions are shown at the top and subordinate functions in successive lower positions. In this chart scalar levels run horizontally and functions run vertically. The supreme authority is shown at the top while lowest authority at the bottom. The vertical chart is shown in the following diagram. In this diagram Board of directors is at the top of the organization. The chief executive controls various functional managers, who in turn have downward staff as the requirement of respective departments.

**Horizontal or Left to Right.** In this chart highest positions are put on the left side and those with diminishing authority move towards the right. The organizational levels are represented by vertical columns, the flow of authority from higher to lower levels being represented by movement from left to right. In other words it presents scalar levels in a vertical position and functions horizontally.

In horizontal chart the supreme authority *i.e.* Board of Directors is shown on the left and chief executive and functional managers and other levels move towards right.

**Circular.** In circular chart the centre of the circle represents the position of supreme authority and the functions radiate in all directions from the centre. The higher the positions of authority, they nearer they are to the centre and the lesser the positions of authority, more distant they are from the centre. The positions of relative equal importance are located at the same distance from the centre. The lines forming different blocks of functions or positions indicate the channels of formal authority, the same as in other arrangements. The circular chart depicts the actual condition of outward flow of formal authority from the Chief Executive in many directions.

#### 5.4.2 Principles of organization Charts

Following principles should be kept in mind while framing organization charts :

- The top management should faithfully follow the line of authority while dealing with subordinates. Any attempt to by pass the organization chart will make it meaningless.
- The chart should define lines of position. The lines of different individuals should be so defined so that there is no overlapping and no two persons should be given the same position.
- The undue concentration of duty at any point should be avoided.
- The organization chart should not be influenced by personalities. Balance of organization should be given more importance than the individuals.
- The organization chart should be simple and flexible.

#### 5.4.3 Advantages of Organization Charts

An organization chart is a managerial tool. It helps in specifying authority and responsibility of every position. The relationships among different persons are also established for smooth working of the organization.

As organization chart specifically defines authority and responsibility of people in the enterprise there will be no duplication and overlapping of duties etc. Even if it happens in a particular instance it can be rectified immediately.

The organization chart will help in pointing out the faults, deficiencies, dual command etc. in the organization. The management will be able to take prompt remedial action in case of certain lacuna.

The organization chart acts as an information centre to the new entrants and they can easily understand different levels of authority and responsibility.

The charts are also helpful in decision-making process. They act as a guide to the decision makers.

#### 5.4.4 Limitations of Organization Charts

The organization charts suffer from the following drawbacks :

The organization charts show the relationship of different positions and not the degree of authority and responsibility. The size of boxes or circles in the chart cannot show the level of authority, etc.

A chart only depicts formal organizational relationship whereas informal organization is ignored. Practically informal organization is as useful as formal organization. Informal organization greatly helps management in knowing the reactions of the people and is an important channel of communication.

A chart shows organizational position and status at different levels. It gives rise to superior-inferior feeling among people and it retards the feeling of team work.

### 5.5 DEPARTMENTATION

Organization involves dividing and grouping of activities to be done in an enterprise. Division of work means the identification of activities which are to be done for the achievement of organizational goals. After identifying various activities, these are grouped together on some logical basis.

Departmentation is the process of grouping various activities into separate units of departments. A department is a distinct section of the business establishment concerned with a particular group of business activities of like nature. The actual number of departments in which a business house can be divided depends upon the size of establishment and its nature. A big business enterprise will, usually, have more departments as compared to a small one. In the words of Allen, "Departmentation is a means of dividing a large and monolithic functional organization into smaller, flexible, administrative units.]"

### 5.5.1 Need and Significance of Departments

It is an established fact that there is a limitation on the number of personnel an enterprise or a supervisor can directly control. This limitation of control restricts the size of the enterprise unless it divides and groups its activities into departments. Departments comprise a framework for an organization and enables it to expand indefinitely. Departmentation aims at (i) specialization of activities for efficient performance ; (ii) simplifying the task of management within a workable span ; and (iii) maintaining coordination and control of the various activities. The advantages of departmentation can be summed up as :

It increases the efficiency of the enterprise since various activities are grouped into workable units.

It renders the task of fixation of accountability for results very easy since activities are well defined and responsibilities are clearly laid.

It provides for fixation of standards for performance appraisal and thus ensures effective control.

It creates opportunities for the departmental heads to take initiative and thus develop managerial facilities.

### 5.5.2 Process Involved in Departmentation

The various steps involved in departmentation are :

to identify task or duties ;

to analyse details of each task ;

to describe the functions or to group similar activities ;

to entrust the grouped activities to departmental heads ; and

to define the authority and responsibility of departmental heads.

### 5.5.3 Dangers of Departmentation

Although departmentation is very essential for the efficient running and control of a business, there are a few dangers of departmentation which should be taken care of while assigning and grouping of activities:

Dividing the business house into various departments makes the co-ordination of various activities very difficult. To achieve individual efficiency, one department may work against the interest of another department thus reducing the overall efficiency and profitability of the business as a whole.

Departmentation creates difficulties of communication among the various departments of the organization and renders planning and control more difficult.

Departmentation increases the levels of management which is more expensive and it also increases the gap between the top management and the workers.

### 5.5.4 Factors Influencing Assigning of Activities

The following factors are to be taken into consideration while assigning activities into departments:

**Specialization.** While assigning activities into departments, care must be taken to ensure that the benefits of specialization are achieved.

**Control.** One of the primary aims of departmentation is to facilitate control. Departments should be so created as to fix clear responsibilities so as to enable effective control.

**Co-ordination.** Another factor that influences the assigning of activities should be grouped in such a manner that it does not become very difficult to co-ordinate the different activities of the business. It is necessary to get the co-operation of everybody in the organization to make it a success. The goals of the business are common and everybody should try to achieve them in their respective fields. There should be some agency to co-ordinate the activities of various departments. Sales department should know the plans of production department and vice-versa. Similarly, other departments should also work in co-ordination with each other. A central body should act as a co-ordinating body.

**Key Activities.** There are certain activities which are very crucial. Such activities should be placed in separate divisions.

**Emphasis on Local Conditions.** While assigning activities proper emphasis should be given to local conditions at the places concerned, viz., the personality of the individuals who

may be given the responsibilities, the nature of informal relationship among the people, the attitude of the people, etc.

Economy. Another important factor to be considered while creating separate departments is the expense involved and economy in its operations.

### **5.5.5 Methods or Basis of Departmentation**

The following are the basis of dividing responsibility within an organization structure.

Functional Departmentation.

Productwise Departmentation.

Territorial or Geographical Departmentation.

Customerwise Departmentation.

Process or Equipmentwise Departmentation.

Combined or Composite Form of Departmentation.

**5.5.6 Functional Departmentation.** It refers to grouping the activities of an enterprise on the basis of functions such as production, sales, purchase, finance, personnel, etc. The actual number of departments in which an enterprise can be divided depends upon the size of establishment and its nature. To begin with, we may have three or four main departments. With the growth in the size of the business, more departments and sub-departments may be created.

#### **Advantages**

The important advantages of functional departmentation are :

It is a very simple, natural and logical way of grouping activities.

It promotes specialization and expertise in various functional areas and experts can be employed.

It facilitates co-ordination both within the function and at the inter-departmental level.

It generates a high degree of centralization at the level of chief executive.

#### **Disadvantages**

Functional departmentation suffers from the following drawbacks :

It may lead to internal frictions among the various departmental heads as one department may ignore the interest of the other.

In functional departmentation, men are experts of their areas of function only. This hinders the development of all-round managers.

It leads to excessive centralisation and delay in decision making.

It is unsuitable where emphasis lies on products more than the functions.

**5.5.7 Productwise Departmentation.** The grouping of activities on the basis of products is very popular with large organizations having distinct type of products. Under this method, all activities related to one type of product are put together under one department under the direction of a production manager. An electronic company, for instance, may have different departments dealing in television sets, radios and transistors, computers, agro-dairy instruments, etc. Productwise departmentation is also known as multi-functional product departmentation because each product department handles all the functions concerning it.

#### **Advantages**

The following are the main advantages of productwise departmentation:

It ensures better customer service.

unprofitable product lines can be easily determined.

It solves the co-ordination problem of functional departments.

It makes control effective.

It assists in the development of all-round managerial talent.

It is flexible as a new product division can be easily added.

#### **Disadvantages**

Productwise departmentation suffers from the following drawbacks :

It is expensive because of duplication of service functions in various product divisions.



It may not be linked by customers and dealers who have to deal with different salesmen of the same enterprise for different products.

It may cause difficulty in apportioning general expenses incurred by the enterprise as a whole.

**5.5.8 Territorial or Geographical Departmentation.** When several activities of an enterprise are geographically dispersed in different locations, territorial or geographical departmentation may be adopted. All activities relating to a particular area or zone may be grouped together under one zonal manager or head.

#### **Advantages**

The territorial departmentation offers the following advantages :

It enables an enterprise to cater to the needs of local people in a satisfactory manner.

It enables a concern to make use of locational advantages.

It facilitates effective control.

It facilitates effective co-ordination of activities within an area.

It assists in the development of all-round managerial talent.

#### **Disadvantages**

It is an expensive method of creating departments and overhead costs are also increased.

It leads to duplication of activities which creates confusion and involves costs.

Co-ordination among various territorial divisions may become difficult.

**5.5.9 Customerwise Departmentation.** A business house may be divided into a number of departments on the basis of customers it serves, viz., large and small customers ; industrial and ultimate buyers ; government and other customers etc. The peculiar advantage of customerwise departmentation is that it ensures full attention to different types of customers and their different needs, tastes and requirements can be met effectively. However, it may not be possible to group all activities of an enterprise on the basis of customers. In fact, sales activities may be classified or grouped on such basis. But there may be problems of co-ordination with other departments. There may not be enough work, at times, in case of certain types of customers. This may lead to idle capacity.

**5.5.10 Process or Equipmentwise Departmentation.** An enterprise where production is carried through different processes may adopt processwise departmentation enable continuous flow of production. Similarly, where work is carried on machines which are common, departments may be created on the basis of equipments, such as milling departments, grinding departments, lathe department etc. The main advantage of this method is that it avoids duplication of equipment in various activities. Moreover, specialized people can be engaged to work on specialized equipments and departments.

**5.5.11 Combined or Composite Method of Departmentation.** In practice, it may not be advisable to create departments on the basis of any one of the above mentioned methods. An enterprise may have to combine two or more of the methods of departmentation to make best use of all of them. Such a method is known as combined or composite method of departmentation.

### **5.6 SPAN OF MANAGEMENT**

Every person has a limited capacity to effectively supervise and control other people. No one can control an infinite number of subordinates. If a person is asked to supervise many subordinates working under him, he cannot supervise them efficiently. The capacity and ability of a person to supervise a large number of subordinates working under him is limited on account of time at his disposal, knowledge, energy, his personality, interest and other capabilities. Therefore, the number of subordinates working under him must be manageable and the management must create departments or distinct activity groups each of which has a manager in charge. It has been rightly said, "While the reason for organizing is to make co-operation effective, we find the cause of levels of organization in the limitations of the span of management."

#### **Meaning**

The term 'span' literally means the space between two supports of a structure, e.g., the space between two pillars of a bridge. The space between the two pillars should neither be too large nor too small. If it is too large, the bridge may collapse; and if it is too small, it will enhance its cost.

When applied to management, 'span' refers to the number of subordinates a manager or supervisor can supervise, manage or control effectively and efficiently. Obviously, if the number of subordinates placed under one manager is too large, it will become difficult to effectively control them and the desired results cannot be achieved. On the other hand, if the number is too small, the time, energy and abilities of the supervisor are not utilized fully and the task may not be accomplished. Span of supervision, therefore, refers to the optimum number of subordinates that a manager or supervisor can manage or control effectively. In the words of Spriegal, "Span of control means the number of people reporting directly to an authority. The principle of span of control implies that no single executive should have more people looking to him for guidance and leadership than he can reasonably be expected to serve."

The span of supervision is also known as span of control, span of management, span of responsibility, span of authority and span of direction.

### 5.6.1 Factors Influencing The Span of Supervision

There are a number of factors that influence or determine the span of supervision in a particular organization, the most important of these are as follows :

**The capacity and ability of the executive.** The characteristics and abilities such as leadership, administrative capabilities, ability to communicate, to judge, to listen, to guide and inspire, physical vigour, etc. differ from person to person. A person having better abilities can manage effectively a large number of subordinates as compared to the one who has lesser capabilities.

**Competence and training of subordinates.** Subordinates who are skilled, efficient, knowledgeable, trained and competent require less supervision, and therefore, the supervisor may have a wider span in such cases as compared to inexperienced and untrained subordinates who require greater supervision.

**Nature of Work.** Nature and importance of work to be supervised is another factor that influences the span of supervision. The work involving routine, repetitive, unskilled and standardized operations will not call much attention and time on the part of the supervisor. As such, the supervisors at the lower levels of organization can supervise the work of a large number of subordinates. On the other hand, at higher levels of management, the work involves complex and a variety of jobs and as such the number of subordinates that can be effectively managed should be limited to a lesser number.

**Time available for supervision.** The capacity of a person to supervise and control a large number of persons is also limited on account of time available at his disposal to supervise them. The span of control would be generally narrow at the higher levels of management because top managers have to spend their major time on planning, organizing, directing and controlling and the time available at their disposal for supervision will be lesser. At lower levels of management, this span would obviously be wide because they have to devote lesser time on such other activities.

**Degree of Decentralization and Extent of Delegation.** If a manager clearly delegates authority to undertake a well-defined task, a well trained subordinate can do it with a minimum of supervisor's time and attention. As such, the span could be wide. On the contrary, "if the subordinate's task is not one he can do, or if it is not clearly defined, or if he does not have the authority to undertake it effectively, he will either fail to perform it or take a disproportionate amount of the manager's time in supervising and guiding his efforts."

**Effectiveness of communication system.** The span of supervision is also influenced by effectiveness of the communication system in the organization. Faulty communication puts a heavy burden on manager's time and reduces the span of control. On the other hand, if the system of communication is effective, larger number of managerial levels will be preferred as the information can be transmitted easily. Further, a wide span is possible if a manager can communicate effectively.

**Quality of Planning.** If plans and policies are clear and easily understandable, the task supervision becomes easier and the span of management can be wider. Effective planning helps to reduce frequent calls on the superior for explanation, instructions and guidance and thereby saves in time available at the disposal of the supervisor enabling him to have a wider span. Ineffective plans, on the other hand, impose limits on the span of management.

**Degree of Physical Dispersion.** If all persons to be supervised are located at the same place and within the direct supervision of the manager, he can supervise relatively more people as compared to the one who has to supervise people located at different places.

**Assistance of Experts.** The span of supervision may be wide where the services of experts are available to the subordinate on various aspects of work. In case such services are not provided in the organization, the supervisor has to spend a lot of time in providing assistance to the workers himself and as such the span of control would be narrow.

**Control Mechanism.** The control procedures followed in an organization also influence the span of control. The use of objective standards enable a supervisor 'management by exception' by providing quick information of deviations or variances. Control through personal supervision favours narrow span while control through objective standards and reports favour wider span.

**Dynamism or Rate of Change.** Certain enterprises change much more rapidly than others. This rate of change determines the stability of policies and practices of an organization. The span of control tends to be narrow where the policies and practices do not remain stable.

**Need for Balance.** According to Koontz and O'Donnel, 'There is a limit in each managerial position to the number of persons an individual can effectively manage, but the exact number in each case will vary in accordance with the effect of underlying variable and their impact on the time requirements of effective managing.'

### 5.6.2 Type of Span of Supervision

Broadly speaking, there are two types of span of supervision: (1) Wider span of supervision, and (2) Narrow span of supervision.

**1. Wider Span of Supervision.** Wider span of supervision also known as flat organization implies few levels of supervision. In this type of span, the supervisor controls and guides the activities of subordinates directly under his control. Wider span of supervision is favoured where workers are competent and trained, the control mechanism through standards is followed and the total number of workers is not very large. It reduces the cost of supervision.

**Narrow Span of Supervision.** Narrow span of supervision implies tall or vertical organization.

Under this type of supervision, there are many levels and more supervisors are required to perform the job of guidance and control for different activities. It increases the efficiency of supervision but the cost of supervision is very high as compared to wider span of supervision. This type of supervision is favoured at higher levels of management where all the other activities of planning, organizing, directing and controlling are also to be performed. But more the levels of supervision, more difficult is the task of co-ordinating the activities of various groups of people.

### 5.7 SUMMARY

The word organization has two common meanings. The first meaning refers to the process of organizing. The second meaning signifies the institution or group which comes into existence as a result of organizing.

The organizing process involves a number of steps, viz., consideration of objectives, grouping of activities into departments, deciding which departments will be treated line and which will be treated staff, determining the levels at which various types of decisions are to be made, determining span of supervision and setting up a coordination mechanism. There are a number of principles organizing, which should be remembered in the process of organizing.

The organization structure is made up of various departments. Departmentalization is the grouping together of similar or logically related work activities. There are several bases of departmentalization. This departmentalization is usually shown on an organization chart.

Two broad categories of organization structures are classical and behavioural. But none of them can be said to be useful in all circumstances. Hence a contingency view of structures is gaining ground nowadays.

Recent phenomenal growth in electronic communication has given rise to the concept of virtual organization. The essential feature of this organization is that it has no office as such because its executives with mobile phones and laptop computers can work at any place and at any time.

A team is a small group of people with skill diversity. It differs from a formal work group in several ways. Its chief strength lies in the dictum 'Together Everyone Achieves More'. Social loafing and sucker effect are its principal weaknesses. There are three broad types of teams: project teams, problem-solving teams and permanent work teams.

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**5.9 SUGGESTED READINGS**

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**5.10 TERMINAL AND MODEL QUESTIONS**

- Discuss the nature and importance of organization.
- What is organization ? Describe the objectives and steps in organisation ?
- What are organization charts? Describe various types of charts.
- Describe the principles and advantages of organization charts.
- What is departmentation? Discuss the steps involved in this process. What type of dangers are faced in departmentation ?
- What is meant by span of management? What factors influence the span? State various factors determining span of management.
- What do you understand by span of supervision? Explain various types of span of supervision.

Activity 1

What is the process of organizing?

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Activity 2

What are the different bases of departmentalization?

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## CHAPTER - 6

### **AUTHORITY DELEGATION AND DECENTRALISATION 6.1 OBJECTIVES**

- Define** formal authority
- Examine** the source of authority
- Identify** the meaning and types of power
- Explain** the difference between authority and power
- Discuss** the types of power of the rank and file/group or department
- Provide** within the discussion of power the concept of influence
- Define** responsibility
- Describe** the delegation of authority find its advantages
- Discuss** decentralization

### **6.2 INTRODUCTION**

Authority is the degree of discretion conferred on people to make it possible for them to use their judgement. When an enterprise is small then decision-taking power is centralized in few hands. As the enterprise grows there is a need to delegate authority to more and more people to cope with the work. The main purpose of delegation is to make organization possible. Just as no one person in enterprise do all the tasks necessary for accomplishment of group purpose, so it is impossible, as an enterprise grows, for one person to exercise all the authority or making decisions.¶

Authority is the legitimate right to give orders and get orders obeyed. It has the following elements:

There exists a right in authority. The right is given by a superior to the subordinate. It puts the persons in a position to regulate the behaviour of his subordinates.

The right of giving of order is legitimate.

The right of decision-making also goes with authority. This will enable in deciding what is to be done, when it is to be done and who is to do it.

Authority is given to influence the behaviour of subordinates so that right things are done at right times.

The exercise of authority is always subjective. It is influenced by the personality traits of the person on whom it is used.

### **6.3 SOURCES OF AUTHORITY**

A number of theories exist about the sources of authority. Some persons arc of the view it flows from upward to downward subordinates, others feel that it goes from bottom to upward because of its acceptance by those on whom it is to be used, the theories of authority disused as follows:

**Legal/Formal Authority.** According to this theory authority is based upon the rank or position of the person and this authority may be given by law or by social rules and regulations protected by law. A law may grant authority to a policeman to arrest a person committing a crime. The president of a company may take an action against an employee for not complying rules because company rules have bestowed this authority in him. This authority is called formal authority. This type of authority is embedded in the bureaucracy where authority is wed upon contractually hired and appointed officials. In a company form of organization shareholders appoint Board of Directors to exercise all authority. The Board to Directors delegates its powers to the Chief Executive who delegates it to the managers and so on.

While bureaucracy is the purest form of legal authority, other forms may comprise of ted office bearers or office bearers appointed by the members. These persons follow authority their roles are defined by the rules and regulations framed by such bodies.

**Traditional Authority.** Traditional authority has evolved from a social order and communal relationship in the form of ruling *lord* and obedient *subjects*. The obedience result in traditional authority of the lord. The traditional chief rules as per his own pleasure and makes his own decisions. Generally, these decisions are based on considerations like ethnic equity and justice. The authority passes from the father to the son.

In a family system, father exercises traditional authority over members of the family. The traditional authority is generally followed in Indian family system. It is the father who guides activities of the family and others obey out of respect and traditions.

In traditional form of authority there is no formal law or structured discipline and relationships are governed by personal loyalty and faithfulness rather than compulsions of rules and regulation or duties of the office.

**Acceptance Theory.** The authority of the superior has no meaning unless it is accepted by the subordinates. Chester Bernard was of the view that it is the acceptance of authority which is more important. If the subordinates do not accept the orders of a superior there will be no use of exercising authority. Bernard maintains that a subordinate will accept an order if

he understands it well.

he believes it to be consistent with the organizational goals.

he believes it to be compatible with his personal interests as a whole.

he is able mentally and physically to comply with it

The subordinates may accept an order if they gain out of its acceptance or may lose out of its non acceptance. According to Robert Tennebaum, "An individual will accept an exercise of authority if the advantages accruing to him from accepting plus disadvantages accruing to him from not accepting exceed the advantages accruing to him from not accepting plus the disadvantages accruing to him from accepting and vice versa." It can be said that acceptance of an order is the function of advantages from it. The acceptance theory, though supporting the behavioural approach to management, presents many problems in an organization. It undermines the role of a manager in the organization. He may not be sure whether his orders will be accepted or not. He will know it only when his orders are actually executed. It means that orders flow from bottom to up.

**Competence Theory.** There is also a feeling that authority is generated by personal competence of a person. A person may get his orders accepted not due to formal authority but because of his personal qualities. These qualities may be personal or technical. The advice of some persons may be accepted even if they do not have a formal authority. They enjoy this authority by virtue of their intelligence, knowledge, skill and experience. When a doctor advises rest to a patient he accepts this advice because of Doctor's knowledge and not because of his formal authority or legal right. The patient will get relief only if he obeys the doctor. Similarly, we accept the diagnosis of a car mechanic without questioning it because of his competency for this work. So the knowledge or competency of a person gives him a status where his authority is accepted by others.

**Charismatic Authority.** The charismatic authority rests on the personal charisma of leader who commands respect of his followers. The personal traits such as good looks, intelligence, integrity influence others and people follow the dictates of their leaders because of such traits. The followers become attached to the leader because they feel that he will help them in achieving their goals. The charismatic leaders are generally good orators and have hypnotic effect on their followers. The religious and political leaders come under this category. Ayatolla Khomeini of Iran was an example of a religious leader on whose command people were ready to lay down their lives even John F. Kennedy of America was a political leader who could command respect of the people because of his charismatic personality. The charismatic phenomena also extend to film actors, actresses and war heroes. Film actors and actresses have been successful in raising huge funds for calamities etc. because of their charismatic personalities. Even political parties associate actors and actresses in their companies to collect crowds for their rallies. People follow some persons because of their charismatic personalities and not because of any other factor.

### 6.3.1 Responsibility

Responsibility is the obligation to do something. It is the duty that one has to perform in organizational tasks, functions or assignments. Authority and responsibility go side by side. When authority is delegated then some responsibility for getting the assigned task is also fixed. One can delegate authority but not responsibility. In the works of **Koontz** and **O'Donnell**, Responsibilities may be defined as the obligation of a subordinate to whom a duty has been assigned to perform the duty. **George Terry** defines it as, "Responsibility is the obligation to perform assigned activities to the best of his abilities."

#### Features of Responsibility

Responsibility arises from superior-subordinate relationship.

It always flows upward from juniors to seniors.

It arises from the duty assigned.

It cannot be delegated.

It is the obligation to complete the job as per instructions.

### **Authority and Responsibility**

Authority and responsibility should match each other. There should be appropriate authority for getting the things done. For example, when a forman is assigned the responsibility of producing particular quantity, he should have the authority to hire required personnel and take disciplinary actions if they do not perform as required. However, any imbalance between authority and responsibility will be dangerous. More authority than the responsibility may be misused and inadequate authority will not help in getting the assigned task performed.

### **6.3.2 Accountability**

Accountability is the obligation of an individual to formally report to his superior about the work he has done to discharge his responsibility. When a subordinate reports about his performance, success or failure, to his superior he discharges his accountability. So accountability is related to assigned work and reporting of its performance. Louis Allen defined accountability, "as the obligation to carry out responsibility and exercise authority in terms of performance standards established". In the words of Mc Farland, "Accountability refers to the fact that each performer who is given authority and responsibility must recognize that the executive above him will judge the quality of his performance." Responsibility and accountability go hand in hand, the latter arises out of the former.

### **Nature of Accountability**

**Cannot be Delegated.** Accountability cannot be delegated to anybody else even though the work may be done by a subordinate. A person remains accountable to his superior for the work given to him.

**Always Upward.** Authority always goes downwards and accountability goes upwards. A subordinate remains accountable to the boss above him.

**Unitary. Accountability is always unitary.** A subordinate should be accountable to only one boss. In case he is made accountable to more than one boss there will be a confusion and friction. Different bosses may give their own orders and expect different performances. So it is essential that a subordinate is accountable to only one boss.

**Accountability Standards.** The responsibility and accountability should be precisely fixed so as to see whether the assigned task is completed or not. There should be specific standards for judging the accountability.

### **6.3.3 Power**

Power is the capacity to influence the behaviour of others. Power is not necessarily the corollary of authority. A person may not have an authority but still he can yield power. In fact, authority is the right to command whereas power is the capacity to command. A rich person may yield power because of his financial resources. A person having power has the ability to change the attitude of others. In the words of Hicks and Gullet, "Manager's power in an organization may be seen as the ability to cause subordinates to do what the manager wishes him to do. A manager's power may be measured in terms of the ability to - (i) give rewards; (ii) promise rewards; (iii) threaten to withdraw current rewards (iv) withdraw current rewards, (v) threaten punishment; and (vi) to punish." In this sense power is exercised not only to give benefits to a person for behaving in a particular manner but also for withdrawing the benefits already given if he does not follow the commands.

**Sources of Power.** There are following sources of power :

**Legitimate Power.** This power corresponds authority. When a person is lawfully entitled to exercise power over the other it is called legitimate power. The influence has the authority to influence the behaviour of the other person.

**Reward Power.** When a person has the power to give rewards to others for behaving or doing what the influence wants them to do, it is reward power. Since people can benefit by obeying the power of the person, they will fall in line.

**Coercive Power.** Coercive power implies non-physical punishments. The influence has the power to punish a subordinate for not carrying out orders or for not meeting requirements.

(iv) **Expert Power.** When a person has an expert knowledge of some kind or he is a specialist in a particular case then one can influence the behaviour of others. A doctor has expert power on his patients. A production manager may yield influence on his subordinates because of his vast experience and expertise in a specific manufacturing field.



### 6.3.4 Differences between Authority and Power

The words authority and power are used interchangeably because of their common objective of influencing the behaviour of persons on whom these are exercised. However, there is a difference between the two. The differences are stated as follows :

**Command.** Authority is the right to command while power is the capacity to command.

**Exercise.** Authority is exercised because of a position in the organization but the power is exercised because of the person.

**Legitimacy.** Authority has legitimacy because of a particular position held. Power is institutional rather it is personal. Power is acquired in different ways and then is exercised on others.

**Hierarchy.** Power has no relation to hierarchy. It may be exercised at a lower level also. Authority, on the other hand, increases as one goes higher in hierarchy. The higher levels of hierarchy bring more authority and not necessarily more power. A person may have more power lower hierarchy while the other may have less power at higher hierarchy.

**Delegation.** Authority is delegated to lower levels from higher levels while power is acquired by different means.

### 6.4 DELEGATION

Delegation is an administrative process of getting things done by others by giving them responsibility. All important decisions are taken at top level by Board of Directors. The execution entrusted to Chief Executive. The Chief Executive assigns the work to departmental managers who in turn delegate the authority to their subordinates. Every superior delegates the authority subordinates for getting a particular work done. The process goes to the level where actual work is executed. The person who is made responsible for a particular work is given the requisite authority for getting it done.

There is a limit upto which a person can supervise the subordinates. When the number of subordinates increases beyond it then he will have to delegate his powers to others who perform supervision for him. A manager is not judged by the work he actually performs on his own but work he gets done through others. He assigns duties and authority to his subordinates and ensures the achievement of desired organizational goals.

#### Definitions

**Allen.** "The entrustment of a part of the work, or responsibility and authority to another and the creation of accountability for performance."

**O.S. Hiner.** "Delegation takes place when one person gives another the right to perform work on his behalf and in his name, and the second person accepts a corresponding duty or obligation to do what is required of him."

**Douglas C. Basil.** "Delegation refers to a manager's ability to share his burden with others. It consists of granting authority or the right to decision-making in certain defined areas and charging subordinates with responsibility for carrying through an assigned task."

#### 6.4.1 Characteristics of Delegation

Delegation is the assignment of authority to subordinates in a defined area and making them responsible for the results. Delegation has the following characteristics :

Delegation takes place when a manager grants some of his powers to subordinates.

Delegation occurs only when the person delegating the authority himself has that authority i.e. a manager must possess what he wants to delegate.

Only a part of authority is delegated to subordinates.

A manager delegating authority can reduce, enhance or take it back. He exercises control over the activities of the subordinates even after delegation.

It is only the authority which is delegated and not the responsibility. A manager cannot abdicate responsibility by delegating authority to subordinates.

#### 6.4.2 Elements of Delegation

Delegation involves following three elements :

**Assignment of Responsibility.** The first step in delegation is the assignment of work duty to the subordinate i.e. delegation of authority. The superior asks his subordinate perform a particular task in a given period of time. It is the description of the role assigned to the subordinate. Duties in terms of functions or tasks to be performed constitute the basis of delegation process.

**Grant of Authority.** The grant of authority is the second element of delegation. The delegator grants authority to the subordinates so that the assigned task is accomplished. The delegation of responsibility with authority is meaningless. The subordinate can only accomplish the work when he has the authority required for completing that task. Authority is derived from responsibility. It is the power, to order or command, delegated from superior, to enable the subordinate to discharge his responsibility. The superior may transfer it to enable the subordinate to complete his assigned work properly. There should be a balance between authority and, responsibility. The superior should delegate sufficient authority to do the assigned work.

**Creation of Accountability.** Accountability is the obligation of a subordinate to perform the duties assigned to him. The delegation creates an obligation on the subordinate to accomplish the task assigned to him by the superior. When a work is assigned and authority is delegated then. The accountability is the by-product of this process. The authority is transferred so that a particular work is completed as desired. This means that delegator has to ensure the completion of assigned work. Authority flows downward whereas accountability flows upward. The downward flow of authority and upward flow of accountability must have parity at each position of management hierarchy. The subordinate should be made accountable to only one superior. Single accountability, improves work and

discipline.

### 6.4.3 Principles of Delegation

The following are the principles of delegation :

**Principle of Functional Definition.** The related or similar activities should be grouped together according to enterprise function. When the definition of a position is clear then delegation of authority becomes simple. In the words of Koontz and O'Donnell "the more, a position or a department has clear definitions or results expected, activities to be undertaken, organization authority delegated and authority and informational relationships with other positions understood, the more adequately the individuals responsible can contribute toward accomplishing enterprise objectives.]"

It is very difficult to define a job and the authority required to accomplish it. If the superior is not clear about the results expected then it becomes all the more difficult. It should be clear who should do what so that right amount of authority is delegated. Dual subordination results in conflicts, division of loyalty and lack of personal responsibility for results.

**Principle of Unity of Command.** The basic management principle is that of unity of command. This principle states that a subordinate should report only to single superior. This will give a sense of personal responsibility. Although it is possible for a subordinate to receive orders from more superiors and report to them but it creates more problems and difficulties. An obligation essentially personal and authority delegation by more than one person to an individual is likely to result in conflicts in both authority and responsibility. This principle is also useful in the classification of authority-responsibility relationships.

**Principle of Delegation by Results Expected.** The delegation of authority should be based on the basis of results expected. The authority should be sufficient to achieve the desired results. If the authority is insufficient then results will not be achieved. So there should be a balance between the results expected and the authority required.

**Principle of Absoluteness of Responsibility.** The responsibility of a subordinate, once he has accepted the work, is absolute to his superior. The responsibility of the superior does not decrease once he has delegated authority. A person can delegate authority and not responsibility. He will remain accountable for the work even if it is delegated to the subordinate. So the responsibility of superior and subordinate remains absolute.

**Principle of Parity of Authority and Responsibility.** Since authority is the right to carry out assignments and responsibility is the obligation to accomplish it, there should be a balance between the both. The responsibility should bear logical relationship with authority delegated. The subordinate should not be burdened with high performance responsibility with delegating enough authority. Sometimes the authority is delegated but the concerned person is made accountable for its proper use. This will be a case of poor management. The parity between authority and responsibility will be essential for achieving efficiency.

**Authority Level Principle.** The principle that decision-making should remain at the level at which authority is delegated. The managers delegate authority to subordinates but have the temptation to make decisions for them. They should allow the subordinates to take their own decisions as per the

authority delegated to them. The delegation of authority will be effective only when it is clear and understandable to subordinates. The subordinates should know the area of their decision-making and should avoid the temptation of referring things to higher ups. In the words of Koontz and O'Donnell, the authority level principle would be "maintenance of intended delegation requires that decisions within the authority competence of individuals be made by them and not be referred upward in the organization structure."

**The Scalar Principle.** The scalar principle refers to the chain of direct authority from superior to subordinates throughout the organization. The ultimate authority rests somewhere subordinates must know to whom they should refer the matter if it is in their authority. The more clear the line of authority from top manager to every subordinate more effective will be responsible decision-making.

#### 6.4.4 Types of Delegation

Delegation may be of the following types :

**General or Specific Delegation.** When authority is given to perform general managerial functions like planning, organizing, directing etc., the subordinate managers perform these functions and enjoy the authority required to carry out these responsibilities. The chief executive exercises overall control and guides the subordinates from time to time.

The specific delegation may relate to a particular function or an assigned task. The authority delegated to the production manager for carrying out this function will be a specific delegation. Various departmental managers get specific authority to undertake their departmental duties.

**Formal or Informal Delegation.** Formal delegation of authority is the part of organizational structure. Whenever a task is assigned to a person then the required authority is also given to him. This type of delegation is part of the normal functioning of the organization. Every person is automatically given authority as per his duties. When production manager gets powers to increase production then it is a formal delegation of authority.

Informal delegation does not arise due to position but according to circumstances. A person may undertake a particular task not because he has been assigned it but it is necessary to do normal work.

#### **Lateral Delegation**

When a person is delegated an authority to accomplish a task, he may need the assistance of a number of persons. It may take time to formally get assistance from these persons. He may indirectly contact the persons to get their help for taking up the work by cutting short time formal delegation. When the authority is delegated informally it is called lateral delegation.

#### **Reserved Authority and Delegated Authority**

A delegator may not like to delegate every authority to the subordinates. The authority which he keeps with him is called reserved authority and the authority which is assigned to subordinates is delegated authority.

#### 6.4.5 Pre-Requisites for Delegation

Every superior tries to retain as much authority as possible. The load of work or circumstance may compel delegation downwards. If the authority is not willingly delegated then it will not bring desired results. It is important that appropriate authority should go downwards so that work is undertaken smoothly and efficiently. The process of delegation will be complete only if, following prerequisites are fulfilled.

#### **Willingness to Delegate**

The first prerequisite to delegation is the willingness of the superior to part with his authority. Unless the superior is psychologically prepared to leave his authority, delegation will not be effective. If a superior is forced to delegate authority downward without his sweetwill, he will try to devise methods to interfere with the subordinate's working. He may overshadow the subordinate to such an extent that very decision is implemented with the approval of the boss or performance may pass through him with his close scrutiny. It will be better not to delegate authority unless the superior is mentally prepared to do so.

#### **Climate of Trust and Confidence**

There should be a climate of trust and confidence among superiors and subordinates. The subordinates should be given enough opportunities or real job situations where they use their talent and experience. In case they make some mistakes then superiors should guide and correct them. The superiors should trust their subordinates and should not take them as their competitors. The climate of trust and confidence will help the subordinates to learn and grow and this will help the process of

delegation.

### **Faith in Subordinates**

Sometimes the superiors do not delegate authority with the fear that subordinates will not be able to handle the job independently. They are not confident of the qualities of subordinates and do not want to take risks. The superior may be overconscious of his skill and competence with the result that he is hesitant to delegate authority. The superiors should avoid this type of thinking and attitude. They should have faith in their subordinates and should rather help them in learning the job properly. After all the superiors also learnt many things from their superiors and present subordinates are also to take up higher responsibilities. The climate of faith will help the subordinates to learn the things faster and take up more responsibilities.

### **Fear of Supervisors**

There is often a fear among superiors that their subordinates may not overtake them, once they are given higher responsibility. This is a case of inferiority complex. The superiors may give any logics for delegating authority but this fear is one of the important causes. The superiors should avoid this type of thinking and have positive attitude towards subordinates. The subordinates should be encouraged to take up more responsibilities and they will have more respect for the superiors and their ability.

#### **6.4.6 Difficulties Involved In Delegation of Authority**

There may arise certain difficulties in the process of delegation. The difficulties may be due to the attitude of either superiors or subordinates or both. There may be certain defects in organizational structure which hamper proper delegation of authority. Some of the difficulties involved in delegation are as such :

**Over Confidence of Superior.** The feeling in a superior that only he can do certain work effectively than others is the main difficulty in delegation. When a manager is of the opinion that subordinates will not be able to make proper decisions then he will concentrate all powers with him and will not like to delegate his authority. This may not be due to the incompetence of subordinates but due to the over-confidence of a superior.

**Lack of Confidence in Subordinates.** The superior may be of the view that subordinates are not competent to carry out certain things of their own. He may lack confidence in his subordinates. Under these circumstances superior will hesitate to delegate authority.

**Lack of Ability in Superior.** A superior may lack the ability to delegate authority to subordinates. The manager may not be able to identify the areas where delegation is required. He may not even be able to chalk out the proper process of delegation. The lack of competence on the part of superior restricts the delegation of authority.

**Lack of Proper Controls.** There may not be proper controls in the organization which help the manager to keep in touch with performance of subordinates. When certain controls like budgets, standard costs etc., are there then manager can exercise adequate control over the performance of his subordinates. In the absence of such techniques he will not be able to judge the performance of his subordinates. Since he will not be able to exercise control he will not like to delegate authority.

**Lack of Proper Temperament of Superior.** The chief executive may be over-cautious or conservative by nature. He will not like to take the risk of delegating authority. His fear will always be that something may not go wrong. The executives with this type of temperament will hesitate to delegate authority. An element of risk cannot altogether be ruled out but certain risk will have to be taken. The subordinates will learn only when given a chance to take independent decisions. A lack of proper temperament of superior may also act as a barrier in delegation.

**Inability of Subordinates.** There may also be shyness on the part of subordinates in assuming additional responsibility. They may avoid botheration accruing from delegation of authority. The fear of committing mistakes or lack of confidence on the part of subordinates may act as a barrier in delegation of authority.

#### **6.4.7 Importance of Delegation**

Delegation is a universally accepted principle. It has been practiced since time immemorial and in every field. Delegation is necessary not only for a business undertaking but also for running a government. In government, legislative bodies delegate their powers to Council of Ministers who in turn delegate to officers and so on. Delegation is essential even for running a family because head of the

family will have to get the help of various members for performing various tasks. An industrial undertaking benefits by delegation in the following ways :

**Relieving Top Executives.** Top executives cannot perform and supervise each and every work. Moreover they are required to undertake important tasks of planning and controlling. Delegation helps executives in delegating their work to subordinate officers.

**Improved Functioning.** In the absence of delegation some persons may be burdened with more tasks while others may not have sufficient work to do. Delegation helps in rationalizing the functioning of an organization. Work is divided among various persons in such a way that it is done in an efficient way. Nobody is unduly burdened and no work is left unattended.

**Use of Specialists.** Delegation enables the use of specialists for taking up different functions. A production manager will be assigned the task of production a sales manager look after sales department, a lawyer will look after legal matters and so on. The use of specialists for different functions will improve the quality of work.

**Helps in Employee Development.** When subordinates are given independent assignments then they will be able to use their initiative and experience. This will also give them confidence in taking up further responsibilities. Without delegation, subordinates will not get a chance to test their knowledge. Delegation of power is the best way of developing subordinates and preparing them for taking up more responsibilities in future.

**Helps in Expansion and Diversification.** The expansion and diversification of enterprise needs the services of more and more persons. The assignment of various tasks to subordinates will prepare them for undertaking new assignments. If subordinates are not assigned important works earlier then it will be dangerous to give them independent tasks straight away. Delegation is very useful for undertaking expansion and diversification plans.

#### **6.4.8 Factors Influencing Degree of Delegation**

Delegation of authority is a must for every concern. The question to be decided is how much authority should be delegated to subordinate managers. The pattern to be followed for delegation should be decided on the basis of its requirements. It will be wise to check from time to time the already existing delegation of authority in order to make sure that it is appropriate and adequate.

A number of factors influence the decision about delegation. Some of these are discussed as follows :

**Company's History.** The history of the company influences the degree of delegation. A company grown over a period of time has a tendency to centralize powers. When a concern is small then most of the decision-making is done by the owner. With the growth of business, the tendency to centralize powers remains. On the other hand if a concern is the outcome of a merger, amalgamation or combination, there may be a great amount of decentralization. If company is working on a decentralized pattern it will be run in the same way even on its acquisition. So the growth history of a concern influences the degree of delegation.

**Availability of Capable Persons.** The element of delegation is linked to the availability of subordinate managers. If sufficient persons are available who can take responsibility then delegation can easily be done. Generally, managers complain that sufficient subordinate managers are not available who can be assigned important duties. Unless subordinates are delegated the powers they will not learn the art of management. With additional experience and training their judgment would be improved and they will become more capable subordinates. Many large firms push decision-making to the lower ranks of the organization for the purpose of developing and training managerial manpower. A subordinate may be given small powers in the beginning. As he develops his managerial capabilities he can be assigned more important work. One thing should be clear that unless otherwise powers are delegated to lower levels, the concern will not be able to develop subordinate managers. The delegation process should be continually pursued so that people are trained to undertake more responsibilities.

**Importance and Costliness of Decisions.** The importance and costliness of decisions greatly influences the degree of delegation. Generally speaking, the costlier and more important decision the greater the probability of its being made at the upper level of the managerial hierarchy. Decision-making also requires various facts and figures about the issue. A manager will ensure that he gets all required information for deciding the issue. This type of information is easily available at higher levels of management. A manager knows that he can delegate authority and not responsibility. Some decisions can influence the whole organization. Any wrong decision on such important matters can damage the

enterprise beyond control. Such decisions are taken at higher level because these persons have the past experience of deciding such things. In a manager's career he should first be given authority to take decisions which are not too costly so that he is able to learn from his experience.

**Size of the Enterprise.** The extent of delegation is linked to the size of the enterprise. In a large unit more decision making is needed at various levels of management. The problems communication and co-ordination often arise in such units. If decision-making is closer to the place of action it will save time, paper work is reduced, misunderstandings in communication can largely be eliminated. There is a tendency to decentralize in big units for avoiding many difficulties.

**Available Controls.** A manager delegating authority wants to be sure that it is used in accordance with his intentions and the general objectives of the organization. In order to achieve this there must be control devices. Generally, managers hesitate to delegate due to the reason that they donot know how to control. They have a feeling that it takes more time to exercise control than exercising the authority themselves. It will be better to set up some control devices. The better the control devices, the more will be the delegation of authority.

**Types of Enterprise.** The degree of delegation of authority may also be influenced by the type of enterprise. If the enterprise is in an industry which is rapidly expanding, as in the electronic field, top management will have to delegate otherwise it will be over burdened with many decisions. Decentralization of authority will take place even if the subordinate managers donot have adequate experience to exercise authority. Management should make guidelines for subordinate managers for taking proper decision.

If the enterprise operates in a static industry then all decision-making is done at the central level. In case of banking and insurance the growth is slow and decision-making remains at the top. So delegation of authority depends upon the nature of the enterprise.

**Environmental Factors.** In addition to internal factors delegation may be influenced by internal factors too. These factors may be natural unions, government control over business and tax policies. Some large concerns have to deal with workers' unions at national level. All the negotiations are done and decisions are taken at national level. In such a situation the things are decided at head quarter level and are applicable at all levels. It, therefore, follows that within the area of labour relations, decision-making is decentralized. The same holds true as applied to government control over business, and tax laws.

#### **6.4.9 Guidelines for Making Delegation Effective**

The failure of delegation process may be the outcome of half-hearted approach on the part of superiors or subordinates. When delegation is partial, unclear, inconsistent with the results expected it is bound to prove a failure. A number of steps are required to make it effective.

**Defining of Assignments.** The work of every person should be properly defined. The results expected from them should be made clear. They should be given sufficient authority to accomplish the given results.

**Proper Selection of Persons.** The persons should be selected in the light of the job be done. The delegation will be influenced by the qualifications of persons. With the assignment of a work, the authority required for completing it will have to be delegated. If the concern person is not capable of exercising such authority then the purpose will not be solved. The personnel manager should keep these in mind while selecting persons for various positions.

**Proper Communication.** There should be an open line of communication. By delegating authority superior does not abdicate his right to interfere or he is not absolved of responsibility. There may be changed circumstances which require new plans and delegation may have to see in the new situation. There should be free flow of information between superior and subordinate. The subordinates should be furnished information with which to make decisions and to interpret them correctly. Communication is essential for making delegation effective.

**Establishing Proper Controls.** The manager cannot relinquish responsibility, delegation should be accompanied by adequate controls. The performance of subordinates should be regularly assessed to see that things are going as per plans. If interference of controls is to be avoided then steps should be taken to get information about deviations.

**Rewards for Proper Implementation.** There should be rewards for effective delegation and successful assumption of authority. The manager should keep a watch over the performance of various persons. Those who are successful in delegating properly and those showing goof, results with delegated

authority should be given pecuniary or other rewards. This will encourage more and more persons to improve performance.

## 6.5 CENTRALISATION AND DECENTRALISATION

The words centralization and decentralization have different connotations. In management the term refers to the location of decision-making authority in an organization. To see whether a concern is centralized or decentralized one has to locate decision-making power. If the power to take decisions vests in one person at the top it will be a case of centralization, on the other hand if decision-making power is dispersed among many persons it will be a case of decentralization. The role of subordinates is also related to the degree of delegation of authority. If they are supposed to implement whatever they have been told then it will be centralization of authority. All decisions are taken at the top and subordinates do not have the authority to change or amend them. On the contrary, in a decentralized set up subordinates enjoy more powers and play an important role in decision-making process. In the words of Henri Fayol

“Everything which goes to increase the importance of the subordinate’s role is decentralize everything which goes to reduce it is centralization.”

### 6.5.1 Centralization

Centralization is a common occurrence in small enterprises. The success of a small enterprise depends upon the dynamic manager who single-handedly commands the running of the concern. He takes all the decisions himself and entrusts only implementation to the subordinates. There is a direct link between the proprietor and his employees. He personally supervises all managerial functions of production, marketing, financing, etc. In fact, he has no organization other than himself. He is consulted for every type of guidance and his counseling is final.

Centralization is generally successful in small-scale enterprises. This is possible because the operations are limited and the proprietor is able to devote personal attention to every activity of the business. This type of management is useful where emergency decisions are to be taken. With the expansion of business the control becomes difficult and the need for decentralization arises.

### 6.5.2 Factors Determining Centralization of Authority

The management of an undertaking may centralize decision-making for the following reasons:

**Achieving Uniformity of Action.** Uniformity of action is possible when decision-making authority is centralized. The decisions taken at the top will be implemented at every level. There may be more than one unit under the same management and it may be desired to have same types of policies and procedures. If the units take their independent decisions then uniformity of action will not be achieved. Under such situations centralized decision-making will enable unity of action.

**Facilitating Integration.** There may be a need to integrate all operations of the enterprise for achieving common objectives. Centralized management will facilitate integration of activities by devising common policies and programmes.

**Promoting Personal Leadership.** The small enterprises grow on the strength and capability of their manager. Even big concerns too depend upon the qualities of their managers during initial periods. The whole authority will be in the hands of the chief executive. This will result in quick decisions and imaginative actions. The manager will acquire more and more skill and experience which will promote their personal leadership.

**Handling Emergencies.** Under uncertain business conditions there is a need to take emergency decisions. Sometimes the existence of small-scale units is endangered if timely actions are not taken. Centralized authority will enable quick and timely decisions from short-term as well long-term perspective.

### 6.5.3 Advantages of Centralization

Following are the advantages of centralization:

**Standardization of Procedures and Systems.** Centralization enables standardization of procedures and systems. It facilitates smooth working in the organization. There is also a consistency in day-to-day working. The consumer service will also improve if standard policies are used.

**Facilitates Evaluation.** When same policies are used for all segments of the enterprise their performance can easily be evaluated. It also helps in comparing the results of different departments. This will bring a sense of competition among various segments. Ultimately the overall performance will improve.

**Economies.** Centralization of management will bring in economies of large scale. There will be a centralized buying and selling. This will enable bulk buying resulting in discounts and savings in transportation expenses. When sales are done in large quantities then customers are offered better terms and low prices. There will be an economy in managerial expenses also.

**Co-ordination of Activities.** Co-ordination of activities of various segments is also facilitated by centralized management. In the absence of centralization, different segments may pursue their independent policies. This may result in disunity and disintegration. Different segments may emphasise their own goals only without bothering about organizational objectives. Centralized management will help in co-ordinating the work of different segments in such a way that organizational goals are achieved.

#### **6.5.4 Disadvantages or Evils of Centralization**

Centralization may be useful only up to a certain level and also under certain conditions. Beyond a certain point it creates difficulties in day-to-day working and also restricts the growth of an enterprise. Following are some of the disadvantages of centralization :

**Destroys Individual Initiative.** Centralization revolves around one person only. One man takes all the decisions and decides the modes of implementing them. Nobody is given the authority to use his own judgement even if there are glaring lacunae in the decisions. It destroys initiative of subordinates. They do not make any suggestions and just carry on with whatever been conveyed to them.

**Over burden of Few.** This system gives all responsibilities to few persons in the organization. They remain over-burdened with routine work while subordinates do not have sufficient work. The centralization of all powers do not allow the chief executive to devote sufficient time for important tasks of planning, co-ordinating and motivating. In a decentralized set-up routine matters are left to the subordinates and manager concentrates on important administrative work only.

**Slows Down the Operations.** The operations of the enterprise are slowed down under centralized set-up. All decisions are taken only by one person and his unavailability keeps the matters pending. Even clarifications about decisions are referred to the top which destroys invaluable time in formalities. If the subordinates have powers to interpret decisions then operations can be toned up. Things move very slowly in a centralized set up because everything has to through the manager.

**Distance from Customers.** The customers do not come into contact with policy-makers. They meet only those officials who do not have the powers to take decisions. Moreover one person cannot meet and know the reactions of customers regarding products and service. This also comes in the way of intimate understanding of market situations by the chief executive.

**No Scope for Specialization.** Centralization does not offer any scope for specialization. All decisions are taken by one person and he may not be a specialist in all the areas. In present competitive world there is a need for employing the services of specialists. The specialization will be able to introduce new things in their fields and they may improve the performance of enterprise. Even if specialists may be employed under centralized set-up they will not be given a free hand in their areas. They will keep on convincing the chief executive who is the ultimate decision-maker. The specialists do not have any role in an organization with centralized authority.

#### **6.6 DECENTRALISATION**

Decentralization implies the dispersal of decision-making power at lower levels of management. When the power to take decisions and formulate policies does not lie with one person at the top but is passed on to different persons at various levels, it will be a case of decentralization. The decisions taken at lower level should not only be more in number but they should be important also. If insignificant decisions are allowed to be taken at lower levels then it will not be a case of decentralization.

#### **Definitions**

**McFarland.** "Decentralization is a situation in which ultimate authority to command and ultimate responsibility for results is localized as far down in the organization as efficient management of the organization permits." The delegation of authority and responsibility is allowed downward upto a level it is necessary. In McFarland's views the degree and extent of delegation should be determined as per the needs of the situation.

**Allen.** Decentralization refers to the systematic effort to delegate to the lowest levels all authority except that which can only be exercised at the central points.



Allen says that authority should be delegated to the lower levels of management and top management should retain only those powers which cannot be exercised at lower level. In his view decentralization will involve systematic delegation of authority.

**Strong.** Decentralization means the division of a group of functions and activities into relatively autonomous units with overall authority and responsibility for their operation delegated to a head of each unit.||

**Earl P. Strong** relates decentralization to the working of different units of an enterprise. He says that decentralization will require the delegation of authority to the persons in charge of different units. They should have sufficient authority to run the units independently.

#### **6.6.1 Measurement of Degree of Decentralization**

Decentralization is not an absolute term. The degree of decentralization varies from concern to concern. Earnest Dale has pointed out the following four tests to determine the degree of decentralization:

**Number of Decisions.** The greater the number of decisions made at lower levels of management, the greater is the degree of decentralization

**Importance of Decisions.** If important decisions are taken at lower levels then degree decentralization will be more. On the other hand if insignificant decisions are allowed at lower levels then decentralization will be much less.

**Effect of Decisions.** If decisions affecting more functions are allowed at lower levels then decentralization will be more. On the other hand if only operational decisions are made at lower levels then decentralization will be less. When decisions involving finances are taken at lower level then degree of decentralization will be more.

**Checking of Decisions.** When decisions are subject to the approval of superiors then decentralization will be less. Still, it will be less if superiors are to be consulted before taking certain decisions. If subordinates are free to take decisions of their own then decentralization will be more.

#### **6.6.2 What Factors bring about Decentralization**

Decentralization is necessitated by the following factors :

When there is a need to take quick decisions on the spot to take advantage of the situation then power is delegated to the level where it is needed.

When top management wants to reduce communication work then decentralization is undertaken.

The company's product or market may require decentralization of decision making to give emphasis to product or market. Technological changes may also facilitate decentralization.

When growth and diversification takes place then decentralization is necessary for bringing flexibility in operations and reducing burden on top executives.

#### **6.6.3 Decentralization Is Extension of Delegation**

Decentralization and delegation are not the same thing. Decentralization is much more than delegation. In delegation responsibility and authority are delegated from one individual to the other but decentralization is scattering of authority throughout the organization. Delegation is complete when authority is delegated to another person whereas decentralization is complete when fullest delegation is made to all people in the organization. In delegation control remains with the delegator while in decentralization top management delegates controlling powers to the lower levels.

#### **6.6.4 Advantages of Decentralization**

Some of the advantages of decentralization are discussed as under :

**Reduces Burden of Top Executives.** Centralization of authority over-burdens top executives. They are left with no time for planning, etc. In decentralization decision-making power is delegated to the lower levels relieving top executives of some of their burden. Under this system top executives will retain only that work which requires their personal otherwise everything is assigned to persons at appropriate levels. This will reduce the burden top executives and they will be able to devote more time for planning, etc.

**Quick Decisions.** Under decentralized system decision-making powers are delegated the level of actual execution. Whenever there is a need for taking a decision, the concerned executive will decide the things immediately. There is no need to make reference to the top level for most of the work. It quickens the process of decision-making.

**Facilitates Diversification.** With the expansion and diversification of activities there will be a need to delegate authority at departmental level. Decentralization gives enough authority persons at various levels for carrying out the required task. The centralized system of authority will not allow diversification beyond a certain level because decision-making is reserved by one man only. The organization will become more and more complex with the addition of new products and setting up of more units. Decentralized system will be more suitable for expanding enterprises.

**Motivation of Subordinates.** Under decentralization subordinates get opportunity for taking decisions independently. This fulfils the human need for power, independence and status. Subordinates will realize their importance in the organization. They will try to put their maximum efforts so that their performance improves. They get a chance to take initiative and to try ideas. The subordinates feel motivated under decentralized set-up.

**Sense of Competition.** Under decentralized system different departments or units made separate profit centers. The employees of different departments will compete with each other to show better results. The sense of competition will improve the performance of departments or segments.

**Provides Product or Market Emphasis.** Since decision-taking is scattered and goes through lower levels of management there will be more product or market emphasis. The changing tastes and fashions require prompt decisions. The decentralized system will respond immediately to the changing situations. The persons concerned with marketing will take quick decisions as are necessary under the situation.

**Division of Risk.** The enterprise is divided into a number of departments under decentralization. Management can experiment new ideas at one department without disturbing others. This will reduce the risk if things go adverse. Once the experiment is successful it can be used in other segments also. So risk element can be limited under decentralized system.

**Effective Control and Supervision.** With the delegation of authority, span of control will be effective. Since executives at lower levels will have the full authority to take important decisions, they will recommend awards or punishments as per their performance. This will improve supervision and control.

#### **6.6.5 Disadvantages of Decentralization**

Decentralization suffers from a number of drawbacks and some of these are discussed as follows :

**Lack of Co-ordination.** Under decentralization each department, unit or section enjoys, substantial powers. They have the powers to formulate their own policies and programmes. It becomes difficult to co-ordinate the activities of various segments. Moreover, every segment emphasises its own work only without bothering about others. This creates more difficulties in co-ordinating activities.

**Difficulty in Control.** Since different units work independently it becomes difficult to control their activities. Top management will not be able to exercise effective control because it does not remain in touch with day-to-day activities of various segments.

**Costly.** Decentralized system involves heavy overhead expenses. Every decentralized division has to be self-sufficient for its activities like production, marketing, accounting, personnel, etc. A number of persons will be employed to manage various activities. These persons are paid higher salaries involving huge costs. Decentralized system is suitable for large scale enterprises only. Small-scale business units cannot afford to spend higher overhead expenses.

**Lack of Able Managers.** Decentralized system will succeed only if competent persons are employed to manage various jobs in different segments. Competent persons are not sometimes available as per the requirements. The system will fail if competent personnel are not available.

#### **6.6.6 Distinction Between Decentralization And Delegation**

The words decentralization and delegation appear to be interchangeable but it is not so. Even though both involve dispersal of authority but decentralization is an extension of delegation. Following are the points of distinction between the two :

|                   | Delegation   | Decentralization  |
|-------------------|--|---|
| 1. Nature         | Delegation is individualistic. It involves two persons, superiors and subordinates.  | Decentralization is totalistic in nature. It involves delegation from top management to the department or divisional level.                                 |
| 2. Control        | Control rests with the delegator or superior.  | In this system top management exercises minimum control. All powers are given to concerned departments or divisions.  |
| 3. Need           | Delegation is essential to get things done by others. Unless otherwise authority is delegated it will be difficult to assign responsibility. | Decentralization is optional because it is the philosophy of management. Top management may or may not disperse authority.                                  |
| 4. Responsibility | In delegation, responsibility remains with the delegator. He can delegate authority and not responsibility.                                  | In decentralization, head of the department is responsible for all activities under him. He is required to show better performance of the whole department. |

#### 6.6.7 Balance between Centralization and Decentralization

Centralization and decentralization are the two opposite ends in an organization. In practice there cannot be neither complete centralization nor decentralization. In a highly centralized organization decision making is costly and delayed. The operations of the organization suffer for want of authority at different levels of management. In a decentralized system, authority is spread throughout the organization and controls are assigned to functional managers. In order to keep it abreast with the working, top management will keep some powers and controls to itself. Some degree of centralization and decentralization should be decided in order to maintain a balance. There are some factors which may require centralization while there are others which may need decentralization. These factors influence a decision about the degree of centralization and decentralization. Some of such factors are discussed as follows :

**Size and Complexity of Organization.** In case of bigger concerns there is a need to decentralize authority to lower levels in the organization. It will facilitate decision making and control. When the concern is small then centralization will be useful. If the operations of concern are simple then centralization is preferred while in complex operations decentralization will be useful.

**Communication System.** When communication system is good then top management can control the operations at last and centralization should be preferred. In the present technological age, managers setting in even other countries can control decision making and operation of a business. If the communication system is slow and ineffective then decentralization should be used.

**Competence of Personnel.** When competent personnel are available in the organization then powers should be delegated to various levels of management to make use of their expertise. In case competent persons are not available to share the responsibility of the top management then decision making should be retained at higher level.

**Degree of Standardization.** The greater the degree of standardization in operations, the more will be the centralization because it will be easy to control the operations from the top centralized structure will bring uniformity of action in such an organization.

**Spread of Activities.** If a business has different plants or units situated at different places then decentralization will be essential to carry on the activities effectively. The finance function in such a business should be centralized to ensure effective control over assets and capital expenditure.

### **6.6.8 How Much Decentralization? (Contingency View)**

In recent years, decentralization has become the golden calf of management philosophy. Both, those who write about and those who practice management extol the virtues of decentralization. However, decentralization is not an unmixed blessing. Under total decentralization, with no coordination and leadership from the top, every division or unit may try to optimize its performance at the cost of other units and this may lead to disintegration of the enterprise into isolated sub-units. For this reason, the question for managers is not if an organization should be decentralized but how much should it be decentralized.

In determining the amount of decentralization appropriate for an organization, the following situational factor is usually considered.

#### **1. Size of the Organization**

The size of the organization in terms of rupee-volume of sales, number of plants, and number of employees is the strongest single factor determining the extent of decentralization. It appears that the speed and adequacy of decision-making, flexibility and efficiency are enhanced through decentralized operations in case large, multi-product, diverse and complex organizations.

#### **2. History and Age of the Organization**

If the organization has started out as family business and has grown primarily from within then it might have built up very centralized structure. On the other hand, if it has grown by acquisitions and mergers, it is likely to be decentralized for political or human relations reasons. Similarly, a relatively high degree of centralization may be needed at the start, when new value and viewpoints are being established and the top leadership cannot depend on the sweet will of its members for adherence to those values and viewpoints. But when the rational and meaning of official viewpoint are well understood and widely accepted, centralization is more readily dispensable.

#### **3. Philosophy of Top Management**

Some managers pride themselves in making all decisions themselves. Others take equal pride in confidently delegating authority to their subordinates. Generally speaking, owner-managed enterprises tend to be more centralized than the professionally managed ones.

#### **4. Abilities of lower-level Managers**

Talented executives are often unwilling to accept centralization from their superiors. They want to run their department or divisions independently so that they may give expression to their abilities and may be rewarded for what they are able to accomplish in their own units. On the other hand, the scarcity of talented executives limits the extent of decentralization at a given time.

#### **5. Strategy and Organization's Environment**

The strategy of an organization influences the types of its markets. Its technological environment, and its competition with other organizations. These factors, in turn, influence the degree of decentralization of the organization. Alfred Chandler found, for example, that companies operating in industries in which markets are less uncertain, production processes technologically less dynamic and competitive relationships more stable, tend to become more centralized.

#### **6. Nature of Management Function**

Some management functions are more amenable to decentralization than other. In a large multi-plant company such function as purchasing, traffic, cost accounting, quality control, plant engineering and personnel tend to be decentralized, yet financial planning and resource allocation may be reserved for the very highest level of decision-making and control. Marketing may or may not be decentralized, depending upon the nature of the markets and variety of products.

**Available Controls** A good manager will delegate his authority if he has means of assuring himself that delegation will be used in the general manner that he had intended. Absence of effective control and coordination devices may not only make uniform application of policies concerning wages, layoffs, promotions, etc. difficult but may even endanger the very existence of the enterprise.

#### **Costliness and Significance of Decisions**

Generally speaking the costlier and more significant the decisions, the greater is the tendency to keep authority for these decisions centralized at a relatively high level in management.

### **6.6.9 Barriers to Effective Delegation**

In spite of the above advantages, many managers are found unwilling to delegate authority and many subordinates are found unwilling to accept it. The reasons for this unwillingness on both sides are as under.

On the manager's side, the reluctance to delegate may be due to the following reasons:

#### **1. Fear of Loss of Power**

Some managers are little Napoleons who want to keep all the authority to make decisions in their own hands. They feel uncomfortable when they see their subordinates making decisions which they themselves once made.

#### **2. The —I Can Do it Better Myself Fallacy**

Some managers have an inflated sense of their own worth. They, therefore, perform themselves even low-level jobs which come their way.

#### **3. Lack of Confidence in Subordinates**

Some managers hesitate to delegate authority to their subordinates because of the doubt their ability. Such managers continue to keep themselves involved in jobs which they have delegated to their subordinates. For effective delegation, it is necessary that a subordinate should only initially work under the guidance of his superior's guidance.

#### **4. Fear of Being Exposed**

Some inefficient managers are always afraid of their subordinates outshining them and proving more efficient. They are therefore very cautious about delegating, lest their inefficiency be exposed. Effective delegation is possible only when a manager is prepared to accept defeat from his subordinate. *Shishyad Ichhet Parajayam* (Desire defeat from your disciple) should be his motto. One reason why our indigenous system of medicine failed to flourish is that a *vaidya* always kept some knowledge up his sleeve lest his disciples should excel him.

#### **5. Difficulty in Briefing**

Many times managers are reluctant to delegate because they think that it is easier to do a task themselves than to bring the subordinates.

#### **6. Inability to Establish and Exercise proper controls**

Since it is only the authority which is delegated and not the responsibility, all managers want to assure themselves about the proper use of delegated authority by their subordinates. They are reluctant to delegate authority if they are unable to keep a tab on whatever their subordinates do.

Notwithstanding the above reasons of unwillingness, the following two situations force managers to delegate authority to subordinates:

When their span of control has been made so wide that there is no choice left but to delegate authority, and

When they do not qualify for promotion until they have trained some of their subordinates to take over their positions.

On the subordinate side, the reluctance to accept delegation may be due to the following reasons:

They may refuse to accept authority because of their fear of criticism by their superior in case they commit mistakes in decision-making.

They may avoid accepting any authority if they feel that they lack mental and physical ability, adequate information and resources to help them discharge their duties properly.

They may believe that the authority is inconsistent with the purposes of the organization and this may also be the cause for their unwillingness to accept it.

They may avoid accepting any authority because there are no positive personal gains to them for assuming extra responsibility.

They may refuse to accept the authority because it is outside certain limits, which Herbert A. Simon refers to as areas of acceptance.

### **6.6.10 Guidelines for Effective Delegation**

Make sure that delegation is not loss of power or that you cannot do it yourself.

Remember that only two tasks in a list of ten tasks deserve topmost priority. Their performance yields 80 percent of your total rewards and, therefore, you should do these tasks yourself. The remaining tasks can be delegated to others.

Before delegating authority, make the nature and the scope of the task clear. Avoid overstepping the subordinate's area of acceptance.

Assign authority proportionate to the task.

Make the subordinate clearly understand the limits of his authority and deadlines.

Give the subordinate some positive incentives for accepting responsibility. The subordinate will appreciate if you give him some of the work which you find particularly enjoyable.

Train the subordinate properly. First be in front of him for check-up and guidance and then be at his back to follow his performance.

Create a climate of mutual trust and goodwill. The subordinate will work much better if he has the freedom to commit honest mistakes.

Do not make the subordinate accountable to more than one superior.

Let there be no overlaps or splits in delegation which usually result from the superior's desire that the authority over a given situation should be shared by individuals or units.

Overlapping takes place when responsibility for the same task is assigned to more than one individual. Splitting occurs when responsibility for the same task is assigned to more than one organizational unit. This should, however, be distinguished from splintered authority which exists whenever a minor problem under consideration concerns more than one unit and cannot be solved without pooling the authority delegations of two or more managers. Thus, when the manager of branch A sees an opportunity to reduce his costs through a minor modification in the procedures in branch B, both managers can pool their splintered authority and agree upon the change and merely refer the decision upward to their common superior. This saves the common superior from being swamped with minor problems. However, if pooling of splintered authority has to be done too often it may indicate that the authority delegations have not been properly made.

Learn to manage time. Avoid unexpected visitors, telephone interruptions, extended meetings of minor importance, needless reports, etc. Also remember that work has the habit of expanding on time and people.

## 6.7 SUMMARY

Authority is the right to give orders and to exact obedience. There are two views about the source of formal authority. According to the classical view, formal authority originates at the top and then flows downward to subordinates. According to the second view, authority is legitimated by subordinates.

Power is different from authority. Power rests in the individual. Authority rests in the position. There are five types of power: reward, coercion, reference, expertise and legitimacy.

Responsibility is the obligation of a subordinate to obey the commands of his superiors. Responsibility may be specific or continuing. Authority and responsibility should be coextensive. Although authority can be delegated, responsibility cannot be delegated.

There are three types of authority in most organizations: line, staff and functional, line authority is represented by the standard chain of command, from the top of every department to every position below. Staff authority is advisory. Functional authority is the right of a superior to govern the activities of people in departments other than his own on certain matters.

Delegation of authority is the downward pushing of authority to make decisions. Barriers to effective delegation usually involve the reluctance of managers to delegate and the reluctance of subordinates to accept delegation. To overcome these barriers, managers can clearly specify subordinates' responsibilities motivate and train subordinates.

Delegation is closely related to decentralization in that the greater the amount of delegation, the more decentralized the organization. The appropriate amount of decentralization for a particular organization will depend on a number of factors, such as the size of the organization, its history, age, philosophy, the nature and the ability of its management.

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**6.10 TERMINAL AND MODEL QUESTIONS**

- What is authority ? Describe various sources of authority
- Explain the concept of responsibility How is it different from authority ?
- What is meant by delegation of authority ? Discuss its nature and elements
- Which are the principles governing delegation of authority ?
- 5. Discuss various types of delegation of authority What are the prerequisites for delegation?  
How can delegation be made effective ? Point out the difficulties faced in this process
- What is meant by centralization of authority ? Give its advantages and disadvantages to an organization
- Which factors influence the degree of centralization ? Why is it needed
- What is decentralization ? How can its degree be measured?  
Discuss the advantages and disadvantages of decentralization of authority in an organization
- How can a balance be created between centralization and decentralization ?

Activity 1

What are the difference between authority and power?

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Activity 2

Describe the delegation of authority.

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## CHAPTER - 7

### STAFFING AND JOB DESIGN

#### 7.1 OBJECTIVES

**State** The importance of and need for proper staffing

**Define** manpower planning

**Explain** the nature, need, objective and human resource planning

**Explain** the job design and work study

#### 7.2 INTRODUCTION

Every organization requires a number of persons for taking up different positions: The positions are created through the process of organization and their occupants help in achieving the business objectives. The persons occupying different positions should have the ability to meet their requirements. Staffing basically involves matching jobs and individuals. It may be defined as filling, and keeping filled positions in the organization structure. This may require functions like manpower planning, recruitment, selection, training, development, performance appraisal, transfers, promotions etc. It is clear that staffing must be closely linked to organizing, that is, the setting up of intentional structures of roles and positions. Some writers are of the view that staffing is a phase of organizing. They treat staffing as an element of organizing process, but it will be better to treat both separately. Staffing is treated as a separate function for several reasons. Staffing involves making people suitable to jobs while organizing involves creation of jobs. Secondly, treating staffing as a separate function facilitates placing greater emphasis on the human element in selection, placement, appraisal, etc. Thirdly, an important body of knowledge and experience has been developed in the area of staffing. Fourthly, managers overlook the fact that staffing is their responsibility and not that of personnel department. So staffing should be taken as an essential element of management process.

Sometimes a distinction is made between staffing and personnel management. Staffing is considered to be the management of managers while personnel management involves plans, policies and procedures for operative positions. Practically there cannot be any distinction between the two. Every manager is concerned with staffing and principles underlying managerial and non-managerial staffing are the same. In an enterprise set up for the first time, the staffing is the third function following the planning and organizing. However, in a going concern staffing function is continuous. In a new organization it is better to fill top positions first which in turn will allow these persons to do their own staffing. In other organizations, it will be regularly carried out to keep sufficient supply of well trained persons to fill various positions.

Modern thinkers give much emphasis to staffing. It is no more treated to be a part of organization function. It is taken to be a separate function of management. Staffing involves specialized knowledge and approach and allows more emphasis on human resource and its proper selection, training and development.

#### 7.3 CONCEPT OF STAFFING

Staffing refers to the managerial function of attracting, acquiring, activating, developing and maintaining human resources for achieving organizational goals efficiently. It may also be called the process of retaining people so that right type of people are available at right positions and at right time in the organization. It involves upgrading the quality and usefulness of the members of the organization with a view to get higher performance from them.

**McFarland.** *“Staffing is the function by which managers build an organization through the recruitment, selection, and development of individuals as capable employees.”*

**Koonty and O’ Donnell.** *“The managerial function of staffing is defined as filling positions in the organization structure through identifying workforce requirements, inventorying the people available, recruitment, selection, placement, promotion, appraisal, compensation, and training of needed people.”*

#### NATURE OF STAFFING

Staffing has the following important features :

Staffing is a basic function of management.

It is concerned with human resource management in the organization.

Staffing function is performed continuously. Every manager has to guide and train employees and also evaluate their performance on a continuous basis.

The main purpose of this function is to make optimum utilization of human resources and also to provide proper satisfaction to employees.

Staffing is performed by all managers. In big concerns there is a separate personnel department to deal with this function, but even here this department advises line managers regarding different aspects of human resources.

Since staffing deals with human beings who have their own needs, emotions and aspirations, this function is different from other managerial functions.

### **7.3.1 Responsibility for Staffing**

In small organizations the staffing function is simple. The owner is generally the controlling authority. He appoints appropriate number of executives under him for different functions. In bigger concerns, however, staffing is a complex function. The board of directors appoints the chief executive who, in turn, appoints functional managers. The managers perform staffing function for their own departments. Their main aim is to achieve departmental goals. They appoint executives to man various positions in such a way that all work is done efficiently and systematically. They also prepare juniors for succeeding them at a later stage.

A big organization requires a large number of persons every year. This necessitates locating of appropriate persons who can be hired. The training, appraisal and compensation of these persons also require attention of managers. The staffing function is becoming more and more specialized work. The manager is not able to devote sufficient time for staffing.

### **7.3.2 Systems Approach to Staffing**

Staffing function is related to the total management system. The enterprise plans become the basis of organizing. The present and projected organization structure determine the personnel requirements. The requirements are compared with the available personnel. It is possible through the management inventory system. Both internal and external sources are utilized to fill up various positions. The processes of recruitment, selection, placement, promotion, career strategy and development are undertaken under staffing.

Staffing is a dynamic process and is affected by internal as well as external factors. Besides affecting other functions, it is also affected by the management process. So staffing function can be integrated with other managerial functions. Besides planning and organizing, staffing affects leading and controlling. Proper staffing facilitates leading. A well trained manager can create such an environment where people working in groups can achieve organizational as well as personal goals. Similarly proper staffing function affects controlling also.

Staffing requires an open-system approach. It is carried out within the organization which, in turn, is linked to external environment. The external factors such as level of education, attitudes of workers, government regulations, general economic conditions affect staffing function in different ways and also put some limitations on it. For instance, government may reserve certain percentage of jobs in the organization for economically backward sections of society, then selection process will have to take this factor in mind even though suitable persons are not available in that category. So managers have to perform staffing function by keeping in mind both internal and external factors.

### **7.3.3 Process of Staffing**

The purpose of staffing is to employ most suitable and competent persons as per the requirements of the organization. With this aim in view the following staff process is followed:

**Estimating Manpower Needs.** The first thing in staffing process is to estimate manpower needs. These needs are influenced by the type and size of the organization. Total manpower requirements are properly assessed. It is also ascertained at what time different persons are needed. The requirements for human beings are compared with that of the persons already available in the organization. In case the requirements are more than the persons available, efforts are made to recruit more people.

**Recruitment and Selection of Staff.** Recruitment is the process of searching prospective employees and persuading them to apply in the organization. Selection is the procedure of spotting most suitable candidates out of those who are interested to get employment in the enterprise. The purpose of recruitment and selection is to employing right man for the right job. There arc internal as well as external

sources of recruitment. An enterprise should try to use both the sources for getting most suitable persons. There are a number of tests which can help in short listing the candidates and ascertaining their skills and aptitude. The interview of the candidates helps in finding out their inner qualities and making a final choice.

**Training and Development.** Training is meant to improve the skill and knowledge of employees. It is beneficial to both employer and employees. A well trained worker improves his efficiency and productivity. Suitable training methods should be devised for different categories of employees. A formal training will avoid the risk of trial and error and will also minimise the cost and wastage involved in training.

Development refers to the training of managerial staff. Development helps the growth of an individual in all respects. Through development, managerial staff does not increase its capabilities to perform the present work but also enhances their ability to meet challenges in future.

**Promotion and Transfer.** Employees are promoted to higher ranks on the basis of their merit and seniority. Staffing also involves transfer of persons from one job to another, from one place to another on the basis of their ability, competence and ability.

**Remuneration.** Remuneration is paid for the services of labour. Employee motivation mainly depends upon the wage and salary structure prevalent in an organization. Employees should be paid fair remuneration so that they feel encouraged to contribute maximum in their efforts. The wages are normally paid on the basis of time spent or piece rate. In order to create interest among workers some incentive plan may also be used alongwith other methods of wage payment. The incentive schemes may lead to better performance of the workers.

**Performance Appraisal.** After selecting and training an employer for a particular job, management would like to see how he performs high work. Performance appraisal is a systematic evaluation of employees' contribution to the organization in performance of their jobs. This evaluation is normally done by immediate superior in the organization and it is reviewed in turn by his superior. Not only the qualities but deficiencies are also evaluated to improve the performance of employees.

#### **7.3.4 Need And Importance of Staffing**

The employing of right type of persons is very important. The quality of product and rate of production will depend upon the experience and skill of executives. So, staffing function is very important for recruiting right type of people. This function is important for the following reasons:

**Employing Suitable Persons.** The employment of suitable persons is essential for every enterprise. The procedure of recruitment, tests for selection and methods of training are decided by the staffing team. A properly laid down scheme will ensure the employment of right persons.

**Keep Pace with New Developments.** New developments are taking place everyday. A business will have to keep pace with new changes. This will be possible only if competent persons are employed who can adjust as per the new situation.

**Manpower Development.** Manpower planning will have to be done in advance. The future requirements of personnel will be estimated quite in advance. The new staff will be recruited, people will be prepared for taking up higher responsibility jobs, all this will be possible only with a well planned staffing function.

**Optimum Utilization of Manpower.** The cost of recruiting, selecting and training the staff is very high. The remuneration is also paid at high rates. The manpower should be utilized to the maximum capacity. It will help in controlling cost also.

**Ensuring Job Satisfaction.** The staffing function will ensure job satisfaction to employees. The executives should be involved in decision-making process. They should also be suitably rewarded for their contribution to the organization. A good staffing function will devise methods which will ensure job satisfaction to everyone.

#### **7.3.5 Manpower Planning**

##### **Introduction**

Human resource is the most important asset of an organization. Planning for human resource is an important managerial function. It ensures adequate supply, proper quantity and quality as well as effective utilization of human resources. There is generally a shortage of suitable persons. The organization determines its manpower needs and then finds out the sources from which the requirements will be met. If sufficient manpower is not available then the work will suffer. Underdeveloped countries are suffering

from the shortage of trained managers. Job opportunities are available in these countries but proper persons are not there. These countries try to import skill from other countries. In order to meet human resource needs an organization will have to plan in advance its requirements and the sources etc. The words human resource planning and manpower planning are generally used interchangeably. Human resource planning is not a substitute for manpower planning. Rather the latter is a part of its former *i.e.* manpower planning is integrated with human resource planning. In this chapter these two words are used synonymously.

### Definitions

The following definitions will help to understand properly the concept of human resource planning:

**According to Eric W. Vetter,** "Human resource planning is the process by which a management determines how an organization should move from its current manpower position to its desired manpower position. Through planning a management strives to have the right number and the right kinds of people at the right places, at the right time to do things which result in both the organization and the individual receiving the maximum long range benefit."

**According to Dale S. Beach,** "Human resource planning is a process of determining and assuring that the organization will have an adequate number of qualified persons available at the proper times, performing jobs which meet the needs of the enterprise and which provide satisfaction for the individuals involved."

**According to Leon C. Meginson,** "Human resource planning is an integration approach to performing the planning aspects of the personnel function in order to have a sufficient supply of adequately developed and motivated people to perform the duties and tasks required to meet organizational objectives and satisfy the individual needs and goals of organizational members."

**According to G. Stainer,** "Manpower planning is the strategy for the acquisition, utilization, improvement and preservation of an organization's human resources. It is aimed at coordinating the requirements for and the availability of different types of employees." According to Bruce P. Coleman, "Manpower planning is the process of determining manpower requirements and the means for meeting those requirements in order to carry out the integrated plan of the organization."

**According to E. Geister,** "Manpower planning is the process including forecasting, developing and controlling by which a firm ensures that it has the right number of people and the right kind of people at the right places at the right time doing work for which they are economically most useful."

### 7.3.6 Features of Human Resource Planning

A discussion of various definitions brings out the following features of human resource planning:

**Well Defined Objectives.** The objectives of the organization in strategic planning and operating planning may form the objectives of human resource planning. Human resource needs are planned on the basis of the company's goals. Besides, human resource planning has its own objectives like developing human resource, updating technical expertise, career planning of individual executives and people, ensuring better commitment of people and so on.

**Determining Personnel Needs.** Human resource planning is related to the determination of personnel needs in the organization. The thinking will have to be done in advance so that the persons are available at a time when they are needed. The organization may also have to undertake recruiting, selecting and training process also.

**Having Manpower Inventory.** It includes the inventory of present manpower in the organization. The manager should know the persons who will be available to him for undertaking higher responsibilities in the near future.

**Adjusting Demand and Supply.** Manpower requirements have to be planned well in advance as suitable persons are not immediately available. In case sufficient persons will not be available in future then efforts should be made to start recruitment process well in advance. The demand and supply of personnel should be seen in advance.

**Creating Proper Work Environment.** Besides estimating and employing personnel, manpower planning also ensures that proper working conditions are created. People should like to work in the organization and they should get proper job satisfaction.

### 7.3.7 Need For Human Resource Planning

Human resource planning is viewed for foreseeing the human resource requirements an organization and supply of human resources. Its need can be assessed from the following points :

**Replacement of Persons.** A large number of persons are to be replaced in the organization because of retirement, old age, death etc. There will be a need to prepare persons for taking up new position in such contingencies.

**Labour Turnover.** There is always labour turnover in every organization. The degree of labour turnover may vary from concern to concern but it cannot be eliminated altogether. There will be a need to recruit new persons to take up the positions of those who have left the organization. If the concern is able to forecast turnover rate precisely then advance efforts are made to recruit and train persons so that work does not suffer for want of workers.

**Expansion Plans.** Whenever there is a plan to expand or diversify the concern then more persons will be required to take up new positions. Human resource planning is essential under these situations.

**Technological Changes.** The business is working under changing technological environment. There may be a need to give fresh training to personnel. In addition, there may also be a need to infuse fresh blood into the organization. Human resource planning will help in meeting the new demands of the organization.

**Assessing Needs.** Human resource planning is also required to determine whether there is any shortage or surplus of persons in the organization. If there are less persons than required, it will adversely affect the work. On the other hand, if more persons are employed than the requirement then it will increase labour cost, etc. Human resource planning ensures the employment of proper work-force.

### 7.3.8 Objectives of Human Resource Planning

The following are the objectives of human resource planning :

- Assessing manpower needs for future and making plans for recruitment and selection.

- Assessing skill requirement in future.

- Determining training and development needs of the organization.

- Anticipating surplus or shortage of staff and avoiding unnecessary detentions or dismissals.

- Controlling wage and salary costs.

- Ensuring optimum use of human resources in the organization.

- Helping the organization to cope with the technological development and modernization.

- Ensuring higher labour productivity.

- Ensuring career planning of every employer of the organization and making succession programmes.

### 7.3.9 The Process of Human Resource Planning

The major steps involved in the process of manpower planning are as follows:

**Analysis of Objectives and Strategic Plans of the Company.** The persons concerned with manpower planning must be clear about the objectives of manpower planning. The manpower planning must be integrated with other business policies and therefore business policies or objectives as regards profitability, production, sales and development of human resources should be prepared well in advance to spell out the business objectives. Any change in business objectives would certainly affect the manpower planning. The ultimate aim of manpower planning should be to relate future human resources to future enterprise needs so as to maximise the future return on investment in human resources. Manpower planning should be done carefully as it has long term repercussions. Each plan should further be analysed into subplans and detailed programmes. It is also necessary to decide the time period for which manpower plans are to be prepared. The future organization structure and job design should be made clear and changes in the organization structure should be examined so as to anticipate its manpower requirements.

**Preparing Manpower Inventory.** The main purpose of manpower planning is to avoid the situation of understaffing or overstaffing and for this purpose a stock of existing manpower is to be assessed. Analysis of current manpower supply may be undertaken by department, by function, by occupation or by level of skill or qualifications. Manpower inventory refers to the assessment of the present and the potential qualifications of present employees qualitatively and quantitatively. It reveals the degree to which these capabilities are employed optimally and helps to identify the gaps that exist or that are likely to arise in the firm's human resources. Preparation of manpower inventory involves determination of personnel to be inventoried, cataloguing of factual background information on each individual, systematic appraisal of each individual and listing the present and potential abilities and aptitudes of each. This record will provide foundation for a programme of individual development.

Appropriate adjustments would need to be made in the light of any foreseeable changes in weekly hours of work, holidays, leaves etc. From the available stock of manpower, a discount should be allowed for employees turnover during the period of planning.

**Manpower Forecasting.** Forecasting of future manpower requirement is the most important part of manpower planning. This requirement is forecasted on the basis of production and sales budgets, work load analysis, work force analysis, estimated absenteeism and turnover etc. The future manpower requirements should be forecasted quantitatively and qualitatively. These forecasts depend upon the business objectives. Formal approach to manpower forecasts involves statistical and mathematical projections of labour market trends, product market trends and technological changes.

Future demand for human resources depend on several factors, some of which are as follows :

(i) **Employment Trends.** The manpower planning committee should compare and analyse the staff during the past five years to know the trend within each group.

**Replacement Needs.** The need for replacement may arise due to death, retirement, resignation and termination of employees. These can be assessed on the basis of past experience. Forecasts of manpower may be based to a great extent on the analysis of historical data. It is presumed that the factors causing past occurrences will also play a similar role in the future. But this data must be adjusted in the light of other known information about the future. Certain losses of key personnel can be predicted with a substantial degree of accuracy *i.e.* retirement situation in future.

**Productivity.** Manpower requirements are also influenced by improvement in productivity. Planning for productivity gains has several aspect. One aspect of securing gains in productivity is better utilization of existing manpower. To judge manpower utilization work study techniques can be used. Another aspect of productivity improvement is automation and computerization. It will influence both qualitative and quantitative manpower requirements in future. The last aspect is matching the manpower skills with job requirements. Job analysis techniques are helpful in such matching.

**Absenteeism.** Absenteeism is a situation when a person fails to come for work when he is scheduled to work. While estimating demand for manpower, the prevailing rate of absenteeism in the organization should be considered. The rate of absenteeism can be calculated with the help of the following formula:

$$\text{Rate of Absenteeism} = \frac{\text{Man days lost due to absenteeism}}{\text{Man days worked} + \text{Man days lost}}$$

The management should try to find out the causes of absenteeism and attempt to reduce it as far as possible. While estimating manpower requirements, the planning committee will have to consider the known rate of absenteeism.

**Expansion and Growth.** Expansion and growth plans of the organizations should be carefully analysed to judge their impact on manpower requirements in future. Timely steps should be taken to procure or develop the talent required to implement the expansion and growth plans.

**Work Study.** Whenever it is possible to apply work measurement to know how long operations should take and the amount of labour required, work study technique should be used. This is also known as workload analysis. On the basis of the work load of each plant during the forthcoming years, work force analysis is done considering the rates of absenteeism and labour turnover.

**4. Manpower Plans.** After the personnel forecasts decide the required number of right type of personnel the next phase is to plan how the organization can obtain these people. After determining the gaps in manpower, programmes and strategies are developed for recruitment, selection, training; transfers, promotion and appraisal so that the future manpower requirements can be met. Development plans are designed to ensure a continuing supply of trained people to take over jobs as they fall vacant either by promotions or recruitment or through training. In this way, shortages or redundancies can be avoided in the long run.

**Training and Development Programmes.** Training and development needs of the organization are identified with the help of skill inventory preparations. Training is necessary not only for the new employees but for the old employees as well. Executive development programmes have to be devised for the development of managerial personnel. No organization has a choice of whether to provide training or not, the only choice is to decide the method or technique of training. The talents of the employees are not fully tapped without a systematic programme of training and development.

**Appraisal of Manpower Planning.** After the training and development programmes are implemented, an appraisal must be made of the effectiveness of manpower planning. This is a monitoring

and control phase. It involves allocation and utilization of human resources over time. Review of manpower planning helps to reveal deficiencies. Corrective action should be taken at the right time to remove the deficiencies. Manpower inventory should be updated periodically. Necessary alterations and modifications should be made in the light of changing environment and needs of the organization. An appraisal of the existing manpower plans serves as a guide in future manpower planning.

### 7.3.10 Factors Affecting Manpower Planning

There are mainly three factors affecting manpower planning. These constitute the basis of manpower planning which may be summarized as follows :

**Existing Stock of Manpower.** Taking stock of existing manpower is the first basis of manpower planning and is the starting point of all planning processes. To analyse the existing stock of manpower, one must study the position of total stock of manpower by dividing it into groups on the basis of function, occupation, level of skill or qualification. A groupwise detailed statement is prepared regarding the number of workers in the group, their age, qualification, date of retirement and chances for promotion etc.

**Wastage.** The second basis of manpower planning is wastage. For good planning, appropriate adjustment in the existing stock of manpower should be made for the possible wastage of manpower caused by any foreseeable changes in the organization. In order to analyse the wastage of manpower, rate of labour turnover and the period of active management, the work should be studied. Other reasons of wastage may be expansion and modernization of plant, retirement, promotion, transfer and training of workers etc. In planning the manpower, these factors should be taken into consideration to make the necessary adjustments in the requirement of personnel.

**Future Manpower Requirement.** After evaluating the existing stock of manpower and analysing the various factors of wastage caused by any foreseeable change in the organization, one may very easily assess the future requirements of manpower in an industry taking into account the future plans of the company, government plans and programmes, employment policy, demand and supply of manpower in future, productivity of labour and other factors of production and replacement needs. One should also take into consideration the possible changes in the techniques and methods of production in the near future.

The above three factors are the basis of manpower planning. Formulation of personnel and general policies depend upon the manpower planning.

### 7.3.11 Types of Manpower Planning

There are two main types of manpower planning. On the basis of time span i.e. short term manpower planning and long term manpower planning.

#### 1. Short Term Manpower Planning

Short term planning as the name suggests is made for a short time i.e. for a period of not more than two years. Short term plans are more concerned with specific projects and programmes and the existing personnel must be adjusted to match the requirements of that project and programme.

Existing personnel can be seldom match completely the requirements of a job. An appraisal of the existing stock of the personnel may reveal that either they have less ability than desired or some of them may have unused talents. In the short run, it may not be possible either to change the personnel to suit the jobs or eliminate jobs to suit the personnel. So the basic problem in the short run is to match the individuals with jobs as best as possible. Thus, the problems which are faced in the short run are (A) the weak incumbent (B) the strong incumbent and (C) an unexpected vacancy.

**The Weak Incumbent.** The first and the most difficult problem in short term planning is experienced when an existing personnel is not according to the specifications of the jobs. In such circumstances, there are four approaches for matching jobs and individuals :

- (i) **Changing of the Man.** The first approach in this regard is the changing of the present incumbent by improving his ability through education, training and counseling. In this way, the weakness of the incumbent may be overcome to make him suitable for the job.
- (ii) **Change in the Contents of the Job.** The next approach can be to change the job contents to make them suitable to the individual. This can be done by (a) withdrawing a duty from one position and assigning it to some other related position (b) adjusting the degree of decentralization (c) providing the additional assistance when a person is weak.

**Changing the Job and the Man.** Another approach may be a combination of the above two approaches *i.e.* both man and the job can be adjusted according to each other by improving the ability of the man through training and counseling, and *(b)* shifting a duty from one position to another.

**Removal of the Incumbent.** The fourth approach may be the removal of the present incumbent but this step should be taken only when *(a)* it is not possible to change the job to make it suitable to the individual or *(b)* the individual cannot be improved even *after* proper training and counseling.

Which approach should the management go for is a question which has no universally accepted answer. It depends upon the circumstances of the individual case. Management may adopt any of the above approaches or a combination of more than one but only after analysing the following points :

While changing the job, management should analyse its effects on other jobs or positions because of the interdependence of jobs.

While changing the incumbent, it should be analysed whether personnel deficiencies can be removed promptly and fairly in a short time by imparting training, to him.

In removing the incumbent, its effect on the morale of the other employees in the organization should be studied and analysed.

Management may also find out the replacement of workers and then analyse the problems relating thereto.

**The Strong Incumbent.** Some people in the organization may have greater ability than their present job requires. In such a case, again there is a problem of matching jobs with the man because a portion of an individual's ability remains unutilized. For the proper utilization of the ability, the following approaches may be tried out :

**Assigning Additional Duties.** A man may be assigned some additional but related duties beyond his assigned sphere. He may give advice to others who are poor in their job performance.

**Assigning Some Special Problems.** Sometimes, some special problems arise in the organization. The help of the capable man can be taken to solve the problem.

**Advice.** Advice of the capable man can be sought for any problem for which he is supposed to be having special knowledge or any activity can be made part of his regular duty which requires repeated advice of the capable man.

**Change in Job.** The ability of a man can be better utilized by changing the job that suits his abilities and capabilities. Any activity which is not being managed properly may be assigned to the capable man.

But care should be taken in making such arrangement, not to involve such a strong incumbent in so many other unofficial duties otherwise he will neglect his regular duties. The better course, then will be either to transfer or to promote him to the better job claiming higher capability.

**C. An Unexpected Vacancy.** The next problem which the management has to face in the short run is the filling up of posts falling vacant due to some unexpected reasons such as death, resignation or some other social reason. As these unexpected factors are not known in advance, so again the problem of matching jobs and individuals arises. No one in the organization may match the vacant position. Much can be achieved by changing the job reorganization or by changing the next person in the position through training and for the mean time, some temporary arrangements can be made or another person having ability may be assigned additional charge of the vacant position on temporary basis.

## 2. Long Term Manpower Planning

Long term manpower planning is concerned with all jobs and persons at once-with matching total available personnel in the organization to total job requirements. It is concerned with fulfilling future vacancies rather than matching the present incumbents to present jobs. The long term manpower planning has the following elements.

**Projecting Manpower Requirements.** The first essential step in projecting the manpower requirements is to forecast the organization structure. The organization operates in a changing environment and therefore, it is bound to change in future. In matching the change with the present job structure, the management must predict the manpower requirements in future. The following factors should be analysed to forecast the manpower requirements :



The rate of loss due to known (e.g. retirement and transfer etc.) and unknown (e.g. resignation, discharge, leave etc.) factors may be guessed. An accurate forecast can be done for known factors but for unknown factors, only past records may help which may be adjusted on the basis of present known circumstances.

The manpower requirement in future will depend upon the expansion or contraction in the size of the organization. The size of the organization can be predicted on the basis of the past rate of growth by projecting the trend in the size of sales, capital requirements or manpower stock.

A job analysis should also help in long term planning. A prediction of what capabilities will be required in the people to perform the job effectively. Such prediction is more important in case of managerial personnel, because it takes more time to develop managerial skill. Again, the development of other personnel also depends upon the management abilities.

**Taking Stock of Existing Manpower.** Having projected the manpower requirements, the next step in manpower planning is to take stock of existing manpower and to find out how far the present stock of manpower would fulfill the qualifications of the anticipated jobs or how far they would be developed through training. For this purpose, a list of present employees should be prepared stating the present abilities of different persons. The list should also state the persons who can be developed within a period of five or ten years either through experience or training to suit the anticipated job requirements.

This process will enable the management to know the present and potential abilities of individuals and their suitability for specific jobs and positions. With the help of this analysis the management can estimate the number and type of posts to be filled up in future.

**Recruitment and Selection.** Once the requirement of manpower is known, the process of recruitment and selection starts to identify the prospective candidates and to stimulate them to apply for jobs. The recruiting activity may be selective or pre-selective through choosing among various sources of supply and by the decision as to which candidate should be permitted to go through subsequent screening procedures.

**Manpower Development.** Manpower development includes the development of individuals through training to fill up the prospective vacancies so that they can meet the challenges with their full capabilities. It develops the man according to the requirements of the job and thus, coordinates the man and the job. Having predicted the future needs of personnel, the existing personnel are trained, if possible and are appointed as and when necessary to the suitable higher job.

Long term manpower planning must be flexible, it should be carefully matched and be amended as soon as it becomes inevitable in the light of changes in the size of the organizations, expansion of market, demand and supply of labour, technical development etc. It reduces the chances of wrong planning.

### 7.3.12 Levels of Human Resource Planning

In an industrial enterprise, there are various levels of manpower planning. Each level has its own objectives and techniques. The process of human resource planning should begin at the plant level so as to take advantage of the thinking of operating personnel who are in direct touch with day to day operations.

The various levels of human resource planning are discussed in brief as follows :

**Plant Level.** Manpower planning at the plant level can be conducted by an operating committee on the basis of past data and future projections. The committee shall prepare a manpower plan for the next year, including the number of employees required and the resources which could be utilized to meet these requirements. It would also determine the number of promotable employees for the annual manpower plan. Finally the committee will evaluate these plans in the light of expected changes of all kinds within the next five years with the help of manpower planning experts.

**Departmental or Divisional Level.** The plant level plan would be submitted to the next organizational level which would be the departmental level. The divisional committee would integrate all the manpower plans of its plants as well as those of its divisional staff sections into a comprehensive divisional manpower planning report which in turn would be submitted to the top management.

**Top Level.** At the top level, departmental/divisional plans are reviewed and integrated with manpower plans for head office staff. Special emphasis is placed at this level on management development plans. Finally, the company's manpower plans are integrated with the organizational plans.

### 7.3.13 Benefits of Manpower Planning

Manpower planning is a very important aspect of human resource management. A few benefits of manpower planning are as follows :

**Reduced Labour Costs.** With the help of manpower planning management is able to anticipate shortages and/or surpluses of manpower. Thus they are able to take the corrective action in time, before these unbalances become unmanageable and hence, expensive. All this leads to overall reduction in labour costs.

**Optimum Utilization of Manpower Force.** With the help of manpower planning there is optimum utilization of labour force in the organization. Workers are given those jobs to perform for which they are skilled (right person for the right job). It leads to overall development of the manpower in the organization.

**Identification of Gaps in Existing Manpower.** Human resource planning identifies gaps in existing manpower in terms of their quantity and quality with the help of suitable training and/or any other steps, these gaps can be filled in time. Existing manpower can also be developed to fill future vacancies.

**Improvement in Overall Business Planning.** Manpower planning is an integral part of overall business planning. Effective manpower planning will lead to improvement in overall planning also. No management can be successful in the long run without having the right type and right number of people doing the right jobs at the right time.

**Career Succession Planning.** Manpower planning facilitates career succession planning in the organization. It provides enough lead time for internal succession of employees to higher position through promotions. Thus, manpower planning contributes to management succession as well as development.

**Creates Awareness in the Organization.** Manpower planning leads to a great awareness about the effectiveness of sound manpower management throughout the organization. It also helps in judging the effectiveness of human resource policies and programmes of management.

**Growth of the Organization.** Manpower planning facilitates the expansion and diversification of an organization. In the absence of human resource plans, the required human resources will not be available to execute expansion and diversification plans at the right time.

**Beneficial to the Country.** At the national level manpower planning facilitates educational reforms, geographical mobility of talent and employment generation.

### 7.3.14 Problems in Manpower Planning

Manpower planning is not always successful; the main problems are described below:

**Accuracy of Forecasts.** Manpower planning involves forecasting the demand and supply of human resources. Thus, the effectiveness of planning depends upon the accuracy of forecasts. If the forecasts are not cent per cent accurate, planning will not be hundred percent accurate. Inaccuracy increases when departmental forecasts are merely prepared without critical review.

**Identity Crisis.** Many human resource specialists and the managers do not understand the whole manpower planning process. Because of this, there is generally an identity crisis. Till the specialists develop a strong sense of purpose, planning cannot be effective.

**Support of Top Management.** Manpower planning requires full and wholehearted support from the top management. In the absence of this support and commitment, it would not be possible to ensure the necessary resources, cooperation and support for the success of the manpower planning.

**Resistance from Employees.** Employees and trade unions resist manpower planning. They feel that this planning increases their overall workload and regulates them through productivity bargaining. They also feel that it would lead to wide spread unemployment, especially of unskilled labour.

**Insufficient Initial Efforts.** Successful human resource planning flourishes slowly and gradually. Sometimes sophisticated technologies are forcefully introduced just because competitors have adopted them. These may not be successful unless matched with the needs and environment of the particular enterprise.

**Management Information System.** Effectiveness of planning depends upon the reliability of the information system. In most of the Indian industries, human resource information system has not fully developed. In the absence of reliable data it would not be possible to have effective planning.

**Uncertainties.** It is risky to depend upon general estimates of manpower in the face of rapid changes in the environment. Absenteeism, turnover, seasonal employment, technological changes and market fluctuations are the uncertainties which serve as constraints to manpower planning. Although

discounts are made for these factors while preparing the plan, but these factors cannot be estimated correctly.

**Expensive and Time Consuming.** Manpower planning is an expensive and time consuming process. Employers may resist manpower planning feeling that it increases the cost of manpower.

**Coordination with other Managerial Functions.** There is generally a tendency on the part of the manpower planners to remain aloof from other operating managers and to become totally absorbed in their own world. To be effective manpower planning must be integrated with other management functions.

**Unbalanced Approach.** Many human resource experts give more importance on the quantitative aspect of manpower to ensure that there is adequate flow of people in and out of the organization. They overlook the qualitative aspects like career development and planning, skill levels, morale etc. are overlooked by them. Such unbalanced approach affects the effectiveness of manpower planning.

Thus, manpower planning suffers from two types of problems. One is inherent because of problems of forecasting and second comes from human weaknesses.

### 7.3.15 Suggestions For Making Manpower Planning Effective

Some of the suggestions for making manpower planning effective are as given below :

**Integration with Organizational Plans.** Human resource planning must be balanced with organizational plans. It must be based on the organizational objectives and plans. This requires development of good communication channels between organization planners and the human resource planners.

**Period of Manpower Planning.** Period of the planning should be appropriate to the needs and circumstances of the enterprise in question. The size and structure of the enterprise as well as the anticipated changes must be taken into consideration.

**Proper Organization.** To be effective, the planning function should be properly organized. If possible, within the human resource department. A separate cell or committee should be constituted to provide adequate focus and to coordinate planning work at various levels.

**Support of Top Management.** To be effective in the long run, manpower planning must have the full support of the top management. The support from top management is essential to ensure the necessary resources, cooperation and support for the success of the planning.

**Involvement of Operating Executives.** Human resource planning is not a function of manpower planners only. To be effective, it requires active participation and coordinated efforts on the part of operating executives. Such participation will help to improve understanding of the process and thereby reduce resistance.

**Efficient and Reliable Information System.** To facilitate human resource planning, an adequate data base must be developed for human resources.

**Balanced Approach.** The human resource experts should give equal importance to both quantitative and qualitative aspects of manpower. Instead of matching existing people with existing jobs, stress should be laid on filling future vacancies with right people. Promotions should also be considered carefully. Career planning and development, skill levels, morale etc. should be given due importance by the planners.

## 7.4 JOB DESIGN AND WORK STUDY

### 7.4.1 Introduction

Job designing has a significant impact on both the employees and the organization. Poorly designed jobs often result in boredom and a subsequent aftermath of increased turnover, reduced motivation, low levels of job satisfaction, less than optimal productivity, and an increase in organizational costs. Many of these negative consequences could be avoided or minimised through the proper identification of significant job components. The job design process emphasises the design or redesign of jobs to incorporate factors which lead to the fulfillment of both employee and organization's objectives.

### 7.4.2 Meaning of Job Design

The term 'job design' refers to the way the tasks are combined to form a complete job. Job design is a process which integrates work content (tasks, functions, relationships), the reward (extrinsic and intrinsic), and the qualifications required (skills, knowledge, abilities) for each job in a way that meet the needs of employees and the organization. Some jobs are routine because the tasks are standardized and

repetitive; others are non-routine. Some require a large number of varied and diverse skills; others are narrow in scope. Some jobs constrain employees by requiring them to follow very precise procedures; others allow employees substantial freedom in how they do their work. Some jobs are most effectively accomplished by groups of employees working as a team; whereas other jobs are best done by individuals acting essentially independently. The point is that jobs differ in the way their tasks are combined, and different combinations create a variety of job designs in the organization.

#### **7.4.3 Purpose of Job Design**

There are three objectives of job design which are as follows:

- to meet the organizational requirements such as higher productivity, operational efficiency, quality of product/service, etc., and
- to satisfy the needs of the individual employees like interest, challenge, achievement or accomplishment, etc.
- to integrate the needs of the individual with the organizational requirements.

#### **7.4.4 Approaches to Job Design**

Various approaches to job design are discussed below:

##### **1. Traditional Approach**

Under this approach, a company can allocate duties and responsibilities consistent with the common practices and tradition. This approach to the design of work has many advantages. First, it considerably simplifies recruitment, selection and determination of compensation. Secondly, it is consistent with the employees' expectations and formal training and education programmes as well. Third, it is easier to implement since traditional organization of work has developed over many years and it has been acceptable to many organizations.

##### **2. Scientific Management or Engineering Approach**

Under this approach, attempt is made to simplify and standardize the job in order to make it possible for all employees to meet pre-determined level of production. This approach has its origin in the Scientific Management movement which popularized time and motion studies. F.W. Taylor, the father of scientific Management, had an enormous impact on the design of jobs in industrial organizations. Taylor, an engineer by training, felt that the practice of management should be as analytically based and scientifically grounded as the practice of engineering. For Taylor, the problem was quite simply one of discovering the scientific principles that underlay the practice of management.

Scientific management emphasised the analysis of jobs, and the simplification and standardization of the tasks performed.' As a consultant to the Bethlehem Steel Corporation and other firms, Taylor was able to implement many of his ideas about job design. He and his colleagues developed the process of time and motion study, variations of which are still used by industrial engineers. Through time and motion study followed by work simplification and standardization, plus the introduction of piecework incentive system Taylor was able to demonstrate large increases in worker productivity.

The thrust of scientific management was to simplify jobs for the economic benefit of the organization. Specialization would result leading to greater productivity if the jobs are simplified through job redesigning. Further, selection and training procedures would also be less elaborate and less expensive.

While appreciating the usefulness of time and motion studies, critics argue that design of work should not be controlled by the simple notions of efficiency, simplification and standardization. The psychological implications of time and motion studies are very important. Whenever they are overlooked as they often are, these studies become ineffective tools in the hands of fools. Their contention is that human beings should not be treated like machines; their psychological needs must be taken care of while designing jobs.

##### **3. Human Relations Approach**

The human relations approach arose almost as a direct result of the harshness imposed by supervisors who excessively used scientific management principles. An outgrowth of the famous Hawthorne Studies conducted during 1924-33, the human relations approach de-emphasized the technical components of a job and concerned itself with the impact of employ social and psychological needs on productivity.

Originally, the goals of the Hawthorne investigators were to identify elements of the work environment which fostered productivity. Surprisingly, the investigators discovered that the greatest impact on productivity was that of the social interaction patterns of the workers rather than environmental

conditions like lighting. These findings led to principles advocating the design of jobs which facilitate social need gratification by the workers, including the use of non-authoritarian leadership styles by supervisors and the fostering of effective work groups.

#### **4. Job Characteristics Approach**

LT his approach focuses on job redesign, work structuring, job enrichment and so on to improve quality of work life of workers. The job characteristics model of Hackman and Oldham states that three key psychological states of a job-holder determine his motivation, satisfaction and performance on the job. These states are:

Experienced meaningfulness—the degree to which the job-holder experiences work as important and worthwhile.

Experienced responsibility—the extent to which the job-holder feels personally responsible and accountable for the result of the work performed.

Knowledge of results—information about how well he is performing the job.

When a worker experiences these states on the job, he feels motivated. He works hard to perform well to the extent these states are important to the worker. Therefore, motivation, satisfaction and performance should be integrated in the job design. These psychological states are generated by the following characteristics or dimensions of the job:

Skill Variety. The degree to which the job requires the person to do different activities so that he can use a number of different skills and talents.

Task Identity. The degree to which the job requires completion of a whole and identifiable piece of work.

Task Significance. The degree to which the job has a substantial impact on the work and lives of others both inside and outside the organization.

Autonomy. The degree to which the job provides freedom, independence and discretion to the individual in scheduling the work and in deciding the procedures to be used to do the job.

Feedback. The degree to which the job provides the individual with clear and direct information about job performance and outcomes.

All the job characteristic dimensions have psychological impact on the workers. The first three dimensions affect whether or not workers view their jobs as meaningful. Autonomy determines the extent of responsibility workers feel. Feedback allows for feeling of satisfaction for a job well done by providing knowledge of results to the job-holder.

The three critical psychological states in turn lead to certain outcomes for both the job and the job-holder. The states provide intrinsic motivation only for those people who have a high need for learning and growth on the job. This desire for personal feeling of accomplishment and growth is called growth need which serves as a motivator.

The job characteristics theory stresses the intrinsic aspects of jobs and maintains that workers will be satisfied if they view their jobs as meaningful, if they are given adequate responsibility, and if they receive feedback regarding their performance. This goal is accomplished by focusing on the above discussed five specific job characteristics when designing jobs.

Ironically, the main feature of the job characteristics design method—its intrinsic psychological motivation—may be its biggest drawback. Supervisors attempting to apply these principles may discover

that for many employees these psychological states are unimportant. In fact, research studies indicate that some employees respond exceedingly well to jobs redesigned according to job characteristic dimensions, whereas for others, it has no discernible impact.

#### **5. Socio-technical System Approach**

This approach calls for design of work system in such a way that fosters a meshing of the technical and social aspects of jobs. In order to create jobs which have such supportive relationship, work teams not individual jobs, should be studied. Jobs in the traditional sense are non-existent, and instead, each worker plays an assigned role in accomplishing the group's objectives. Redesigning work through socio-technical systems approach requires the combined efforts of employees, supervisors, and union representatives in analyzing significant job operations. Jobs are not necessarily designed to be intrinsically motivating; rather, they are designed so that the work is accomplished. As in scientific management, a supervisor's goal is to ensure that the organization's objectives are met. However, this is accomplished by concentrating only on critical job aspects, by forming work teams consisting of members

who have the necessary qualifications to accomplish the tasks, and by allowing work groups the autonomy to manage their own work-process.

Under the socio-technical system approach, jobs are designed by taking a holistic or systems view of the entire job situation, including its physical and social environment. The socio-technical approach is situational because few jobs involve identical technical requirements and social surroundings. Specifically, the socio-technical approach requires that the job designer should carefully consider the role of employee in the socio-technical system, the nature of the tasks performed, and the autonomy of the work-group.

The essential elements of the socio-technical system approach are as under:

A job needs to be reasonably demanding for the individual in terms other than sheer endurance and yet provide some variety (not necessarily novelty).

Employees need to be able to learn on the job and to go on learning.

Employees need some minimum area of decision-making that they can call their own.

Employees need some minimal degree of social support and recognition at the workplace.

Employees need to be able to relate what they do and what they produce to their social life.

#### **7.4.5 Techniques of Job Design**

The techniques of job design and redesign include (1) work simplification, (2) job rotation, (3) job enlargement, and (4) job enrichment

##### **1. Work Simplification**

In work simplification, the complete job is broken down into small subparts, usually consisting of few operations. This is done so that employees can do these jobs without much specialized training. Many small jobs can also be performed simultaneously so that the complete operation can be done more quickly. Time and motion studies are often used for work simplification.

##### **2. Job Rotation**

Job rotation refers to the practice of shifting people from one job to another within a working group so that there is some variety and relief from the boredom of routine. Herzberg characterized this approach as merely substituting one zero for another zero as it implies horizontal or lateral transfer to a job of the same level and status.

Job rotation means lateral transfer. Horizontal rotation may take place in course of a development programme whereby the employee spends two or three months in one activity and is then moved onto another. Job rotation may also be on a situational basis—that is, by moving the person to another activity when the first is no longer challenging to him, or to meet the needs of work scheduling. In other words, people may continue to be transferred periodically. As used by many large organizations, job rotation is also a part of their programme to develop managerial talent.

Job rotation has the following advantages:

It is an excellent means of broadening the work experience of employees and also turning specialists into generalists.

It reduces boredom and monotony and stimulates development of new ideas.

Since it permits greater understanding of other activities within the organization, people are prepared more rapidly to assume greater responsibility especially at other positions.

Notwithstanding its advantages, job rotation is, however, not free from drawbacks. Some of its major drawbacks are:

Job rotation leads to increase in development cost and decrease in productivity due to movement of employees to new positions just when their efficiency on particular jobs has resulted in organizational economies.

It can demotivate intelligent and aggressive trainees who seek specific responsibility in a chosen speciality.

It has limited impact on employee motivation and productivity.

##### **Job Enlargement**

Job enlargement means assignment of varied tasks or duties of the jobs of employees all on the same level. However, the additional tasks or duties do not require new skills but can be performed with similar skills and efforts as before. In this case, there is enlargement in the horizontal dimension and it may be that the monotonous job remains monotonous only on a larger scale than before. Herzberg, a pioneer in job design, has characterized job enlargement as simply adding zero to zero meaning that one set of boring tasks (zero) is simply added to another set of boring tasks (zero).

Job enlargement serves to increase variety, lengthens work cycle time, provides wholeness and identity with the task, and increases the knowledge necessary to perform it. For instance, a clerk in an office who is doing the typing work only may also be assigned the tasks of drafting letters, sorting of incoming mail and filing of letters. This will reduce his boredom and make him satisfied with the job.

#### 4. Job Enrichment

Job enrichment implies increasing the contents of a job or the deliberate upgrading of responsibility, scope and challenge in work. Job enrichment is a motivational technique which emphasises the need for challenging and interesting work. It leads to a vertically enhanced job by adding functions from other organizational levels, making it contain more variety and challenge and offer autonomy and pride to the job-holder.

Herzberg gave greater emphasis on job enrichment in his two-factor theory. Job enrichment implies increasing the contents of a job or the deliberate upgrading of responsibility, scope and challenge in work. Job enrichment is a motivational technique which emphasises the need for challenging and interesting work. It suggests that jobs be redesigned so that intrinsic satisfaction is derived from doing the job. In its best applications, it leads to a vertically enhanced job by adding functions from other organizational levels, making it contain more variety and challenge and offer autonomy and pride to the employee. The job-holder is given a measure of discretion in making operational decisions concerning his job. In this sense, he gains a feeling of higher status, influence and power.

The term 'job enrichment' should be distinguished from the term 'job enlargement'. Job enlargement attempts to make a job more varied by removing the dullness associated with performing repetitive operations. It involves a horizontal loading or expansion, *i.e.*, the addition of more tasks of the same nature. But in job enrichment, the attempt is to build into the job a higher sense of challenge and importance of achievement. Job enrichment involves vertical loading of functions and responsibilities which require higher levels of skills and competence. In order to enrich the job, management should take the following measures:

- give sufficient freedom to employees in deciding about work methods, pace, sequence, etc.;
- add new tasks;
- increase responsibility;
- encourage participation;
- provide feedback to the employees; and
- make the personnel understand how tasks contribute to a finished product of the enterprise.

What job enrichment attempts to do is change the relationship between the worker and his job. Job enrichment could rearrange parts of the job so that workers have more variety, greater responsibility, greater autonomy, more exposure and more immediate feedback to the job-holder.

The advantages of job enrichment are as follows :

- It makes the work interesting.
- It decreases the rates of absenteeism and labour turnover.
- It helps in motivation through opportunities for growth and advancement.
- It makes task reinforcement easy and increases the skills of workers.
- Workers get higher job satisfaction.
- The enterprise gains through improvement of output both quantitatively and qualitatively and higher satisfaction of the workers.

The limitations of job enrichment are as follows:

- Technology may not permit the enrichment of all jobs. With specialized machinery, it may not be possible to make jobs very meaningful.
- Job enrichment has proved to be a costly process in certain cases as the expenditure involved is higher than the gains in productivity.
- Jobs of highly skilled professionals already contain many challenging elements, but they are not necessarily that much satisfied.
- It is difficult to say that all workers really want challenging jobs. Many of them even like to avoid responsibility. They seem to like job security and pay above all.
- All those who prefer job enrichment may not have the requisite capability to meet the, new challenges.

#### 7.4.6 Job Enlargement

Job enlargement refers to enlarging the range of tasks in a job to make it more broad based. It is the strategy adopted by many managers to combat the mal-effects of division of labour. Job enlargement focuses on enlarging jobs by increasing tasks and responsibilities. It involves expansion of the scope and width of the job by means of horizontal loading of certain closely related operations. For instance, a clerk in an office who is doing the typing work only may also be assigned the tasks of drafting letters, sorting of incoming mail and filing of letters. This will reduce his boredom and make him satisfied with the job. His efficiency will also improve.

#### 7.4.7 Job Enlargement VS. Job Enrichment

Both job enlargement and job enrichment are important forms of job redesign in order to enhance productivity and satisfaction of the job-holders. They differ from each other in regard to the following points:

**Nature.** Job enlargement refers to expansion of the range of tasks in, a job. It involves a horizontal loading or expansion of job, i.e., addition of tasks of the same nature. But job enrichment refers to an improvement of the quality of a job in terms of its intrinsic worth. It involves vertical loading of functions and responsibility of the job-holder.

**Purpose.** The purpose of job enlargement is to reduce the monotony in performing certain repetitive jobs by lengthening the cycle of operations. But job enrichment is meant to make the job more lively, challenging and satisfying. It satisfies the higher level needs such as ego satisfaction, self-expression, sense of achievement and advancement of the job-holders.

**Need for Skills.** Job enlargement may not necessarily call for acquisition or utilization of higher level skills on the part of the job-holders. But job enrichment calls for development and utilization of higher skills, initiative and innovation on the part of the job-holders.

**External Direction and Control.** Job enlargement does not reduce the need for direction and control of the superior. The job-holder may need more supervision in view of enlargement of the scope of his responsibilities. But in case of job enrichment, the job-holder needs less of external supervision. He utilizes his capabilities for self-direction and control.

### 7.5 WORK IMPROVEMENT

Work improvement may be defined as scientific techniques of studying and analysing the conditions influencing the quantity and quality of work done by the workers. Some people also call it 'method study' or 'method engineering'. The term 'work improvement' is very wide and includes the study of work and simplification and standardization of methods, equipment and working conditions. According to W.W. Haynes and J.D. Massie, "All of the physical aspects of operations can be considered as a part of the work improvement study, layout of work-place, materials handling, design of equipment, working conditions including lighting, colour, air-conditioning, power and so forth]. Work improvement is based on the basic philosophy that there is always a scope for improvement in the methods, equipment and working environment. This requires a scientific attitude involving critical analysis of all operations to find the better way of doing the work. Haynes and Massie remarked, "Improvement of work is fundamentally a matter of attitude or philosophy. The key to this philosophy is awareness of exactly what an operation involves and of the details of what must be done to improve efficiency of operations.

#### 7.5.1 Importance of Work Improvement

Work improvement is followed in industries with the following objectives in view:

- to eliminate wasteful and inefficient motions;
- to remove duplication of efforts;
- to improve plant layout and work designs;
- to improve processes, procedures, machinery, materials and working conditions;
- to reduce unnecessary fatigue.

Work improvement leads to efficient and economical operations in the enterprise. It always brings improvements in the work and its environments. It may be pointed out that work improvement not only improves work efficiency, but also improves human comfort and satisfaction. If human factor is not given due consideration, there may be decrease in efficiency of workers despite the improvement of the work methods, materials, machines, etc. That is why, in most of the big organizations, sociologists and psychologists are employed to help the engineers in the task of work improvement. This is also known as

„human engineering“ or „ergonomics“.



### **7.5.2 Work Measurement**

Work measurement deals with assessing the time content of a job performed by an operator to determine the proper time to be allowed and the efforts required for the efficient performance of a job. R.M. Curie has defined work measurement as ‘application of techniques designed to establish the time for a qualified worker to carry out a specified job at a defined level of performance’. Work measurement involves determination of proper time required for the job and that is why it is popularly known as ‘time study’. Time study or work measurement is a major component of the work study. Its advantages are as follows:

Work measurement determines the normal time for a job and thereby serves as a basis of a sound wage incentive system.

The standard time determined by work measurement helps in labour cost control.

Work measurement provides the relevant data for efficient work planning and control.

Work measurement facilitates effective manning of plant and equipment.

Work measurement technique can be useful in reducing the time and cost involved in the proposed production orders.

### **7.5.3 Work Measurement vs. Work Improvement**

Work measurement is the study and analysis of time taken in the performance of a specific task. Work improvement denotes the study of methods and techniques of production for increasing efficiency. These two concepts are interlinked with each other because both of these aim to increasing productivity. Efficient work improvement is a prerequisite of work measurement. Work improvement uses the techniques of motion study, process analysis, plant layout and materials handling whereas work measurement involves time study, work sampling and synthetic standards. Work improvement is done to suggest the best method of doing the job whereas work measurement helps in fixing fair day’s work, laying down wage incentive plans, and production planning and control.

### **7.5.4 Work Study**

Work study is an important tool in the hands of management for achieving greater productivity in the organization. It is an analytical study of the use of workers, materials and equipment in order to improve existing methods and work performance by elimination of every type of waste. Taylor recommended the technique of time study for work measurement and determination of time standards. Gilbreth devised the technique of motion study to carry out work study. It may be noted that motion study also includes fatigue study to eliminate unnecessary fatigue. Thus, work study covers both time study and motion study for work measurement and work improvement.

### **7.5.5 Objectives of Work Study**

The objectives of work study are as follows:

Effective use of manpower

Effective use of methods, machines and equipment.

Effective layout of plant.

Elimination of unnecessary human motion.

Simplification and standardization of operations.

Measurement of time required to perform an operation and establishment of standard level of performance for each worker.

### **7.5.6 Method Study**

Work study may be classified into two broad activities : (i) Method study; and (ii) Work Measurement. Method study may be defined as a systematic procedure for analysing the existing method of doing a job including the various human movements involved in it. The main objective of method study is to evolve the most economical method of doing the job. It is also termed as work simplification. In this sense, method study is a process of recording and analysing methods and procedures involved in work-flow with an eye on increasing productivity. It deals with improving the method of doing work, ending a better way, doing a better job with less effort, and in less time.

The procedure of method study involves the following steps:

Identification of the job to be studied.

Collection and recording of data about the existing method.

Critical analysis of the data collected.

Development of most practical and economical method.  
Implementation of new method and evaluating its efficiency.

### **7.5.7 Motion Study**

The systematic analysis of human motions involved in the method analysis is the beginning of motion study. Motion study is a device of work improvement and work simplification. Motion analysis should be followed by work measurement to standardize the methods of doing work, and speeds to be adhered to while performing a job.

Motion study is a scientific way of determining the best method of doing a work with the help of a close scrutiny of the motions made by a worker or a machine. Motion study was initiated by Frank Gilbreth and his wife Lillian Gilbreth. Gilbreths defined motion study as science of eliminating wastefulness resulting from unnecessary, ill-directed and inefficient motions. The aim of motion study is to find and perpetuate the scheme of least waste methods of labour.

Frank Gilbreth, working initially with bricklayers, analysed the actual motions involved in a job and sought to minimise fatigue through developing the *one best way to do a job*. He was interested not only in increasing the worker's efficiency, but also in reducing or eliminating fatigue due to unnecessary motions. He felt that a better work method aims at reducing fatigue and making the worker more efficient. He studied and analysed the motions of bricklayers and was successful in reducing the number of motions of a bricklayer from 18 to 5. This led to increase in efficiency of the workers from 121 bricks per man per hour to 375 bricks per man per hour.

Gilbreths showed that motion study could be applied in all types of work to devise the best methods of doing jobs. The standard method of doing job revolved through motion study is the backbone of the training programme for new workers. It may be pointed out that the standard method of doing a job is established concurrently with the standard time (through time study) for performance of the job.

Motion study can be divided into three components, namely: (i) analysis of therbligs, (ii) micromotion study; and (iii) principles of motion economy.

### **7.5.8 Time Study**

Time study is an important device of work measurement. It is the art of recording and analysing systematically the time required to perform a motion or a series of motions. This definition suggests that time study is to be conducted after a motion study has been undertaken. Time study attempts to determine a standard day's work by finding the amount of time needed by workers to perform the various operations. The purposes of time study are to provide production data and to provide incentives. Time study is carried out by studying a worker or a group of workers and carefully measuring with a stop watch how long it takes to perform each operation of the job.

It is a must to do a motion study first so that during the time study workers are using only those motions that are necessary and most desirable. The need for time study arises whenever a better method of doing a work introduced in a plant. It is the time study which will help in knowing of fair day's work which an employee should do. The determination of a fair day's work or standard task is based on the complete knowledge of the necessary motions needed to do a job. A time study board and a stop watch are used to observe the time required to do each operation.

### **7.5.9 Benefits of Time Study**

The advantages of time study are as follows:

Time study helps in determining the ideal workload of different categories of workers.

The standards of performance evolved as a result of time study may be used for evaluating the performance of employees.

Time study helps in designing a suitable incentive wage plan to motivate the workers to increase their productivity.

Cost standards are very accurate if they are based on the results of time study.

### **7.5.10 Limitations of Time Study**

Time study is not free from limitations and difficulties. Some of the ring limitations of time study are as follows:

Generally, there are variations of the standard time determined by different observers. Even the same observer sets different standard time each time he is asked to conduct the time study.

Time study involves an element of subjectivity of the observer. Sufficient judgment has to be used by the observer in the choice of a measure of central tendency, deciding the degree of personal allowance and so on.

The standard time determined by time study may not be accurate because of incorrect performance rating of the operator under study.

Time study usually has an adverse effect on the workers. They may not show the normal behaviour pattern when they are being observed. Even the trade unions may resist stop watch time studies.

#### **7.5.11 Team Building**

Team building is an attempt to assist the workgroup in learning how to identify, diagnose and solve its own problems. It directly focuses on the identification of problems relating to task performance and lays down concrete plans for their elimination. A team building programme deals with new problems on an ongoing basis. It is an effective technique by which members of a group diagnose how they work together and plan changes that will improve their effectiveness.

The workgroup problems may be related to task or personality conflicts. The task related issues can be streamlined by changing the ways things are done, by redirecting the resources to be utilized and by re-examining the work processes. The interpersonal relationships within the team can be improved by creating an environment which is open and trust worthy, where members can openly and freely communicate their feelings and thoughts, where leadership evolves on the basis of respect and functional excellence and where conflicts are resolved on the basis of mutual understanding.

Team-building requires the help of a skilled process observer or consultant to increase the effectiveness of the group's tasks and maintenance roles. Feedback is an important component of team-building which is provided by the consultant during or after the meeting to increase the effectiveness of both the group as well as the members.

#### **7.6 SUMMARY**

The most important resources of an organization are its human resources—the people who supply the organization with their work, talent, creativity, and drive. Thus, among the most critical tasks of a manager is the staffing function. This includes manpower planning, recruitment, selection and placement of organization members.

Manpower planning means planning for the future personnel needs of the organization. Once the requirement of manpower is known, the process of recruitment starts. Job recruits can be drawn from within or outside the organization. However, before recruitment can take place, a job analysis should be made. This must be followed by job description and job specification.

Manpower planning has not yet become popular in India. The external sources from which employees are recruited in our country are badli, employment exchanges, advertisement in newspapers, labour contractors, technical and other institutes, relations of existing employees, walk-in interviews, poaching or head-hunting, employee referrals, Bureau of Public Enterprises and advertisement on the net. For selecting skilled and semi-skilled workers, companies use some kind of trade test. Psychological tests for recruitment are rarely used.

Job analysis is a detailed and systematic study of jobs to know the nature and characteristics of the people to be employed on various jobs.

A job can be analysed only after it has been designed and someone is already performing it.

A comprehensive job analysis is an essential ingredient in designing a sound human resource programme.

Job analysis involves collection of necessary facts regarding jobs and their analysis. It is mainly and essentially a data collection process.

Techniques of job analysis are-questionnaire observation method, interview, records, critical incidents and job performance.

#### **7.7 REFERENCES**

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**7.8 SUGGESTED READINGS**

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Human Resource Management: Shashi K. Gupta, Joshi R. (*Kalyani Publishers*)  
Business Organization & Management: R.K. Sharma, Shashi K. Gupta (*Kalyani Publishers*)  
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**7.9 TERMINAL AND MODEL QUESTIONS**

What do you understand by manpower planning? Describe its characteristics.  
Describe the various steps in conducting HRP.  
As organization become more global, HRP becomes more important and complex. Elucidate.  
What are the important objectives of HRP?  
What is meant by Job Design? Discuss the various approaches to job design.  
Define Job Design and explain Job Characteristics Model of Job Design and Work Motivation.  
Briefly explain various techniques of job design.

Activity 1

Define manpower planning.

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Activity 2

Explain the nature and need of human resource planning.

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## CHAPTER - 8

### RECRUITMENT AND SELECTION

#### 8.1 OBJECTIVES

**Define** recruitment

**Discuss** the process and factors of recruitment

**Discuss** the sources of recruitment

**Define** selection

**Explain** the steps in the selection process

#### 8.2 INTRODUCTION

The aim of personnel planning is to determine the needs for persons both in terms of number and type. For deciding about the number both present and future requirements should be taken into account. If there are plans in near future then these requirements should also be considered. Besides number, the type of persons needed is also important. This will be decided by studying the job requirements, etc. The educational and technical requirements to manage various jobs should be properly analysed so that right type of per are employed.

Recruitment is sometimes confused with employment. The two are not one and the same. Recruitment is just one step in the process of employment. Similarly recruitment and selection are also different in nature. The function of recruitment precedes the selection process. Recruitment is concerned with developing suitable techniques for attracting more and more candidates while selection is the process of finding out the most suitable candidate for the job.

##### 8.2.1 Meaning

Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organization. W hen more apply for jobs then there will be a scope for recruiting better persons. The job seekers too, on the other hand, are in search of organizations offering them employment. Recruitment is a linkage activity bringing together those with jobs and those seeking jobs.

**According to Yoder,** Recruitment is a process to discover the sources of manpower to meet the requirements of the staffing schedule and to employ effective measures for attracting that manpower in adequate numbers to facilitate effective selection of an efficient working force.|| Recruitment is the process which prompts people to offer for selection in an organization. This involves locating sources of manpower to meet job requirements. In his words, "It is a process of searching for prospective employees and stimulating and encouraging them to apply for jobs in an organization. It is often termed positive in that it stimulates people to apply for jobs to increase the hiring ratio, *i.e.*, the number of applicants for a job.||

**According to Flippo,** "Recruitment is the process of searching for prospective employees and stimulating and encouraging them to apply for jobs in an organization||.

**According to Dale S. Beach** Recruitment is the development and maintenance of adequate manpower resources. It involves the creation of a pool of available labour upon whom the organization can depend when it needs additional employees.||

#### 8.3 PROCESS OF RECRUITMENT

Recruitment process passes through the following stages :

Recruitment process begins when the personnel department receives requisitions for recruitment from any department of the company. The personnel requisitions contain details about the position to be filled, number of persons to be recruited, the duties to be performed, qualifications expected from the candidates, terms and conditions of employment and the time by which the persons should be available for appointment etc.

Locating and developing the sources of required number and type of employees.

Identifying the prospective employees with required characteristics.

Developing the techniques to attract the desired candidates. The goodwill of an organization in the market may be one technique. The publicity about the company being a good employer may also help in stimulating candidates to apply.

Employing of techniques to attract candidates. There may be others of attractive salaries, proper facilities for development etc.

The next stage in the process is to stimulate as many candidates as possible and ask them to apply for jobs. In order to increase the selection ratio, there is a need to attract more candidates.

Evaluating the effectiveness of recruitment process.

Thus, in an ideal recruitment programme, individuals responsible for the recruitment process must know how many and what types of employees are needed, where and how to look for individuals with the appropriate qualifications and interests, what inducements to use or to avoid for various types of applicant groups, how to distinguish applicants who are unqualified from those who have a reasonable chance of success and how to evaluate their work. The following figure shows an ideal recruitment process as developed by Herbert G. Heneman et. al. :

### **8.3.1 Recruitment Policy**

Recruitment policy specifies the objectives of recruitment and provides a framework for the implementation of the recruitment programme. According to Yoder and Others "A recruitment policy may involve commitment to broad principles such as filling vacancies with the best qualified individuals. It may embrace several issues such as extent of promotion from within, attitudes of enterprise in recruiting its old employees handicaps, minority groups, women employees, part time employees friends and relatives of present employees etc. It may also involve the organizational system to be developed for implementing recruitment programme and procedures to be employed."

### **8.3.2 Elements of a Good Recruitment Policy**

A good recruitment policy must contain the following elements :

**Organizational Objectives.** Both short term and long term organizational objectives must be taken into consideration as a basic parameter for recruitment decisions.

**Identification of the Recruitment Needs.** The recruiters should prepare profiles for each category of workers and accordingly work out the man specifications, decide the sections, departments or branches where they should be placed and identify the particular responsibilities which may be immediately assigned to them.

**Preferred Sources of Recruitment.** Preferred sources of recruitment which would be tapped by the organization for different classes of employees must be identified.

**Criteria of Selection and Preferences.** Selection and preferences should be based on conscious thought and serious deliberations.

**Monetary Aspects.** The cost of recruitments and financial implications of the same have to be kept in mind also.

A recruitment policy involves the employer's commitment to such general principles as :

- To find and employ the best qualified persons for each job.
- To retain the most promising of those hired.
- To offer promising opportunities for life time working careers.
- To provide facilities and opportunities for personnel growth on the job.

### **8.3.3 Pre-Requisites of a Good Recruitment Policy**

The recruitment policy is The recruitment policy of an organization must satisfy the following conditions :

- It should be in conformity with the general personnel policies.
- It should be flexible enough to meet the changing needs of an organization.
- It should provide employees with job security and continuous employment.
- It should integrate organizational needs and employee needs.
- It should match the qualities of the employees with the requirement of the work for which they are employed.
- It should highlight the necessity of establishing job analysis.
- It should provide suitable jobs to handicapped, women and minority groups.

To summarise, according to Yoder, "The recruitment policy is concerned with quantity and qualifications of manpower"

### **8.3.4 Situational Factors Affecting Recruitment**

Every organization, big or small has to engage in recruitment of persons, as recruitment provides the most productive of all resources viz, employees, to an organization. Recruitment has two important

aspects (i) to find out the number of vacancies to be notified and the type of applicants needed to fill them to approach the potential applicants to apply for such vacancies. Organization can recruit successfully without taking into consideration.

**The Economic Factors.** Economic conditions of a country influence the recruitment process in all the organizations. The globalization and liberalization of Indian economy, since 1991 onwards has resulted in a boom in financial services in India. As a result of the new economic policy, the demand for MBA/CA/ICW A/CFA students have grown tremendously. Even the engineering students had to get finance/marketing degrees or diplomas to encash job opportunities as their demand, especially in the manufacturing sector has not kept pace. People with specific fund management skills were in great demand. Companies had to resort to extensive advertising to hire suitable people. But the trend had changed by the late 1990s. Except software and pharmaceuticals sectors, recession had set in almost all the other sectors. As a result, companies had to cut down their recruitment costs and they had to resort to less expensive media advertising only in place of campus recruitment, search firms, employee referrals, contractors etc.

**The Social Factors.** The social factors also affect the recruitment policy of an organization. Social changes in the past two decades in India, have forced organizations to place increased emphasis on recruitment. The mentality of modern employees has changed from 'just any job' to a 'satisfying career'. If they are not satisfied with their jobs they do not hesitate to leave the organizations and go in search of greener pastures outside. To ward of such problems, the companies, now-a-days, present a more realistic picture of the job and the encouraging career opportunities to prospective employees through innovative recruitment campaigns. The organizations have to be aware of and sensitive to the prevailing social values and norms, otherwise their recruitment efforts could go off the track.

The organizations should emphasize opportunities for training and development and progression through a series of jobs within the same organization.

**The Technological Factors.** The globalization and liberalization of economy since 1991 has brought about rapid changes in the fields of banking, electronics, telecommunications, automobiles, software and pharma industries. New technologies have created new jobs and existing jobs have undergone rapid changes. Several old jobs have disappeared from the scene. Technological changes have led to a chronic shortage of people with requisite skills and knowledge. In such a scenario, companies have to step up their recruitment efforts to compete successfully for a small number of suitable candidates.

**The Political Factors.** The late 1980s brought the concept of 'equal employment opportunity' in the corporate circles. Companies at last, realized that employment should be defined in terms of ability to perform the job, rather than in terms of race, colour, religion, sex or national origin. However, political compulsions and constitutional provisions covering reservations for special groups, come in the way of recruiting people, based solely on qualifications, skills and experience. Influence of unions, recommendations of friends and relatives of management, political leaders etc. also play an important role in recruitment policies followed by a concern.

**The Legal Factors.** The different legislative policies governing child labour, night shifts, bonded labour, contract labour etc. have brought the legal environment to be a major factor to be looked into carefully by all companies intending to recruit people for various positions. Some of the important legislations affecting recruitment are :

**The Factories Act, 1948.** The Factories Act prohibits the employment of women and children below 14 years of age in certain jobs which involve night work, underground jobs, carrying heavy loads etc.

**The Apprentices Act, 1961.** The Apprentices Act provides for a machinery to lay down syllabi and specify period of training, mutual obligations of apprentices and employees etc. The apprentice after serving a contractual term of training can be taken on regular rolls. The Act, as amended in 1986, provides for revised rates of compensation during the apprenticeship period and for failure on the part of the employer to execute the terms of the contract.

**The Employment Exchanges Act, 1959.** The Employment Exchanges Act requires all employers to notify the vacancies arising in their establishments to prescribed employment exchange before these are filled. The Act covers all establishments in public sector and non-agricultural establishments employing 25 or more workers in the private sector.

**The Contract Labour Act, 1970.** The Contract Labour Act is applicable to every establishment (contractor) employing 20 or more persons. It tries to regulate the employment conditions



of contract labour in certain establishments and also provides for the abolition of contract labour in certain circumstances.

**Bonded Labour System (Abolition) Act, 1976.** This Act provides for the abolition of bonded labour (system of forced labour to liquidate debts payable to parties who are bent on exploiting the vulnerability of the victim) or his family members.

**The Child Labour Act, 1986.** The Child Labour Act prohibits the employment of children below 14 years of age to certain employments. This has become a serious issue in India recently when German firms refused to accept carpets exported from Uttar Pradesh, objecting to the employment of child labour in the carpet industry.

### **8.3.5 Recruitment Organization**

Recruitment policy differs from organization to organization.

Indian Railways follow decentralized system of recruitment while commercial banks follow centralized system. In case of central recruitment, personnel department at the central office performs the functions of recruitment while in a decentralized system, recruitment is undertaken at unit level or zonal level. Both the systems of recruitment have their own good points.

### **8.3.6 Merits of Centralized Recruitment**

The cost of recruitment per candidate is low because of large number of persons recruited.

It has the benefit of centralized promotion and transfer procedure.

The services of experts will be available for recruitment.

It enables broad uniformity among various persons recruited.

Since there is uniformity among persons, it becomes easy to transfer persons from one plant area to another.

The line managers of various plants or zones concentrate on their work, they are relieved of the botheration of recruitment.

It ensures effective and suitable placement to candidates.

### **8.3.7 Merits of Decentralized Recruitment**

The units are well aware of the requirement of jobs and social and cultural background of candidates available. It will be possible to recruit most suitable candidates.

There may be certain area where suitable candidates are available. In decentralized system of recruitment the thrust will be to go to those places where required persons will be available.

The recruitment can be done as and when there is a need. The delays in recruitment under centralized system can be avoided in this method.

The units will have full information about recruitment processes and feed back system from the employment market will help in planning this function.

The units will be free to use methods to stimulate prospective candidates so that proper persons are recruited.

The units can exercise better control over persons who are recruited by them as compared to those recruited by central agency.

Both centralized recruitment and decentralized recruitment have their own merits. The choice between the two will depend upon the management psychology and needs of the particular organization. In some cases, a combination of both the systems is used. Lower level staff is recruited centrally whereas middle and top level executives are recruited in a decentralized manner.

### **8.3.8 Sources of Recruitment**

Before an organization actively begins to recruit applicants, it should consider the most likely source of the type of employee it needs. Some companies try to develop new sources while most try to tackle the existing sources they have. These sources, accordingly, may be termed as-internal and external. Management considers several variables in deciding on the extent to which they will depend on inside and outside sources. Among the most important are the following :

**The effect of the policy on the attitudes and actions of all employees.** It is often cited as the major reason for a policy of promotion from within. Most employees are likely to feel more secure and to identify their own long term interests with those of the organization when they can anticipate first

chance at job opportunities. On the other hand, general application of the promotion from within policy may encourage mediocre performance by the employees.

**The level of specialization required of employees.** In many organizations, the principal source of qualified workers may be the present employees who have received specialized training. In new industries or endeavours, no other source may be as satisfactory.

**The emphasis on general economic policy on participation by employees at all levels.** New employees from outside, inexperienced in the firm, may not know enough about its service or products or processes to participate effectively.

**The need for originality and initiative.** If management feels that it is providing training for these qualities, it may prefer its own people. If, on the other hand, it feels no such assurance, that fact may argue for the importation of new people with different ideas.

**Acceptance of the seniority principles.** In most organizations, if emphasis is to be placed on promotion from within, seniority will play an important part. It is the simplest basis on which to decide who merits advancement.

### **8.3.9 Internal Sources**

Internal source is one of the important sources of recruitment. The employees already working in the organization may be more suitable for higher jobs than those recruited from outside. The present employees may help in the recruitment of new persons also. Internal sources consist of the following :

#### **1. Present Employees**

Promotions and transfers from among the present employees can be a good source of recruitment.

**Transfer.** Transfer involves shifting of persons from present jobs to other similar places. These do not involve any change in rank, responsibility and prestige. The number of persons do not increase with transfers but vacant posts may be attended to.

**Promotions.** Promotions refer to shifting of persons to positions carrying better prestige, higher responsibilities and more salaries. The higher positions falling vacant may be filled up from within the organization. A promotion does not increase the number of persons in the organization. A person going to get a higher position will vacate his present position. Promotion avenues motivate employees to improve their performance so that they get promotions to higher positions.

#### **Seniority V/s Merit**

There has been a controversy as regards to the question whether promotions should be based on merit or seniority. Both the methods have merits and demerits.

#### **Advantages of Seniority Based Promotion**

It creates a feeling of discipline and respect for senior persons.

It recognizes the right of senior persons for promotions.

The employees can know the future prospects of their job.

This system creates more peace in the organization because such promotions will be acceptable to all.

This is the cheapest system of recruitment.

The existing manpower can be used to an optimum level by giving them training and preparing for higher jobs.

This system is very simple to operate.

#### **Advantages of Merit Based Promotions**

It recognizes and reward competence, knowledge and initiative of employees.

It leads to better performance because employees feel that their performance will be rewarded.

Able and competent persons will stay in the organization.

It is a logical and scientific system of promotions.

Both the methods of promotion have their own advantages.

It may not be possible to ignore either seniority or merit. An effort should be made to devise such a system where a combination of both should be followed.

### **Disadvantages of Promotions**

Promotions can be dysfunctional to the organization also as the advantage of hiring outsiders who may be better qualified and skilled is denied. Promotion also results in inbreeding which is not good for the organizations.

### **2. Employee Referrals**

Employee referrals can be a good source of internal recruitment. Employees can develop good prospects for their families and friends by acquainting them with the advantages of a job with the company furnishing letters of introduction and even encouraging them to apply. This source is, usually, one by the most effective methods of recruiting because many qualified people are reached at a very low cost to the company. In an organization with a large number of employees, this approach can provide quite a large pool of potential organizational members. Most employees know from their own experience about the requirements of the job and what sort of persons the company is looking for. Often employees have friends or acquaintances who meet these requirements. A major limitation of employee referral is that the referred individuals are likely to be similar in type to those who are already working in the organization. This may lead to informal groups based on race, religion or sex.

#### **Former Employees**

Former employees are another internal source of recruitment. Some retired employees may be willing to come back to work on a part time basis or recommend someone who would be interested in working for the company. Sometimes, people who have left the company for some reason or the other are willing to come back and work. Individuals who left for other jobs and greener pastures, might be willing to come back at higher emoluments. An advantage of this source is that the performance of these people is already known.

#### **Previous Applicants**

Although not an internal source, in the true sense, those who have previously applied for jobs can be contacted by mail. This is a quick and an inexpensive way to fill an unexpected vacancy. This is a very suitable method for filling the professional openings.

### **8.3.10 Merits of Internal Sources**

**Improves Morale.** The internal sources of recruitment will boost morale of employees. They are assured of higher positions whenever vacancies arise. Existing employees are given preferences in promotions. Outsiders are employed only when suitable candidates are not available from within.

**Proper Evaluation.** The management is in a better position to evaluate the performance of existing employees before considering them for higher positions. An outsider employed just on the basis of an interview may not prove suitable later on. The service records of existing employees will be a guide to study their suitability for ensuring vacancies.

**Economical.** The method of internal recruitment is economical also. The cost incurred in selecting a person is saved. Moreover, internal candidates do not require any training since they are well acquainted with various jobs in the organization.

**Promotes Loyalty.** Internal sources of recruitment promote loyalty among employees. They are preferred to consider at the time of filling up higher positions. They will feel a part and parcel of the organization and will always try to promote its interests.

**Motivation Technique.** Internal recruitment can be used to motivate employees. Since there is a scope for promotions and higher responsibility jobs, employees will try to put in their best efforts.

**Social Responsibility.** By giving new opportunities to existing employees the enterprise is satisfying social responsibility also. It is the responsibility of every organization to satisfy its employees by keeping their aspirations in mind.

**Stability of Employees.** Internal source of recruitment ensures stability of employees. Since the organization provides the better opportunities to suitable employees, they will like to stay with the enterprise.

**Trade Union's Support.** This source of recruitment has the support of trade unions also. Trade unions always support the cause of existing employees so there will be no conflict on this score.

### 8.3.11 Demerits of Internal Sources

Internal sources often leads to inbreeding and discourages new blood from entering into an organization.

There are possibilities that internal sources may dry up it may be difficult to find the requisite personnel from within an organization.

Since the learner does not know more than the trainer, no innovations worth the name can be made.

Therefore, on jobs which require origin thinking, this practice is not followed.

The likes and dislikes and the personal biases of the management may also play an important role in the selection of the personnel.

### 8.3.12 External Sources

Every enterprise has to use external sources for recruitment to higher positions when existing employees are not suitable. More persons are needed when expansions are undertaken. External methods are discussed as follows :

**Advertisement.** Advertisement is the best method of recruiting persons for higher and experienced jobs. The advertisements are given in local or national press, trade or professional journals. The requirements of jobs are given in the advertisements. The prospective candidates evaluate themselves against their requirements of jobs before sending their applications. Management gets a wider range of candidates for selection. The flood of applications may create difficulties in the process.

**Employment Exchanges.** Employment exchanges run by the government are also a good source of recruitment. Unemployed persons get themselves registered with these exchanges. The vacancies may be notified with the exchanges, whenever there is a need. The exchange supplies a list of candidates fulfilling required qualifications. Exchanges are a suitable source of recruitment for filling unskilled, semi-skilled, skilled and operative posts. The job-seekers and job-givers are brought into contact by the employment exchanges.

**Unsolicited Applicants.** Persons in search of employment may contact employers through telephone, by post or in person. Generally, employers with good reputation get unsolicited applications. If an opening is there or is likely to be there then these persons are considered for such jobs. Personnel department may maintain a record of unsolicited applications. When jobs suitable for these persons are available these are considered for employment.

**Professional Organizations.** Professional organizations maintain complete bio-data of their members and supply it to companies on demand. These organizations also act as exchange between the members and recruiting firms. Firms can seek clarifications and clear doubts about persons they want to recruit. This source of recruitment is found reliable for recruiting persons at middle and upper levels of management.

**Data Banks.** The recruiting firms can prepare a data bank about various persons in different fields. They can collect information from educational institutions, employment exchanges, professional organizations etc. It will become another source and the firm can get the particulars as and when it needs to recruit.

**Similar Organizations.** The organizations producing similar products or having the same line of business act as an important source of recruitment. The persons having same experiences as required by the recruiting firms will be available in similar organizations. This would be the most effective source for executive positions and newly established or diversified and expanded organizations.

**Casual Callers.** Management may appoint persons who casually call on them for meeting short-term demands. This will avoid following a regular procedure of selection. These persons are appointed for short periods only. They need not be paid retrenchment or lay off allowance. This method of recruitment is economical because management does not incur a liability in pensions, insurance and fringe benefits.

**Labour Contractors.** It is quite common to engage contractors for the supply of labour. When workers are required for short periods and are hired without going through the full procedure of selection etc. Contractors or jobbers are the best source of getting them. The contractors maintain regular contracts with workers at their places and also bring them to the cities at their own expense. The persons hired under this system are generally unskilled workers.

## **8.4 SELECTION**

### **8.4.1 Introduction**

The appointment of suitable persons on various jobs is very essential. The selection of a wrong candidate will mean loss of time and money which have been incurred on this process. It also leads to absenteeism and retrenchment. This calls for a properly planned recruitment and selection process.

After the receipt of appropriate number of applications through various sources of recruitment selection process starts. It is concerned with securing relevant information about the applicants. The purpose of selection process is to determine whether a candidate is suitable for employment in the organization or not. All persons who have applied may not be suitable. Moreover, the number of applicants will be much more than the positions vacant. It becomes all the more important to scrutinize applications properly so that those who are found unsuitable at first instance should not be called for tests or interviews. This will save time and money of the enterprise as well as the candidates.

The procedure to be followed for selecting an employee may be different for various jobs. If the job is not very important then a simple procedure may be followed. For employing unskilled workers, personnel manager may select them after a brief interview. If skilled and unskilled persons are to be selected then foreman may interview them and also test their experience by asking them to work on jobs. When the position to be filled is important then a number of steps may be followed before a person is finally selected.

### **8.4.2 Meaning And Definition**

To select means to choose. Selection is the process of picking up individuals. (out of the pool of job applicants) with requisite qualifications and competence to fill jobs in the organization.

**According to Dale Yoder** – Selection is the process in which candidates for employment are divided into two classes-those who are to be offered employment and those who are not.

**According to Thomas Stone** —**Selection** is the process of differentiating between applicants in order to identify (and hire) those with a greater likelihood of success in a job.

Thus, the selection process is a tool in the hands of management to differentiate between the qualified and unqualified applicants by applying various techniques such as interviews, tests etc. In this sense, it is a negative process of employment in which only a few who qualify for job are offered employment and others are denied the opportunities. A sound selection policy ensures the selection of suitable candidates.

### **8.4.3 SELECTION PROCEDURE**

The selection procedure consists of a series of methods or steps or stages by which additional information is secured about an applicant. At each stage facts may come to light which may lead to the rejection of an applicant. Selection procedure may be compared to a series of barriers which an applicant is required to cross before he is finally selected.

### **8.4.4 Essentials of a Selection Procedure**

The selection procedure should be prepared in such a way that it suits the organization's needs. The procedure will be successful if it satisfies the following requirements :

There should be sufficient number of applicants from whom the required number of candidates may be selected. The selection will not be proper if number of candidates is less.

There should be some person who is assigned the authority to select. The authority is given on the basis of type of persons to be selected and the nature of work they will take up.

There should be some standard of personnel with which a prospective employee may be compared *i.e.* there should be available before hand a comprehensive job specification as developed by job analysis.

### **8.4.5 Significance of Selection Procedure**

The success of an organization depends on the quality of personnel selected for the jobs. Thus, selection of personnel is a very important function of management. The importance of selection can be judged from the following factors :

**Procurement of Skilled Workers.** Only the suitable candidates who are fit for the job are selected from among the prospective candidates for employment. In this way, selection is a process by which only desirable candidates are hired and others are denied the opportunities.

**Reduction in the Cost of Training.** Proper selection of candidates reduces the cost of training because (i) qualified personnel have better grasping power, they can understand the techniques of work better and in no time; (ii) the organization can develop different training programmes for different persons on the basis of their individual differences, thus, reducing the time and cost of training considerably.

**Solution to Personnel Problems.** Proper selection of personnel reduces personnel problems in the organization. Many problems like labour turnover, absenteeism and monotony shall not be experienced in severity in the organization. Labour relations will be better because workers will be fully satisfied by their work.

Thus, selection of proper personnel, helps the management in getting the work done by the people effectively:

#### **8.4.6 Organization for Selection**

Till recently, in many organizations, selection was done in a rather unplanned manner. The departments screened and hired their own employees, because the managers were sure that no one could choose employees for them as efficiently as they themselves could. But now-a-days, the scenario has changed. Selection is now centralized and handled by the human resource department. The centralized selection has the following advantages.

Applicants find it easier to send their applications to a single centralized department, rather than sending the applications to different departments.

All the issues pertaining to employment can be cleared through one central location.

The departmental managers can concentrate on their departmental responsibilities.

Centralized selection is particularly helpful during peak hiring periods.

Selection will be bound to be more effective as it is done by specialists trained in staffing techniques.

The applicant will be assured of consideration for a greater variety of jobs.

Duplication of efforts is minimised because of centralized selection, which will result in lower hiring costs.

With increased government regulations in the selection process, it is essential that people who know about these rules handle a major part of the selection process.

Ideally a selection process involves mutual decision making. The organization decides whether or not to make a job offer and how attractive the offer should be. The candidate decides whether or not the organization and the job offer is according to his needs and goals.

#### **8.4.7 Selection Process**

The selection procedure consists of a series of steps. Each step must be successfully cleared before the applicant proceeds to the next. The selection process is a series of successive hurdles or barriers which an applicant must cross. These hurdles are designed to eliminate an unqualified candidate at any point in the selection process. Thus, this technique is called "SUCCESSIVE HURDLES TECHNIQUE". In practice, the process differs among organizations and between two different jobs within the same organization. Selection procedure for the senior managers will be long drawn and rigorous, but it is simple and short while hiring lower level employees.

##### **1. External and Internal Environment**

Selection is influenced by several external and internal environmental factors. The important external-factors affecting selection are supply and demand of specific skills in the labour market, unemployment rate, labour market conditions, legal and political considerations etc. The internal factors are organization's image, organizations policy, human resource planning and cost of hiring.

##### **2. Reception**

The receipt and scrutiny of applications is the first step in the process of selection. A receptionist in the personnel department gives information about new openings to the visitors and receives their applications. The scrutiny of applications is essential to take out those applications which do not fulfill the requirements of posts. Some people send applications even when they do not possess the required experience and qualifications. These applicants if called for preliminary interviews, will waste their own

time and that of the company. These applications should out rightly be rejected and information should be sent to the applicants in this regard.

### **3. Preliminary Interview**

Preliminary interview is a sorting process in which the prospective candidates are given the necessary information about the nature of the job and the organization. Necessary information is obtained from the candidates about their education, skills, experience expected salary etc. if the candidate is found suitable, he is selected for further screening. This 'countersy interview' as it is often called, helps the department screen out obvious misfits. Preliminary interview saves time and efforts of both the company and the candidate. It avoids unnecessary waiting for the rejected candidates and waste of money on further processing of an unsuitable candidate. Preliminary interview is brief and generally carried out by a junior executive across the counter or at the reception office. Since rejection rate is high at preliminary interview, the interviewer should be kind, courteous, receptive and informal. He should give a good account of the company so that the applicant takes a good view of it a hopes to apply again whenever new opening emanates.

#### **Blank Application Form**

A blank application form is a widely accepted device for getting information from a prospective applicant. This is a way of getting written information about candidate's particulars in his own handwriting. it enables the personnel department to draw tentative inferences about the applicant's suitability for employment. The information collected in the application form may also be circulated to various members of selection committee for enabling them to make a view about different applicants.

The information collected in blank application relates to the following particulars :

**Bio-data.** Bio-data includes name of the applicant father's name, date of birth, place of birth, permanent address, height, weight, identification mark, marital status, physical disability etc.

**Educational Qualifications.** This part of educational qualification relates to education acquired, institutions attended, percentage of marks, distinctions achieved, technical education acquired, subjects studied, areas of specialization.

**Work Experience.** Application blank also enquires about previous experiences similar or other jobs held, nature of duties, salaries received, names of previous employers, reasons for leaving the present job.

**Curricular Activities.** The information about participation in extra curricular activities like N.S.S., N.C.C., debates and declamations, sports, etc. is also received in blank application form.

**References.** The applicant is also asked to give some references from where an enquiry may be made about his nature and work. The references are normally the persons with whom the applicant has worked but are not related to him.

**Salary Demanded.** The salary demanded by the applicant is also given in the application blank.

An attempt is made to elicit maximum information in application blank. The information asked for should be relevant and specific. It should have relevance to the post he has applied for. The information collected should be brief and to the point. Questions requiring essay-type answers should be avoided.

#### **Evaluation of Application Forms**

Application forms may be evaluated in the following ways

**Clinical Methods.** Under this method application forms are analysed in such a way that all possible inferences are drawn about candidates from the information supplied. The personnel traits are projected in such a way that the suitability of candidates is evaluated against the job requirements. A properly designed application form can provide clues to a person's leadership ability, emotional stability, writing ability, assertiveness, attitude towards superiors and other people, etc. The clinical method makes the use of psychology in framing the application form and then evaluating it.

**Weighted Method.** In this method different points/traits are assigned weights. The points are given after reading the answers of applicants in the forms. In developing a weighted application form it is necessary to identify those items of the personnel.

#### **weighted application blanks (WAB)**

Some organizations assign numeric values or weights to the responses provided by the applicants. This makes the, application form more job related. Generally, the items that have a strong

relationship to job performance are given higher scores. For example, for a sales representative's position, items such as previous selling experience, area of specialization, commission earned on sales, age, marital status etc. may be given more weightage as compared to caste, religion, language etc. The total score of each applicant is then obtained by adding the weights of the individual item responses. The resulting scores are then used in the final selection.

WAB is best suited for jobs where there are many employees specially for sales and technical jobs. It can help in reducing the employee turnover later on. However, there are several problems associated with WABs eg :

- It takes time to develop such a form.

- The WAB would have to be updated every few years to ensure that the factors previously identified are still valid products of job success.

- The organization should be careful not to depend on weights of a few items while finally selecting the employee.

### **Selection Tests**

Applicants who pass the screening and the preliminary interview are called for tests. Different types of tests may be administered depending on the job and the company. A test provides a systematic basis for comparing the behaviour attitudes and performance of two or more persons. Tests are based on the assumption that individuals differ in their job related traits which can be measured. Tests help in reducing bias in selection by serving as a supplementary screening device. Tests help in better matching of candidate and the job. Tests may reveal qualifications which remain hidden in application form and preliminary interview. Tests are useful when the number of applicants is large. Moreover, to be effective, tests must be properly designed and administered. However, test is not a fool proof method. At best, it reveals that the candidates who have scored above the predetermined cut off points are likely to be more successful than those scoring below the cut off points.

### **6. Selection Interview**

Interview is the oral examination conducted for the purposes of employment. It is a formal, in depth conversation, which evaluates the applicant's acceptability. Interview is an excellent selection device. It is a very flexible device which can be adopted to select unskilled, skilled managerial and professional employees. In selection interview the interviewer matches the information obtained about the candidate through various means to the job requirements and to the information obtained through his own observations during the interview. Thus, interview is a purposeful exchange of views, the answering of questions and communication between two or more persons. Interview gives the interviewer an opportunity :

- to size up the candidate personally

- to ask questions that are not covered in tests

- to make judgements on candidates enthusiasm and intelligence

- to assess subjective aspects of the candidate-facial expressions, appearance, nervousness and so forth

- to give facts to the candidate regarding the company, its policies, programmes etc. and promote goodwill towards the company.

However, interviews do have some limitations. Absence of reliability is one limitation. Due to personal and subjective judgements, no two interviewers offer similar scoring after interviewing an applicant. Lack of validity is another short coming. This is because, few departments use standardized questions upon which validation studies can be conducted.

### **7. Checking References**

The references may provide significant information about the candidate if they happened to be his former employers or with whom he might have been working earlier. The applicants are normally asked to name two or three persons who know about his experience skill, ability, etc. but should not be related to him.

The prospective employer normally makes an investigation on the references supplied by the candidate and undertakes search into his past employment education, personal reputation etc. Though checking references may be a good source of information but referees may not give frank opinion about the candidate. If the referee happens to be a former employer he will, generally either praise the candidate or criticize his work and ability. Such extreme postures may not help in knowing the exact position of



candidates. There may be persons who will not say bad things about a candidate when it is a question of his future. They will say good things about the candidates.

It may be said that checking references does not serve much of a purpose because no impartial evaluation of the candidates is received from the referees.

### **8. Final Selection**

Upto this stage selection is handled by personnel department or staff executives. Since the persons employed are to work under line officers, the candidates are referred to them. Line officers will finally decide about the work to be assigned to them. If line officer is a production manager or foreman he may assess on the job performance of the candidates. If the candidate is not suitable for one job then he is tried at some other. If candidate's performance is not upto the mark then he may be kept as apprentice for some time. Normally, a candidate is not rejected at this stage.

### **9. Physical Examination**

After the selection decision and before the job offer is made, the candidate is required to undergo physical fitness test. Candidates are sent for physical examination either to the company's physician or to a medical officer approved for the purpose. Such physical examination provides the following information:

Whether the candidate is physically fit for the specific job or not ?

Whether the candidate has health problems or psychological attitudes likely to interfere with work efficiency or future attendance ?

Whether the candidate suffers from bad health which should be corrected before he can work satisfactorily ?

Whether the candidate's physical measurements are in accordance with job requirements or not ?

A job offer is, often, contingent upon the candidate being declared fit after the physical examination. The results of medical fitness test are recorded in a statement and preserved in the personnel records. Such records will protect the employer from worker's compensation claims that are not valid because the injuries or illnesses were present when the employee was hired.

### **10. Job Offer**

The next step in the selection process is the job offer to those applicants who have crossed all the previous hurdles. Job offer is made in the form of an appointment letter. Such a letter, generally, contains a date by which the candidate must report for duty. Reasonable reporting time is given to all the appointed candidates. This is particularly necessary when the appointed person is already in employment, in which case he has to give notice to the previous employer. Moreover, the job may require movement to another city which means considerable preparation and shifting of property and family members.

Some organizations also inform the rejected candidates about their non selection. Their application may, however, be preserved for future use. The applications of selected candidates are always preserved for future references

### **11. Contract of Employment**

After the job offer has been made and the candidate accepts the offer, a contract for employment is executed by the employer and the candidate. The basic information that is included in a written contract varies according to the level of the Job. Generally, the following details and included in the contract :

Job title

Details of duties

Date when the continuous employment starts

Remuneration and method of payments

Hours of work including lunch break, overtime and shift arrangements

Holiday arrangements and details of holidays

Sickness leave rules

Length of notice due to and from employee

Grievance procedure

Disciplinary procedure

Work rules  
Terms of Termination of employment  
Terms for union membership  
Employers right to vary terms of the contract subject to proper notification being given.

Great care is taken in drafting the contracts. Often services of law firms are obtained to get the contracts drafted and finalized. Employers who belong to high employee turnover sectors, insist on agreements being signed by newly hired employees. The limitation of contracts is that it is almost impossible to enforce them. A determined employee will leave the organization contract or no contract it is for this reason that several companies have scrapped the contracts altogether.

## 12. Evaluation

The selection process, if properly performed will ensure availability of competent and committed personnel. A period audit, conducted by people who work independently of the human resource department, will evaluate the effectiveness of the selection process. The auditors will do a thorough the intensive analysis and evaluate the employment programme.

### 8.4.8 Selection In India

Conditions of labour market generally determine the selection process. In our country, there is large scale unemployment along with shortage of skilled labour. 'No vacancy' boards are seen along with

'wanted...' hung on factory gates everywhere. Unemployment prevails among people who have acquired university degrees but do not possess any specific skills. All the evils associated with selection-corruption, favouritism and influence are found in hiring these people. Selection is obviously not systematic and at times, bizarre too.

However, the selection practices in hiring skilled and managerial personnel are fairly well defined and systematically practiced. In hiring managerial personnel and executives, a lot of professionalism has come in, thanks to the realization that these individuals are difficult to come by and no effort is excessive to attract them. Specialist agencies are available whose services are retained for hiring technical and managerial personnel. Merit and not favouritism, objectivity and not subjectivity are the criteria for such selection.

## 8.5 TESTS AND INTERVIEWS

### 8.5.1 Tests

Over the years, employment tests have not only gained importance but also gained a certain amount of inevitability in employment decisions. As organizations become complex and the number of jobs they offer increases, managers have to be receptive to the acceptance of any device which would improve their selection decisions. Tests provide significant relevant personal information not otherwise available or available only through other more costly or less reliable sources. Properly validated tests and their results can help provide a rebuttal to charges of discrimination in employment. A test may be defined as a systematic and standardized procedure for sampling human behaviour. The way the tests are carried out the environment in which the tests are administered and the way the individual scores are calculated are all uniformly applied. Tests try to measure individual differences in a scientific way, giving very little room for individual biases and interpretation.

The general theory behind testing in selection is that human behaviour can be forecast by sampling it. The test creates a situation in which the applicant reacts. Reactions are regarded as useful clues to his likely behaviour in the work for which he is applying.

### 8.5.2 Purpose of Tests

Tests are used for the purpose of selection of candidates for an organization for placing or assigning a person to the job for which he is most suitable, for selecting candidates for promotion and transfer within an organization and for selecting candidate for assignment to a company training programme.

According to Wendell French, tests are used in business for these primary purposes :

- For the selection and placement of new employees,
- For appraising employees for employment potentials,
- For counseling employees

If properly used, tests can be of paramount importance for each of these purposes.

### 8.5.3 Characteristics of A Good Test

Basic questions about every selective practice and technique concern the extent or degree to which it can be depended on and the assurance that it really does what it is supposed to do. To be useful as predictive and diagnostic selection tools, tests must have certain basic characteristics :

**Assumption.** The use of tests is based upon the assumption that no two persons are equal as far as intelligence, skills, aptitudes and personality are concerned. The different attributes of individuals are revealed. When tests are used, Another assumption is that people possessing varying skills or other attributes perform differently on a job.

**Validity.** Validity means the ability of a test to actually measure the quality. It is assumed to appraise, as evidenced by some acceptable criterion. For example, if the test is assumed to measure an individual's ability to sell certain goods and is used for that purpose, it is valid only to the extent that it measures that ability. Tests are practically validated by (i) a follow up procedure in which test scores are compared with job performance and (ii) analysis of test scores for present employees, together with ratings or other appraisals of their performance. Validity may be of three specific types :

**Criterion Validity.** A selection procedure is justified by a statistical relationship between test scores and measures of job performance. Criterion validity means demonstrating that those who do well on the test also do well on the job and those who do poorly on the test, do poorly on the job. Thus, the test has validity to the extent that the people with higher test scores perform better on the job. In psychological measurement, a predictor implies the degree to which test scores determine the future job behaviour of a candidate. It is most important for the purpose of employee selection.

**Content Validity.** The content validity of a test is demonstrated by showing that the test constitutes a fair sample of the content of the job. The basic procedure here is to identify job tasks and behaviours that are critical to performance and then, randomly select a sample of those tasks and behaviours to be tested. An example would be an accuracy and words per minute test given to a typist. Demonstrating content validity sounds easier than it is in practice. Demonstrating that the tasks the person performs on the test are in fact a comprehensive and random sample of the tasks performed on the job and demonstrating that the conditions under which the test is taken resemble the work situation, are not always easy. For many jobs, other evidence of a test's validity must therefore, be demonstrated as well.

**Construct Validity.** Construct validity implies identifying the psychological trait such as intelligence, which underlies successful job performance and then devising a selection procedure to measure the presence and degree of the trait. The trait is not 'observable' but is 'constructed' from psychological theory about how people perform. The test must measure the trait it purports to measure like leadership ability, mechanical ability etc. and the trait must be related to the job performance.

**Reliability.** Reliability is the test's second important characteristic and refers to its consistency. It is the consistency of scores obtained by the same person when retested with identical tests or with an equivalent form of a test. A test's reliability is very important; if a person scored 90 on an intelligence test on a Monday and 130 when retested on Tuesday, one cannot probably have much faith in the test. Generally speaking HR managers should choose instruments that have the following types of reliability :

**Test-Retest Reliability.** Where the technique gives the same results when administered repeatedly to the same person. For example if the person takes the same intelligence test twice during the week and receives the same result, the test-retest reliability is high.

**Inter-Rater Reliability.** Where the instrument gives the same results when used by two or more different raters. For example, if two supervisors interview the same workers and evaluate the worker similarly, the interview has high inter-rater reliability.

**Intra-rater Reliability.** When the technique gives the same results when used by the same rater to rate the same behaviours or attitudes at different times, it has high intra-rater reliability.

**Alternative Form Method.** In this method two similar forms of test are given and the degree to which the two sets of score coincide indicates test reliability.

**Split Halves Method.** Split halves method divides the whole test into two similar and equal parts and a high association between the scores on the parts is used as an indicator of reliability.

What would cause a test to be unreliable ? There are at least four sources of error that might explain this anomaly.

The questions may do a poor job of sampling the material. Similarly, one or more of the questions may not do a good job of measuring what it is supposed to measure.

There may be error due to chance response tendencies. For example, the test may be too boring or hard or inconsequential that the candidate gives up and starts answering the questions at random.

There might be errors due to changes in the testing conditions, for instance, the room next month may be more noisy.

There could be changes in the person taking the test. In any event, there can be many factors which affect a test's consistency and its reliability.

**Standardization.** A test must be standardized so that test scores become comparable. The test should, in other words, be administered under standard conditions to a large group of persons who are representative of the individual for whom it is intended.

**Objectivity.** To be reliable, a test must be constructed in such a way that two or more persons can score the responses to items, questions or testes in the same way.

**Qualified People.** Tests require a high degree of professional skill in their administration and interpretation. Professional technicians are needed for skilled judgemental interpretations of test scores.

**Tailor Made.** Each organization is unique in terms of its needs and circumstances. Therefore, tests should be validated for the given organization before use.

**Preparation.** A test should be well prepared, it should be easy to understand and simple to administer.

**Usefulness.** Exclusive reliance on any single test should be avoided, since the results in such case are likely to be criticized. To be useful, it is always better to use a series of tests.

**Imprecise.** It should always be kept in mind that tests are not precise measures because they are samples of behaviour. Candidates scoring high in a test are not necessarily a better choice than those scoring low.

#### **8.5.4 Classification or Types of Tests**

Since, the tests try to objectively determine how well an applicant meets job requirements, most organizations do not hesitate to invest their time and money in selection testing in a big way. Some of the commonly used employee tests are as follows :

##### **1. Intelligence Tests**

Intelligence tests are tests of general intellectual abilities or mental ability tests. These measure not a single intelligence trait, but rather a range of abilities including memory, vocabulary, verbal fluency, numerical ability, perception etc. Intelligence is often measured with individually administered tests such as the Standard-Binet Test or the Wechsler Test. Other IQ tests such as the W onderlic can be administered to groups of people. The basic objective of intelligence tests is to pick up employees who are alert and quick at learning things so that they can be offered adequate training to improve their skills for the benefit of the organization. Some of these tests are increasingly used in competitive examinations while recruiting graduates and post graduates at entry level management positions in Banking, Insurance and other financial services sectors.

##### **2. Aptitude Tests**

Aptitude tests purport to measure the applicant's aptitudes for the job in question. These are also measures of specific mental abilities such as inductive and deductive reasoning, verbal comprehension, memory and numerical ability. These tests indicate whether or not an individual has the ability to learn a given job quickly and efficiently. Aptitude tests, do not measure on-the Job motivation. That is why the aptitude test is administered in combination with other tests like intelligence and personality tests. Aptitude test may take one of the following forms :

**Mechanical Aptitude Test.** Mechanical Aptitude test measures a person's capacity to learn a particular type of mechanical work. Capacity for Spatial Visualization, perceptual speed, manual dexterity, visual insights, technical vocabulary etc. are judged in these tests. These tests are used for selecting lower level personnel like apprentices mechanics, maintenance workers etc. who are entrusted with the job of operating machines.

**Psycho-Motor or Skill Tests.** Psycho-motor tests measure a person's ability to perform a specific job. These help to determine mental dexterity or motor ability and similar attributes involving muscular movement, control and coordination. These are generally used for selecting workers who have to perform semi-skilled and repetitive jobs like assembly work, packing, testing and inspection.

### **3. Personality Tests**

Perhaps because they seek to appraise so much, personality tests are among the most difficult to evaluate. They purport to probe deeply, to discover clues to an individual's value system, his emotional reactions and maturity and what is sometimes described as his characteristic mood. Personality tests can measure basic aspects of an applicant's personality such as introversion, stability and motivation. Many of these tests are projective. Here an ambiguous stimulus like a clouded picture is presented to the person taking the test and he is asked to interpret it. Since the pictures are ambiguous. The person's interpretation must come from within-be supposedly projects into the picture his own emotional attitude towards life. Standard tests are frequently used to assess the personality of the testee. In the Thematic Appreciation Test, the testee is shown a picture and is asked to make up a story based on the picture. The responses are analysed and a profile of personality is developed. The Guilford-Zimmerman survey measures personality traits like emotional stability versus moodiness and friendliness versus criticalness. The Minnesota Multiphasic Personality Inventory taps traits like hypochondria and paranoia.

Personality tests, particularly the projective type-are the most difficult tests to evaluate and use. An expert must analyse the test taker's interpretations and reactions and infer from them his personality. The usefulness of such tests for selection rests on the assumption that a relationship can be found between a measurable personality trait and success on the job.

### **4. Interest Tests**

Interest tests compare one's interests with those of people in various occupations. These are used to discover a person's areas of interest and to identify the kind of work that will satisfy him. These tests are generally used for vocational guidance. A well designed questionnaire is used to test the likes and dislikes. A person, who takes the strong-Campbell Test would receive a report comparing his interests to those of people already in occupations such as accounting, engineering, management or medical technology. The basic idea behind the use of interest tests is that people are most likely to be successful in jobs they like. The chief problem, however in using these tests is that responses to the questions are not always sincere.

### **5. Achievement Tests**

An achievement test is basically a measure of what a person has learned. Most of the tests taken in school are achievement tests. Thus, a typing test notes the time taken and the errors made. Similar tests are available for proficiency in short hand and in operating computers and simple mechanical equipment.

Trade tests, measuring the applicant's trade knowledge and skill, are a type of achievement test. They may actually involve the performance of simple operations requiring specialized skill. Principal emphasis has, however, be given to oral types of trade tests. Such tests consist of series of questions that can be satisfactorily answered only by those who know and thoroughly understand the trade or occupation. The oral form of trade test may be supplemented by written, picture or performance types.

Achievement tests are not applicable to all levels of the organization. For managerial jobs, it is often not possible to develop a work sample or trade test that can take one of all the full range of managerial abilities.

To conclude, it can be said that because of the prominence given to challenges of testing practices, the basic yardsticks of validity and reliability should be applied to all tests. Sound human resource management must create, develop and apply substantially the same type of critical analysis in appraising all comparable programmes.

### **6. Simulation Tests.**

Simulation exercise is a test which duplicates many of the activities and problems an employee faces at work. The basic procedure is to choose several tasks crucial to performing the job and to test applicants on samples of each. An observer monitors the performance on each task and indicates on a check list how well the applicant performs. Designed properly simulation tests exhibit better validity than other tests do designed to predict performance. These tests measure actual on the job tasks, so it is harder for the applicants to fake answers. Work samples more clearly relate to the job, an applicant is being tested for, so in terms of fairness and fair employment, the management is on safer ground.

Simulation tests are commonly used for hiring managers at various levels in an organization.

## 7. Assessment Centres.

An assessment centre is an extension of job sample used in simulation tests. The assessment centre approach evaluates a candidate's potential for management on the basis of multiple assessment techniques. Standardized methods of making inferences from, such techniques and pooled judgements from multiple assessors. In this method, initially a small batch of applicants come to the assessment centre (a separate room). Their performance in the situational exercises is observed and evaluated by a term of 6 to 8 trained assessors. The assessors' judgements on each exercise are compiled and combined to have a summary rating for each candidate being assessed. Typical, exercises used in this methods include :

**The in Basket.** In this method, the candidate is provided with a basket or tray of papers and files related to his functional area. He is expected to study these and make his own recommendations on the problem situation. The evaluators then review the candidate's efforts.

**Leaderless Group Discussion.** The assessors give a leaderless group a discussion question and tell the candidates to arrive at a group decision. On the basis of this they evaluate each group member's interpersonal skills, acceptance by the groups leadership ability and individual influence.

**Management Games.** In this method, the candidates have to solve realistic problems as members of stimulated companies competing in a market place. They may have to decide for example, how to penetrate the market, how to advertise, how much to keep in stock etc.

**Individual Presentations.** Candidates are given a limited amount of time to plan, organize and prepare a presentation on an assigned topic. On the basis of the presentation, the evaluators evaluate each candidate's communication skills and persuasiveness.

**Objective Tests.** An assessment centre typically includes tests of personality, mental ability interests and achievements.

**Interviews.** Evaluators ask a series of questions to assess the candidate's interests, past performance and motivated level.

Assessment centres are, generally, used for selection, promotion and development. Supervisory recommendations play an important role in choosing centre participants. Line managers usually act as evaluators and arrive at the ratings through a consensus.

The assessment centre has a number of advantages e.g. :

Flexibility of form and content

Standardized ways of interpreting behavior

Pooled assessor judgements

Wide acceptance in corporate circles.

Objective performance ratings which can be used for promotion and career development decisions.

However, this method is expensive and time consuming to design and administer. Blind faith on this method, without considering other information on candidates is not advisable.

## 8. Video Based Situational Testing.

Video based tests are situational tests which present the candidates with situations representative of the job. The typical video based test provides the candidate with several scenarios, each followed by a multiple choice question. A scenario might depict an employer handling a situation on the job. At a critical moment, the scenario ends and the video asks the candidate to choose from several courses of action. His response will form the basis of his selection or rejection. Results suggest that this method can be quite useful for selecting the employees.

## 9. Graphology Tests.

Graphology means the analysis of the hand writing of a candidate. In graphology, the hand writing analyst studies an applicant's hand writing and signature to discover the person's needs, desires and psychological makeup. The results may be put to use while selecting the person. The use of graphology, however, is dependent upon the training and expertise of the person doing the analysis. The validity of this method is questionable in actual practice.

## 10. Polygraph tests.

A polygraph is a lie detector. These tests are designed to ensure accuracy of the information given in the application forms. Departmental stores, jewellery shops, banks who are highly vulnerable to theft or swindling—may find polygraph tests useful.

### **8.5.5 Developing A Test Programme**

In order for any selection test to be useful, an employer should be fairly sure that scores on the test are related in a predictable way to performance on the job. In other words it is imperative that the test should be validated before use, by ensuring that the test scores are a good predictor of some criterion like job performance. This validation process usually requires the expertise of an industrial psychologist and is coordinated by the HR department. Line management role is to clearly describe the Job and its requirements so that the human requirements of the Job and Job's performance standards are clear to the psychologist. The following steps are generally involved in establishing a sound testing programme.

#### **1. Deciding the Objectives of the Testing Programme**

The first step in establishing a testing programme is deciding the objectives of the programme *i.e.* whether it is meant for hiring personnel or for transfers, promotions etc. Initially, such a programme may be set up only for some jobs. It may then be expanded to cover all types of jobs in the organization.

#### **2. Analysing the Job**

The next step is to analyse the job and write job descriptions and job specifications. The human traits and skills required for adequate job performance are also to be specified. Consideration may be given to two criteria. One production related criteria *i.e.* quality, quantity etc. and two, personnel data *i.e.* absenteeism, length of service etc. In this step, one must define what is meant by 'success on the job', because it is this success for which the traits and skills are required. For example, for an assembler's job, traits to be tested for might include manual dexterity and patience. Criteria that can be predicted with the test might include quantity produced per hour and number of rejects produced per hour.

#### **3. Choosing the Tests**

Next step is to choose the tests which can measure the attributes important for job success. This choice is usually based on experience personal research and 'best guesses' and the tester, generally does not start off with just one test. Instead, several tests are chosen, combining them into a test battery aimed at measuring a variety of possible attributes such as aggressiveness extroversion and numerical ability. The tests may be chosen by keeping in mind such factors as reliability, content or face validity, level of difficulty, ease of administration and the cost involved.

#### **4. Administering the Test**

Next step is to administer the test to the employees. The tester will have two choices here. First, he can administer the tests to employees presently on the job. Their test scores can then be compared with their current performance. This is called concurrent validation. Its main advantage is that data on performance are readily available. The disadvantage is that current employees may not be representative of new applicants (who are the ones for which a screening test is to be developed). Current employees have already received on the job training and have been screened by the existing selection technique.

Secondly, Predictive Validation may be used to validate a test. Here the test is administered to applicants before they are hired. Then these applicants are hired using only existing selection techniques. not the results of the new tests. After they have been on the job for some time, their performance is measured and compared with their earlier test scores. Then, it can be determined whether their performance on the test could have been used to predict their subsequent Job Performance.

#### **5. Relating the Test Scores and Criteria**

The next step is to determine whether there is a significant relationship between scores and performance (criteria). The usual way to do this is to determine the statistical relationship between (i) scores on the test and (ii) performance through correlation analysis, which shows the degree of statistical relationship.

If performance on the test and on the job are correlated, an expectancy chart can be developed. This presents graphically the relationship between test scores and job performance.

#### **6. Cross-Validating and Revalidating**

Before putting the test into the use, it should be checked by cross validating by again performing steps 4 and 5 on a new sample of employees. An expert should revalidate the test periodically.

#### **7. Analysing the Results of Tests**

The last step is analysing the results of tests and taking decisions regarding the applications of tests. As no single test can be expected to measure all the abilities required for a satisfactory job performance, a number of tests in combinations are usually administered.

### 8.5.6 Testing Guidelines

There are some rules and principles which should be observed while setting up a testing programme. The general guidelines are :

**Use Tests as Supplements.** Tests should not be used as the sole selection technique, instead these should be used to supplement other techniques like interviews and background checks. Tests are not infallible. Moreover, tests are often better at telling which candidates will fail rather than which will succeed. Even valid tests represent a small sample of a person's total pattern of behaviour. Hence, tests should be used as supplement to information derived from other procedures.

**Validate the Tests.** Validating the test in one's own organization is the optimal strategy. A test may be validated by undertaking research into the environment in which it is used. The fact, that the same test has been proven valid in similar organizations called validity generalization is usually adequate. Besides, a test must also be reliable. A person should get the same score, whenever, he takes the same test unless some significant educational development has taken place between testing dates.

**Analyse all Current Hiring and Promotion Standards.** All the current hiring and promotion standards should be analysed to answer questions such as \_Why this standard is used-what does it mean in terms of actual behaviour on the job? The burden of proof is always on the tester to prove that the predictor (such as intelligence) is related to success or failure on the job.

**Keep Accurate Records.** It is very important to keep accurate records of why each applicant was rejected. As objectively as possible, it should be stated why the candidate was rejected. The reasons for rejecting the candidate may be subject to validation at a later date.

**Begin the Validation Programme.** If the organization is not currently using tests or if the tests which are being used haven't been validated, validation programme should be begun immediately. Tests should be administered to the candidates, applicants should be hired without referring to their test scores and at a later date, their test scores should be correlated with their performance on the job.

**Use a Certified Psychologist.** The development, validation and use of selection standards (including tests) require the assistance of a qualified psychologist. Most industrial and organizational psychologists hold a Ph. D. degree. A potential consultant should be able to provide evidence of similar work and experience in the area of test validation.

**Test Conditions Important.** The place where the tests are administered should be reasonably private as well as quiet, well lighted and ventilated. All applicants should take the test under the same test conditions. This ensures that some do not get high or low scores due to differences in test conditions.

### 8.6 SUMMARY

Manpower planning means planning for the future personnel needs of the organization. Once the requirement starts, Job recruits can be drawn from within or outside the organization. However, before recruitment can take place, a job analysis should be made. This must be followed by job description and job specification. Recruitment is concerned with developing suitable techniques for attracting more and more candidates. Recruitment is a linkage activity bringing together those with jobs and seeking jobs. Recruitment has two important aspects (i) to find out the number of vacancies to be notified and the type of applicants needed to fill them and (ii) to approach the potential candidates to apply for such vacancies. The employees already working in the organization may be more suitable for higher jobs than those recruited from outside. The present employees may help in the recruitment of new persons also. Each enterprise has to use external sources for recruitment to higher positions when existing employees are not suitable. More persons are needed when expansions are undertaken.

The selection process follows a six-step procedure: completed job application, initial screening interview, testing background investigation, checking references, physical examination and final selection interview. Selection is the process of picking up individuals (out of the pool of the job applicants) with requisite qualifications and competence to fill jobs in the organization. Selection procedure may be compared to a set of barriers which an applicant is required to cross before he is finally selected. The success of an organization depends on the quality of personnel selected for the jobs. Selection of proper personnel helps the management in getting the work done by the people effectively. Selection process involves mutual decision making. The organization decides whether or not to make a job offer and how attractive the job offer should be. The candidate decides whether or not the organization and the job offer are according to his goals and needs.





Activity 2

Describe the sources of recruitment.

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## CHAPTER – 9

### TRAINING, INDUCTION AND PERFORMANCE MANAGEMENT

#### 9.1 OBJECTIVE

- Explain** the meaning of performance management and the purposes of performance appraisal
- Describe** the steps in designing Performance Management Systems (comprising criteria and standards of appraisals, frequency of appraisals, appraisal methods and their limitations and post-appraisal interview)
- Discuss** the appraisal of management
- Explain** the essentials of good performance management
- Describe** the performance management in Indian industries
- Describe** the team-oriented performance appraisal
- Present** the expatriate performance appraisal
- Describe** career planning and development, Promotions, and Potential Appraisal; and Appraisal of Organizational Performance and the Balanced Score Card
- Identify** the distinction between training, education and development
- Summarise** the advantages of training
- Explain** the steps in setting up a training programme. These include assessment of training needs, identification of the areas requiring training, designing and developing the programme and evaluating the programme
- Choose** the expatriate training method
- Explain** the meaning of performance management and the purposes of performance appraisal
- Describe** the steps in designing Performance Management System (comprising criteria and standards of appraisals, frequency of appraisals)
- Discuss** the appraisal of management
- Explain** the essentials of good performance management

#### 9.2 Introduction

After the newly appointed employees have joined the organization the next phase of the personnel programme is to impart necessary training to them to make them fully fit for the jobs they are supposed to handle. In modern industrial organizations the need for training of employees is also widely recognized so as to keep the employees in touch with the new technological developments. Every company must have a systematic training programme for the growth and development of its employees. It may be noted that term ‘\_training’ is used in regard to teaching of specific skills, whereas the term ‘\_development’ denotes overall development of personality of the employees. In this chapter, we shall study the various methods of training which are commonly used by the industrial organizations.

##### 9.2.1 Need and Rationale of Training

Training is important not only from the point of view of the organization but also for the employees. Training is valuable to the employees because it will give them greater job security and an opportunity for advancement. A skill acquired through training is an asset for the organization and the employee. It can be taken away only by the complete elimination of the need for that skill because of technological changes.’

The need for training arises because of the following reasons:

**Changing Technology.** Technology is changing at a fast pace. The workers must learn new techniques to make use of advanced technology. Thus, training should be treated as a continuous process to update the employee in new methods and procedures.

**Quality Conscious Customers.** The customers have become quality conscious and their requirements keep on changing. To satisfy the customers, quality of products must be continuously improved through training of workers.

**Greater productivity.** It is essential to increase productivity and reduce cost of production for meeting competition in the market. Effective training can help increase productivity of the workers.

**Stable Workforce.** Training creates a feeling of confidence in the minds of the workers. It gives them a security at the work place. As a result, labour turnover and absenteeism rates are reduced.

**Increased Safety.** Trained workers handle the machines safely. They also know the use of various safety devices in the factory. Thus, they are less prone to industrial accidents.

**Better Management.** Training can be used as an effective tool of planning and control. It develops skills among workers for the future and also prepares them for promotion. It helps in reducing the costs of supervision wastages and industrial accidents. It also helps increase productivity and quality.

## 9.2.2 Meaning and Nature of Training

### What is Training?

Training is an organized activity for increasing the knowledge and skills of people for a definite purpose. It involves systematic procedures for transferring technical know-how to the employees so as to increase their knowledge and skills for doing specific jobs with proficiency. In other words, the trainees acquire technical knowledge, skills and problem solving ability by undergoing the training programme.

According to Edwin B. Flippo, 'Training is the act of increasing the knowledge and skills of an employee for doing a particular job'. Training involves the development of skills that are usually necessary to perform a specific job. Its purpose is to achieve a change in the behaviour of those trained and to enable them to do their jobs better. Training makes newly appointed workers fully productive in the minimum of time. Training is equally necessary for the old employees whenever new machines and equipment are introduced and/or there is a change in the techniques of doing the things. In fact, training is a continuous process. It does not stop anywhere. The managers are continuously engaged in training their subordinates. They should ensure that any training programme should attempt to bring about positive changes in the (i) knowledge, (ii) skills, and (iii) attitudes of the workers. 'The purpose of training is to bring about improvement in the performance of work. It includes learning of such techniques as are required for the better performance of definite tasks'.

### What Does Training include?

Training enables the employees to get acquainted with jobs and also increase their aptitudes and skills and knowledge. It makes newly recruited employees fully productive in the minimum of time. Even for the old workers, it is necessary to refresh them and to enable them to keep up with new methods and techniques as well as new machines and equipments for doing the work. Thus, training is not a 'one-step process', but it is a continuous or never-ending process because it increases the knowledge and skills of new employees in performing their jobs and serves as a refresher course for the old employees. Training job will never be finished as long as the organization remains in operation. At any given time, the different phases of training programme will be found at practically every stage of progress. Men may be learning by their own experiences and by trial and error methods. Training does not disappear from any organization merely because its presence is ignored.

The purpose of training is to bring about improvement in the performance of workers. It includes the learning of such techniques as are required for the intelligence performance of definite tasks. It also comprehends the ability to think clearly about problems arising out of the job and its responsibilities and to exercise sound judgement in making decisions affecting the work. Lastly, it includes those mental attitudes and habits which are covered under the general term 'morale'.

## 9.2.3 Objectives of Training

From the above discussion, we can state the objectives of training as follows:

- To increase the knowledge of workers in doing specific jobs.
- To impart new skills among the workers systematically so that they learn quickly.
- To bring about change in the attitudes of the workers towards fellow workers, supervisor and the organization.
- To improve the overall performance of the organization.
- To make the workers handle materials, machines and equipment efficiently and thus to check wastage of time and resources.
- (vi) To reduce the number of accidents by providing safety training to workers.
- (vii) To prepare workers for higher jobs by developing advanced skills in them.

## 9.2.4 Training, Development and Education

The processes of training and development are often confused. Training means learning the basic skills and knowledge necessary for a particular job or a group of jobs. To put it in other words, training is the act of increasing the knowledge for doing a particular job. But development, on the other

hand, means growth of the individual in all respects. An organization works for the development of its executives or potential executives in order to enable them to be more effective in performing the various functions of management. An executive development programme aims at increasing the capacities of the individuals to achieve the desired objectives. Executive capacities imply his personal abilities and potentials. Desired objectives imply consideration for goals of the organization and individuals. Increasing the capacities implies that change must occur in the executive and through him in his subordinates.

Training must also be distinguished from education. Training is concerned with increasing knowledge and skills in doing a particular job and the major burden of training falls upon the employer. But education is broader in scope. It is concerned with increasing general knowledge and understanding of total environment. By education we generally mean formal instruction in a school or a college, whereas training is vocationally oriented and is generally imparted at the work-place. Training usually has a more immediate utilitarian purpose than education. Actually, the distinction between training and education is not precise because in many cases both training and education occur at the same time. Some formal vocational programmes are job-oriented only, whereas some employee development programmes in industry are quite wider in scope and they may be viewed as education. According to Dale Yoder, *“The use of the term; „training and development“ in today’s employment setting is far more appropriate than „training“ alone since human resources can exert their full potential only when the learning process goes far beyond simple routine”*.

### Training vs. Development

| Training  | Development   |
|---|---|
| 1. Training means learning skills and knowledge for doing a particular job. It increases job skills.                            | 1. Development means the growth of an employee in all respects. It shapes attitudes.  |
| 2. The term ‘_training’ is generally used to denote imparting <i>specific skills</i> among operative workers and employees.     | 2. The term ‘_development’ is associated with the <i>overall growth</i> of the executives.  |
| 3. Training is concerned with maintaining and improving current job performance. Thus, it has a <i>short-term perspective</i> . | 3. Executive Development seeks to develop competence and skills for future performance: Thus, it has <i>long-term perspective</i> . |
| 4. Training is <i>job-centred</i> in nature.  | 4. Development is <i>career-centred</i> in nature.  |
| 5. The role of trainer or supervisor is very important in training.   | 5. All development is ‘_self-development’. The executive has to be internally motivated for self-development.                       |

#### 9.2.5 Significance of Training

Training plays an important role in human resource development. It is necessary, useful and productive for all categories of workers and supervisory staff. It is very important in the present age as development in science and technology are introducing radical changes in the industrial field. Training is important as it gives various benefits to employers and workers. The basic purpose of training is to develop skills and efficiency. Every organization has to introduce systematic training programmes for its employees. This is because trained personnel are like valuable assets of an organization. They are responsible for the progress and stability of an organization. Expenditure on training is a profitable investment. Training is important as it constitutes a vital part of managerial control.

Big organizations hire a large number of persons every year. Since the vast majority of the newly employed persons do not know fully how to perform their jobs, they must be trained properly so that they may contribute to the well-being of the organization. There are also certain types of jobs where no one can afford an untrained person. For instance, nobody would dream of allowing an untrained individual to pilot an airbus or to operate a lathe. The need for systematic training has increased because of rapid technological changes which create new jobs and eliminate old ones. New jobs demand certain special skills which can be developed in the new as well as old workers by providing them the appropriate training.

The responsibility for imparting training to the employees rests with the employer. If there is no formal training programme in an organization, the workers will try to train themselves by trial and error or by observing others. But this process will take a lot of time and will result in higher costs of training. Moreover, the workers may not be able to learn the best operative methods. Training is important not only from the point of view of the organization, but also for the employees. It is valuable to the employees because it will give them greater job security and an opportunity for advancement. A skill acquired through training is an asset for the organization and the employees. It can be taken away only by the complete elimination of the need for that skill because of rapid technological changes.

### 9.2.6 Why should Training be imparted to Employees?

Modern organizations arrange for the training of their human resources to achieve the following benefits:

**Quick learning.** Training helps to reduce the learning time to reach the acceptable level of performance. The employees need not learn by observing others and waste time if the formal training programme exists in the organization. The qualified instructors will help the new employees to acquire the skills and knowledge to do particular jobs quickly.

**Higher productivity.** Training increases the skill of the new employee in the performance of a particular job. An increase in skill usually helps increase in both quantity and quality of output. Training is also of great help to the existing employees. It helps them to increase their level of performance on their present job assignments and prepares them for future assignments.

**Standardization of procedures.** With the help of training, the best available methods of performing the work can be standardized and taught to all employees. Standardization will make high levels of performance rule rather than exception. Employees will work intelligently and make fewer mistakes when they possess the required know-how and have an understanding of their jobs and of the interdependence of one job on another.

**Less supervision.** If the employees are given adequate training, the need supervision will be lessened. Training does not eliminate the need for supervision, but it reduces the need for detailed and constant supervision. A well-trained employee is self-reliant in his work because he knows what to do and how to do. *Under* such situations dose supervision is ordinarily not mandatory.

**Economical operations.** Trained personnel will be able to make better and economic use of materials and equipment. Wastage will also be low. In addition, the rate of accidents and damage to machine and equipment will be kept to the minimum by the trained employee. These will lead to lower cost of production per unit.

**Higher morale.** The morale of employees is increased if they are given proper training. A good training programme will mould employees' attitudes towards organizational activities and generate better cooperation a loyalty. With the help of training, dissatisfactions complaints absenteeism and turnover can also be reduced among the employees. Thus, training helps in building an efficient and co-operative work-force.

**Preparation of future managers.** W hen totally new skills are required by an organization, it has to face great difficulties in the selection process. Training can be used in spotting out Promising men and preparing them for promotion It is better to select and train from within the organization rather than seek skilled employees from the outside sources.

**Better management.** A manager can make use of training to manage in a better way. To him, training the employees can assist improve his planning, organizing, directing and controlling For instance, maintaining higher standards of quality, building a satisfactory organization structure, delegating authority and stimulating employees are all assisted by effective raining.

### 9.2.7 What cat, Training do for Employees?

Training helps the employees or work-force in the following ways:

**Confidence.** Training creates a feeling of confidence in the minds of workers. It gives a feeling of safety and security to them at the work-place.

**New Skills.** Training develops skills which serve as a valuable personal asset of a worker. It remains permanently with the worker himself.

**Promotion.** Training provides opportunity for quick promotion and self-development.

**Higher Earnings.** Training helps in earning higher remuneration and other monetary benefits to the workers as their productivity is increase.

**Adaptability.** Training develops adaptability among workers. They don't worry when work procedures and methods are changed.

**Increased Safety.** Trained workers handle the machines safely. They also know the use of various safety devices in the factory. Thus, they are less prone to accidents.

### 9.2.8 Types of Training

On the basis of purpose, several types of training programmes are offered to the employees. It should be noted that these programmes are not mutually exclusive. They invariably overlap and employ many common techniques. The important types of training programmes are as follows:

1. Induction or orientation training.
2. Job training.
3. Apprenticeship training
4. Internship training
5. Refresher training or retraining.
6. Training for promotion.

#### 1. Induction or orientation training.

Induction is concerned with introducing or orienting a new employee to the organization and its procedures, rules and regulations. When a new employee reports for work, he must be helped to get acquainted with the work environment and fellow employees. It is better to give him a friendly welcome when he joins the organization, get him introduced to the organization and help him to get a general idea about the rules and regulations, working conditions, etc. of the organization.

Employee orientation or induction training is nothing but introduction of the organization to the newly employed person. The purpose is to give a 'bird's eye view' of the organization where he has to work. It is a very short informative training given immediately after recruitment. It creates a feeling of involvement in the minds of newly appointed employees.

#### 2. Job Training

Job training relates to specific job which the worker has to handle. It gives information about machines, process of production, instructions to be followed methods to be used and so on. It develops skills and confidence among the workers and enables them to perform the job efficiently.

Job training is the most common of formal in-plant training programmes. It is necessary for the new employees to acquaint them with the jobs they are expected to perform. It helps in creating interest of the employees in their jobs.

#### 3. Apprenticeship Training

Apprenticeship training programme tends more towards education than merely on the vocational training. Under this, both knowledge and skills in doing a job or a series of related jobs are involved. The governments of various countries have passed laws which make it obligatory on certain classes of employers to provide apprenticeship training to the young people. The usual apprenticeship programmes combine on the job training and experience with class-room instructions in particular subjects.

The trainees receive wages while learning and they acquire valuable skill which commands a high wage in the labour market. In India, there are so many 'earn when you learn' schemes both in the private as well as public sector understandings. This is also advantageous to the trainees. Some employers look upon apprentices as a source of cheap labour. Apprenticeship training is desirable in industries which require a constant flow of new employees expected to become all round craftsmen. It is very much prevalent in printing trades, building and construction, and crafts like mechanics, electrician's welders, etc.

#### 4. Internship Training

Under this method, the educational or vocational institute enters in to arrangement with an industrial enterprise for providing practical knowledge to its students. Internship training is usually meant for such vocations where advanced theoretical knowledge is to be backed up by practical experience on the job. For instance, engineering students are sent to big industrial enterprises for gaining practical work experience and medical students are sent to big hospitals to get practical knowledge. The period of such training varies from six months to two years. The trainees do not belong to the business enterprises, but they, come from the vocational or professional institution. It is quite usual that enterprise giving them training absorb them by off - suitable jobs.

## 5. Refresher Training or Retraining

As the name implies, the refresher training is meant for the old employees of the enterprise. The basic purpose of refresher training is to acquaint the existing workforce with the latest methods of performing their jobs and improve their efficiency further. In the words of Dale Yoder, 'Retraining programmes are designed to avoid personnel obsolescence.' The skills with the existing employees become obsolete because of technological changes and because of the tendency of human beings to forget. Thus, refresher training is essential because of the following factors:

The workers require training to bring them up-to-date with the knowledge and skills and to relearn what they have forgotten

Rapid technological changes make even the qualified worker obsolete in course of time because new technology is associated with new work-methods and job requirements. The workers need to learn new work methods to use new techniques in doing their jobs.

Refresher training becomes necessary because many new jobs which are created due to changes in the demand for goods and services are to be handled by the existing employees.

### Training for Promotion

The talented employees may be given adequate training to make them eligible for promotion to higher jobs in the organization. Promotion of an employee means a significant change in his responsibilities and duties. Therefore, it is essential that he is provided sufficient training to learn new skills to perform his new duties efficiently. The purpose of training for promotion is to develop the existing employees to make them fit for undertaking higher job responsibilities. This serves as a motivating force to the employees.

### 9.2.9 Methods of Training

A wide range of training methods and techniques have been developed over the years by various organizations and training experts. Different training methods are suitable for different categories of personnel in the organization: managerial and non managerial, technical, administrative, skilled, unskilled, senior, junior and so on. Each organization has to choose those methods and techniques of training which are relevant for its training needs.

The various methods of training may be classified into the following categories:

On-the-job training.

Vestibule training.

Off-the-job training.

#### Methods of Training

##### **On-the-job Training** (at the place of work)

Coaching

Understudy

Position Rotation.

##### **Vestibule Training** (adapted to the environment at the place of work)

##### **Off-the-job Training** (away from the place of work)

Special lecture-cum-Discussion

Conference

Case Study

Sensitivity training

Special projects

Committee assignments.

### 9.2.10 On-The-Job Training

On-the-job training is considered to be the most effective method of training the operative personnel. Under this method, the worker is given training at the work place by his immediate supervisor. In other words, the worker learns in the actual work environment. It is based on the principle of 'learning by doing'.



On-the-job training is suitable for imparting skills that can be learnt in a relatively short period of time. It has the chief advantage of strongly motivating the trainee to learn. It is not located in an artificial situation. It permits the trainee to learn on the equipment and in the work-environment. On-the-job training methods are relatively cheaper and less time consuming. Another important factor about on-the-job training is that supervisors play an important part in training the subordinates.

There are four methods of on-the-job training described below:

**Coaching.** Under this method, the supervisor imparts job knowledge and skills to his subordinate. The emphasis in coaching or instructing the subordinate is on learning by doing. This method is very effective if the superior has sufficient time to provide coaching to his subordinates.

**Understudy.** The superior gives training to a subordinate as his understudy or assistant. The subordinate learns through experience and observation. It prepares the subordinate to assume the responsibilities of the superior's job in case the superior leaves the organization.

The subordinate chosen for under-study is designated as the heir-apparent and his future depends upon what happens to his boss. The purpose of under study is to prepare someone to fill the vacancy caused by death, retirement, promotion, or transfer of the superior.

**Position Rotation.** The purpose of position rotation is to broaden the background of the trainee in various positions. The trainee is periodically rotated from job to job instead of sticking to one job so that he acquires a general background of different jobs. However, rotation of an employee from one job to another should not be done frequently. He should be allowed to stay on a job for a sufficient period so that he may acquire the full knowledge of the job.

Job rotation is used by many organizations to develop all-round-workers. The employees learn new skills and gain experience in handling different kinds of jobs. They also come to know the interrelationship between different jobs. Job rotation is also used to place workers on the right jobs and prepare them to handle other jobs in case of need.

### 9.2.11 Significance of On-the-Job Training

On-the-job training techniques are most appropriate for imparting knowledge and skills that can be learnt in a relatively short time and where only one or a few employees are to be trained at the same time for the same job. But the success of the training depends almost entirely on the trainer. If he understands training principles and methods and if he takes an interest in proper training of new employees, chances are that it will be done properly.

On-the-job training has the chief advantage of strongly motivating the trainee to learn. It is not located in an artificial situation, either physically or psychologically. It permits the trainee to learn at the actual equipment and in the environment of the job. On-the-job training methods are relatively cheaper and less time consuming. If only a few persons are to be trained at one time, it is cheaper for the employer to resort to on-the-job training. It will take less time to learn on the job itself and, moreover, production does not suffer. Another important factor about on-the-job training is that line supervisors take an important part in training their subordinates.

On-the-job training is the most effective method of training the employees because it is in complete accord with the three basic laws of learning:

- (i) The law of readiness;
- (ii) The law of exercise; and
- The law of effect.

When a person is confronted with a job which he is potentially able to do and is interested in learning how to do a job in order to hold it; the law of readiness is definitely satisfied. Such a situation presents a good incentive for learning.

The second law of learning is that of exercise and it is satisfied when a person is trained on the job. He has the chance to immediately apply what he has been trained to understand and to do.

The law of effect is likewise satisfied through on-the-job training. If the training is good and new employee is intelligently dealt with by his supervisor, he will get satisfaction out of his work and feel secured in the job. He will be better satisfied than he would have been if he had been left to learn by trial and error method.

### 9.2.12 Vestibule Training

The term 'vestibule training' is used to designate training in a class-room for semi-skilled jobs. It is more suitable where a large number of employees must be trained at the same time for the same kind of work. Where this method is used, there should be well qualified instructors in charge of training

programme. Here the emphasis tends to be on learning rather than production. It is frequently used to train clerks, machine operators, typists, etc.

Vestibule training is adapted to the general type of training problem that is faced by on-the-job training. An attempt is made to duplicate, as nearly as possible, the materials, equipments and conditions found in the real work-place. The human resource department makes arrangements for vestibule training when the training work exceeds the capacity of the line supervisors. Thus, in vestibule training, the workers are trained on specific jobs as they would be expected to perform at their work place. An attempt is made to create working conditions that are similar to the actual workshop conditions. The learning takes place under the guidance of expert trainees.

Vestibule training is particularly suitable where it is not advisable to put the burden of training on line supervisors and where special kind of learning is required. The trainers include expert and specialist instructors. The trainees avoid confusion and pressure of the work-place and are thus able to concentrate on training. Their activities do not interfere with the regular processes of production. Moreover, the trainees get an opportunity to become accustomed to the work routine and recover from their initial nervousness before going on to their work place.

Vestibule training has certain demerits also. The artificial training atmosphere may create the adjustment problem for the trainees when they are sent to their work-place. Vestibule training is relatively expensive because there is duplication of materials, equipments and conditions found in the real work-place.

### 9.2.13 Off-The-Job Training

It requires the worker to undergo training for a specific period away from the work-place. Off-the-job methods are concerned with both knowledge and skills in doing certain jobs. The workers are free of tension of work when they are learning.

There are several off-the-job methods of training and development described below:

**Special Lecture cum Discussion.** Training through special lectures is also known as „*class-room training*“. It is more associated with imparting knowledge than with skills. The special lectures may be delivered by some executives of the organization or specialists from vocational and professional institutes. Many firms also follow the practice of inviting experts for special lectures for the staff on matters like health, safety, productivity quality, etc.

There are certain aspects of nearly all jobs that can be learnt better in the classroom than on the job. Orientation about organization and safety training can be accomplished more effectively in the classroom. The standard instructional method suitable for operative employees is a „*formal lecture*“ by an instructor to the trainees. The lecturer possesses a considerable depth of knowledge of the subject at hand. He seeks to communicate his thoughts in such a manner as to interest the class and cause the trainees to retain what he has said. The trainees generally take notes as an aid to learning.

The lecture method can be used for providing instructions to large groups. Thus, the cost per trainee is low. However, it has certain limitations also. The learners may be passive. It violates the principle of learning by doing and constitutes one-way communication. But if the learners are permitted to ask questions, they will provide feedback to the instructor. Lectures can easily be combined with other techniques. Thus, a teacher may conduct a class by the combined lecture-cum-discussion method. He may lecture only to add new information that the group does not possess. Formal reading assignment may be given, demonstration may be presented and video films may be shown alongwith the lecture.

**Conference Training.** A conference is a group meeting conducted according to an organized plan in which the members seek to develop knowledge and understanding by oral participation. It is an effective training device for persons in the positions of both conference member and conference leader. As a member, a person can learn from others by comparing his opinions with those of others. He learns to respect the viewpoints of others and also realizes that there is more than one workable approach to any problem.

The literal meaning of conference is ‘\_consultation’. But in practice, conference implies sharing some information with an audience of a large number of people. It is conducted in a big hall where the participants are allowed to exchange their views and raise queries. The proceedings of the conference are conducted by the chairman who is also responsible for summing up the proceedings of the conference. These days video conferencing is also gaining popularity under which people can participate in the conference through link via satellite.

**Case Study.** The case method is a means of simulating experience in the classroom. Under this method, the trainees are given a problem or case which is more or less related to the concepts and principles already taught. They analyse the problem and suggest solutions which are discussed in the class. The instructor helps them reach a common solution to the problem. This method gives the trainee an opportunity to apply his knowledge to the solution of realistic problems.

Cases may be used in either of the two ways. Firstly, they can be used subsequent to the expansion of formal theory under which the trainees apply their knowledge of theory to specific situations. Secondly, the trainees may be assigned the cases for written analysis and oral discussion in the class without any prior explanation of pertinent concepts and theory. The case study places heavy demands upon the trainees and requires that they should have a good deal of maturity in the subject-matter concerned.

Off-the-job methods are more relevant for the development of higher-level employees and executives. In addition to the above methods, sensitivity training, seminars, special projects and committee assignments may also be used for training and development of employees. These methods have been discussed in the next chapter.

#### **9.2.14 Designing A training Programme**

The training programme is an integral part of human resource management. It consists of the following inter-related steps:

- Identification of training needs.
- Setting training objectives.
- Organization of training.
- Evaluation of training outcomes or results.

##### **Identification of Training Needs**

The technological changes taking place is the main cause of identification of the training needs in an organization: Earlier the people were acquiring training through apprenticeship and vocational courses, which are not sufficient in the modern era of industrialization. It is necessary to identify the training needs because of the following reasons:

Adoption of new techniques in an organization and introduction of modern working methods. For example, computerization of the office as has been done in Railway bookings or Airlines bookings.

Poor performance by the workers as reflected by low output, lack of initiative, incompetence, bad decisions. This requires systematic training of the work force.

Wide gaps between what workers should be doing and what they are doing.

Analysis of the strengths and weaknesses of an organization may reveal the areas of weaknesses which need to be handled seriously.

More information could be obtained from the organization's human resource plan. While preparing plans, the current skills with expected needs for future should be kept in mind and the deficiencies be highlighted. Some organizations prepare 'skills-inventories' classifying employees according to their qualifications, technical knowledge, experience and various skills. The gaps between the existing and required levels of knowledge, skills, performance and attitudes should be specified. The problem areas that can be resolved through training should also be identified.

Training needs can be identified through the following types of analysis:

- Organizational analysis
- Task analysis
- Manpower or Human Resource Analysis.

**Organizational Analysis.** It is a systematic study of the organization in terms of its objectives, its resources, resource allocation and utilization, growth potential and its environment. Its purpose is to determine where Training Needs training emphasis should be placed in the organization for increasing organizational effectiveness. Organizational analysis involves the following elements:

**Analysis of Objectives.** The long-term and short-term objectives and their relative priorities should be properly analysed. Specific goals for various departments should be stated which will serve as means for achieving the overall organizational objectives. The management would have to examine what are the specific training inputs that would contribute towards the achievements of these objectives.

**Resource Utilization Analysis.** The allocation of human and physical resources and their efficient utilization in meeting the operational targets should be analysed. In order to examine the need for training, the following questions need to be answered:

- Whether adequate number of personnel are available to ensure the fulfillment of the goals?
- Whether the personnel performance is upto the required standards?

**Climate Analysis.** Organizational climate reflects the attitudes of organizational members as regards trust, loyalty, openness, commitment to organizational goals. Analysis of organizational climate should aim at determining whether the environment in different departments is conducive to fulfillment of their goals. This will help in knowing areas where training is needed to improve the climate of the organization.

**Task Analysis.** It is a systematic analysis of jobs to identify job contents, knowledge, skills and aptitudes required to perform the job. Particular attention should be paid to the tasks to be performed, the methods to be used, the way employees learn these methods and the performance standards required of employees. Questionnaires, interviews, personnel records, observation and other methods can be used to collect information about jobs in the organization.

In task analysis, the main focus is on the job or task. Task analysis requires the study of various types of skills and training required to perform the job effectively.

**Manpower Analysis.** The quality of manpower required by the organization has to be carefully analysed. It has to be done in the light of both internal and external environment of the organization. The economic, social, technological and political environment of the organization should be properly scanned to determine the quality of human resources desired. To achieve these quality standards, specific training needs should be determined of the following lines:

- specific areas where individuals need training,
- the capability of present workforce to learn new skills and behaviours,
- the time frame within which training must be imparted, and
- job designing and redesigning, introduction of new work methods and technology.

## 2. Setting Training Objectives

Once the training needs are identified, the next step is to set training objectives in concrete terms and to decide the methods to be adopted to achieve these objectives. The overall aim of any training programme is to increase organizational effectiveness. However, each training programme must also have specific objectives such as increased productivity, improved quality, better human resource planning, better health and safety, prevention of obsolescence and enhanced personal growth.

## 3. Organization of Training Programme

Every training programme includes trainees, trainers, a training period and training material. These constituents of training are discussed below:

**Selection of the Trainees.** The proper selection of trainees is of major importance if permanent and gainful results are to be obtained. A trainee should be trained for the kind of job he likes and is fitted to perform. In this respect, training is closely related to the selection of personnel. Careful screening of candidates for training will raise the effectiveness of the training programme.

While giving training to an employee, the first step is to attempt to place him at ease. It is generally seen that many people are somewhat nervous when approaching an unfamiliar task. The instructor should not forget the newness of the training programme to the trainee though he has repeated experience of this. In addition to minimise any possible apprehension the trainer should emphasise the importance of job, its relationship to the work-flow and the importance of rapid and effective learning. Thus, the trainee must be given the proper background information before he starts learning the new skills and knowledge.

In case of supervisory training, it is better to include all supervisors and employees considered suitable for promotion to such posts. Excluding employees on the basis that they do not need the training or that they already doing their work satisfactorily is a poor policy. Even outstanding benefit from well-managed training programmes and their presence in many ways the other trainees.

**Preparation of the Instructor.** The instructor or trainer is a key figure in an effective training programme. He can contribute immeasurably to its success. Qualified instructor may be obtained from inside or outside the organization. However, many insiders are not good instructors because they may not

possess the ability to teach the skill. Trainee needs many qualifications besides knowing how to do the work. He must be able to divide the job into logical parts so that he may take up one part at a time without losing his perspective of the whole. He must be tolerant and patient. He must be able to appreciate the value of training job in relation to the enterprise and understanding of what the employees would go through in order to acquire the skills and knowledge as envisaged by the programme.

The trainer needs professional expertise in order to fulfill his responsibility. If he is ill-informed about the training process or if he knows little about possible connection between training and good management, then he may indeed deserve the casual treatment that he frequently receives. Therefore, it is desirable that the trainer must have at least a minimum knowledge about the job for which he is going to instruct the trainees.

An effective instructor or trainer can present the operations involved in doing a particular job by various ways. In most of the cases, method of explanation is favoured. In addition, an instructor may illustrate various points through the use of pictures and other training aids. When the job is essentially physical in nature, the demonstration on-the-job is an excellent device. While demonstrating the operations the trainer should stand beside the trainee rather than in front of him so that the latter may better adopt the movements of the trainer. The trainer should explain and demonstrate the operations step by step and should allow the trainees to repeat these operations. He should also encourage questions from the trainees in order to be sure that the trainees understand the job.

**Determination of Training Period.** The length of the training period depends upon the skill to be acquired the trainee's learning capacity and the training methodology used. For instance, a simple indoctrination programme for clerks may require an hour a day over a period of one week, while a course in computer programming may be given two hours a week for 15 weeks. The use of effective and visual material usually helps to reduce the training time. To maintain interest and secure maximum accomplishments no single session should last longer than two hours.

Now the question arises whether the training should be given during working hours or after the working hours. If the training is given during working hours, the productivity will suffer and the organization will have to pay for this time. But if the training is arranged after the working hours, the employees may not be able to make full use of training programmes because they are already tired. So, any personnel manager should try to reconcile these situations. It is beyond doubt that a trained employee is an asset for the organization. A big organization can afford to send their employees for full time training on full pay. The costs incurred on training an employee will more than be compensated by the benefits obtained from training in the form of increased productivity, less wastage, heightened morale, etc.

**Training Methods and Material.** There are several on-the-job and off-the-job methods of training as discussed earlier in this chapter. The choice of any method would depend upon the specific objectives of the training programme.

To increase the effectiveness of training, some written material is usually desirable as a basis for instruction, review and reference. The training section may prepare the training material with the help of line supervisors to be used for different jobs. A complete outline of the whole course should be made with the main topics included under each heading. The training material should be distributed among the trainees well in advance so that they may come prepared in the lecture class and may be able to understand the subject quickly and may remove their doubts by asking questions from the instructor.

#### **4. Evaluation of Training**

Training is indispensable for both the organization and the individuals working therein. It is a very costly and time-consuming process. It is essential, to determine its effectiveness in terms of achievement of specific training objectives. Individuals like to know how much they learnt or how well they are doing. The sooner employees know the results of a quiz or test, the sooner they can assess their progress. The sooner employees receive positive feedback from the trainer, the less time they will waste.

Self-graded tests and programmed learning kits provide the necessary feedback to a person on his progress on a particular subject. This principle does not necessarily mean frequent testing, but the more immediate the feedback on learning the more motivating it is likely to be.

Evaluation of training would provide useful information about the effectiveness of training as well as about the design of future training programmes. It will enable an organization to monitor the training programme and also to modify its future programmes of training. The evaluation of training also provides

useful data on the basis of which relevance of training and its integration with other functions of human resource management can be examined.

### 9.2.15 Effectiveness of Training

Training effectiveness is the degree to which trainees are able to learn and apply the knowledge and skills acquired during the programme. It is influenced by the attitudes, interests, values and expectations of the trainees and the training environment. A training programme is likely to be more effective when the trainees want to learn, are involved in their jobs and have career plans. Contents of training programme, and the ability of trainers also me training effectiveness to a certain extent.

The following criteria may be used to measure the effectiveness of training:

**Reactions.** Trainees' reactions to the objectives, contents and methods of training are good indicators of effectiveness. In case the trainees considered the programme worthwhile and liked it, the training can be considered effective.

**Learning.** The extent to which the trainees have gained the desired knowledge and skills during the training period is a useful basis of evaluating training effectiveness.

**Behaviour.** Improvement in the job behaviour of the trainees reflects the manner and extent to which the learning has been put to practice.

**Results.** Productivity improvement, quality improvement, cost reduction, accident reduction, reduction in labour turnover and absenteeism are the outcomes of training which can be used for evaluating effectiveness.

### 9.2.16 Essentials of a Good Training Program

Training is an important tool of management capable of making significant contribution to the goals of the organization. Training tends to improve the performance of employees by narrowing the gap between expectations and achievements. Because of its significant role, it is essential to have an effective training programme in the enterprise. An effective training programme should possess the following characteristics:

The contents of training programme should be chalked out after identifying the training needs or goals. It should have relevance to the job requirements.

An effective training programme should be flexible. It should make due allowance for the differences among the individuals as regards ability, aptitude, learning capacity, emotional make-up, etc.

A good training programme should prepare the trainees mentally before they are imparted any job knowledge or skill.

An effective training programme should be conducted by well qualified and experienced trainers.

An effective training programme should emphasise both theory and \_practice. It should help in acquiring knowledge and its application.

An effective training programme should have the management's support. The top management can greatly influence the quality of training in the organization by the policies it adopts and the extent to which it supports the training programme.

An effective training programme should be supported by a system of critical appraisal of the outcome of the training efforts.

### 9.2.17 Principles of Learning

Learning has occurred when people demonstrate a difference in behaviour or ability to perform a task. The following principles are important for the development of any training programme :

**Trainee must be Motivated to Learn.** An employee must see a purpose in learning the information presented and have a clear understanding of what is presented. If these two factors are considered, there will be a greater chance of satisfaction. A good trainee perceives an opportunity of real satisfaction from training.

**Information must be Meaningful.** The training material must relate to the purpose of the training programme or it will stop being a motivator further, the material must be presented in a sequential manner, from the simple to the more complex. Further training should provide variety to prevent boredom and fatigue. Materials can be presented through case studies, lectures, films, discussions, or simulated computer games.

**Learning must be Reinforced.** New ideas and skills need to be practiced as soon as they are learnt. Unfortunately as humans we tend to forget 50 per cent of what we learn within the first forty-eight hours unless we recall the things learnt. Hearing a concept once does not mean we will remember it.

When on the job, both positive and negative reinforcements should be used. If behaviour is undesirable, then negative reinforcement such as denial of a pay raise, promotion, or transfer can be effective. However, during the orientation and training period, positive reinforcement is more effective than negative reinforcement. According to Behaviour Modification Model developed by B.F. Skinner, the more a desired activity or new knowledge is repeated and rewarded with verbal praise, physical rewards, or income, the more it will be remembered and become apart of a person's behaviour.

In on-the-job training, the three steps concept can be used : (1) *tell*, (2) *demonstrate*, and (3) *have the employee try it*. Repeating the process as many times as necessary until the new employee can do the task on his own provides the opportunity to reinforce individual steps as often as necessary. Also it gives the trainer the opportunity to use behaviour modification techniques when the employee tries the task. Practice and repetition are almost synonymous with learning.

**Organization of Material.** The trainer must remember that well organized material will help the trainees to remember the things taught to him. Presenting an overview of the material in a logical order will help the employee understand everything. Further, the sequence can affect how well the person can remember the material presented. The training section may are the training material to be used for different lobs with the help of line supervisors. A complete outline of the whole course should be made with the main topics included under each heading. The training material should be distributed among the trainees well in advance so that they may come prepared in the lecture class and may be able to understand the operations quickly and may remove their doubts by asking questions from the instructor.

**Distribution of Learning Periods.** The instructor must remember that learning takes time. And teaching in segments over a time span, rather than all at once may be desirable. An employee must learn, reinforce, and review. Every employee may be bombarded with facts from other employees the supervisor, the family, television and friends—so much so that there is a natural “forgetting factor” to everything he hears. Therefore, many short sessions spread over a long period, with opportunity to review, are sometimes better than two long sessions held over a short period. Learning a policy, remembering it, and establishing it as a part of an everyday function may take some time. Too many supervisors expect their workers to adopt the “company attitude” and to put it into practice in a very short while. This should be avoided.

**Feedback on Learning.** People like to know how much they have learnt or how well they are doing. The sooner employees know the results of a quiz or test, the sooner they can assess their progress. The sooner employees receive positive feedback from the trainer, the less time they will waste in learning.

Self-graded tests and programmed learning kits provide the necessary feedback to a person on his progress on a particular subject. This principle does not necessarily mean frequent testing, but the more immediate the feedback on learning the more motivating it is likely to be.

## 9.3 INDUCTION

### 9.3.1 Introduction

The problem of placement arises when the candidate selected for a job comes to join the organization. Placement is important to the organization as well as to the employee. The capacity of the employee can be utilized fully if he is placed in the job for which he is most suitable. Wrong placement affects the morale of the employees. It is, therefore, desirable to have a sound scheme of placement in every organization so that the employees feel comfortable on their new jobs.

Placement, in simple words, means *sending the newly employed person to some department for work*. Placement should be based on the qualifications and qualities of the person selected. It should match with the staff requirement of different departments. It is the duty of the personnel department to send the new employee to the department and job for which he is better suited. In addition, he should be introduced properly to the head of that department. The placement arrangement should be ready before

the joining date of the newly selected person. The placement in the initial period may be temporary as changes are likely after the completion of training. The employee may be later transferred to the job where he can do better justice.

### 9.3.2 Orientation or Induction

Orientation or induction is an important part of the process of socialization of a new organizational member or employee. It covers the activities involved in introducing a new employee to the organization and his work unit. Edwin B. Flippo has defined induction or orientation as the *welcoming process to make the new employee feel at home and generate in him a feeling of belongingness to the organization*. It is concerned with the problem of introducing or orienting a new employee to his work-group, supervisor and the organization. It is the beginning of the fusion process which helps integration between the organization goals and the personal goals of the new employee. After selecting suitable personnel, the organization must communicate to the new employees its philosophy, policies and customs and practices. Planned induction welcomes the new employee, creates a favourable attitude, reduces labour turnover and increases commitment and productivity. Further, the employee feels at home right from the beginning.

When a new employee reports for work, he must be helped to get acquainted and adjusted with the work environment and the fellow employees. It is better to give him a friendly welcome when he joins the organization, get him introduced to the organization and help him to get general idea about the rules and regulations, working conditions, etc. of the Induction may also be viewed as the socializing process by which the organization seeks to make an individual its agent for the achievement of its objectives and the individual seeks to make an agency of the organization for the achievement of his personal goals.

**9.3.3 Purpose.** An induction or introduction programme should try to achieve following objectives:

To provide information about the organization – its structure, products, rules and regulations, etc. to the new employee.

To build up the new employee's confidence in the organization and in himself so that he may become an efficient employee.

To promote a feeling of belonging and loyalty to the organization among new-comers.

To ensure that the new employee may not form false impression regarding the new place of work because first impression is the last impression.

To give the new entrant the information he needs such as location of locker room, cafeteria and other facilities, time to break off, leave rules, etc.

To foster a close relationship between the new workers and the old workers and supervisors.

To create a sense of security for the worker in his job by impressing the idea that fairness to the worker is the inherent policy in the organization.

To bring about agreement between the organizational goals and personal goals of the new employee.

To avoid cost of replacing workers who separate during the early impressionable period because of lack of accurate information or incorrect impression about the organization.

### 9.3.4 Formal Orientation Program

The induction programme is generally informal in case of small firms. It may be formal of the duration of two to four weeks in case of big organizations. Orientation training course should not be too lengthy. It need not necessarily be given on the day when the new employee joins. But if a formal course is to be attended after two or three weeks on the job, the initial introduction and the immediately needed information may be given by the visor to the new employee.

The range of information that may be covered under orientation training is as follows:

**Company's History.** A brief description of the early history and growth of the organization and its future potentialities. This can be made more interesting when the company's history is built around personalities than around events.

**Products of the Company.** An overview of the products and services offered by the company to meet consumer needs. Use of sales literature, exhibits and films can also help.

**Company's Organization.** Brief description of the organization structure, relation of new

employee's department with other departments and so on.

**Location of Departments.** Location and layout of the company plants, stores, departments canteen, etc.

**Personnel Policies.** Policies of the company regarding compensation training, promotion retirement, insurance, etc.



**Employees' Activities.** Statement of available programmes and activities carried out by workers, such as recreation, mutual benefit association, credit union, etc.

**Rules and Regulations.** Description of rules and regulations of company regarding attendance, working hours, advances, sick leave, conduct, etc.

**Safety.** Safety measures taken by the company for the protection of the workers and their use by the workers.

**Standing Orders.** Grievance and disciplinary procedure and suggestion system in the company.

**Counseling Service.** Information about the counseling service provided by the company to help individuals to sort out their problems.

**Job Routine.** Requirements of the particular job to which the new employee is presently assigned as well as the job to which this may lead to in the chain of promotions.

**Special Training.** Information about the training programmes carried out by the company to help the employees learn new skills in doing their jobs.

The induction programme should be handled by persons who are fully conversant with the course contents. The success of the induction course will depend upon the quality of trainers and their ability to draw out the interest of their listeners.

### 9.3.5 Induction practices

Different induction practices used in industry are discussed below:

Induction guide or check-list may be prepared to provide the supervisor with information on what induction steps have been taken and what are still to be covered. This is done by listing the necessary steps to be taken in induction, by whom and when the instruction is to be given.

The supervisor may take the new workers expected to work under him and induct them by introducing and counseling them by reassuring and reinforcing his confidence and by guarding against false impression.

Follow up interview may be taken by the officials from the personnel department permitting the new worker to open up about work-shop, supervisor and fellow workers without any fear. On the basis of this interview, personnel department can take action to reassure the workers, dispel fears, gain their confidence and promote their efficiency.

The commonly used method of induction training is talk plus pictures, followed by printed materials. However, their use depends upon the size of plant, number of new workers to be inducted, etc. Motion pictures visual aids, charts, printed materials, etc. can be used to explain company policies, processes and products of the company. A round of the plant and the department should also be arranged to acquaint the new workers with the overall operations of the company.

### 9.3.6 Benefits of a Formal Induction Programme

The benefits of formal induction are as under :

it reduces new employee's anxieties and provides him an opportunity know about the organization and its people.

it helps the new employees in knowing expectations of the organization and its executives.

It fosters a uniform understanding among the employees about the company's objectives, policies, principles strategies, and what the company expects of its people. The new employees are also interested in learning about the total organisati0 Orientation tells them how they and their unit fit into the "big picture".

It builds a positive attitude towards the company and its stakeholders. First day is crucial because new employee remembers it for years. A well managed orientation forms a good impression on the mind of the new employee which lasts long.

it builds and strengthens a two-way communications channel in the company.

it helps speed up socialization process by making the new employee understand the social, technical and cultural aspects of the workplace. New employee becomes a part of the social fabric of the organization and develops a sense of belongingness.

it facilitates informal relations and team-work among the employees.

## 9.4 PERFORMANCE MANAGEMENT

Osborne and Gaebler make three insightful observations:

If you do not measure results, you cannot tell success from failure.

If you cannot see success, you cannot reward it—and if you cannot reward success, you are probably rewarding failure.

If you cannot recognize failure, you cannot correct it.

Performance management or performance appraisal is one of the oldest and most universal practices of management. It refers to all the formal procedures used in working organization to evaluate the personalities and contributions of group members. Modern management makes somewhat less use of the term "performance appraisal" than what was common in the earlier periods. In the past, the emphasis used to be on commonly assigning some score to an individual after comparing his current and/or past level of performance with a set of performance criteria. The approach resulted in an appraisal system which is generally seen as *subjective* (plagued by rating problems), *lacking focus* on individual's development and integration of his individual goals with organizational goals. More recently, emphasis has been given to managing employee's performance. The trend nowadays is in the direction of attempting to manage what the man does (performance management) rather than to appraise his performance (performance appraisal).

Performance management thus becomes a wider task than mere performance appraisal. The term denotes an integrated process that consolidates employee goal-setting, employee development, performance appraisal and rewarding performance into a single common system with the ultimate aim of contributing to organizational success. Students should, however, note that no such distinction has been made in following discussion and the two terms have been used interchangeably.

### 9.4.1 Purposes of Appraisal

Appraisal of employees serves several useful purposes:

It can serve as a *basis for job change or promotion*. By establishing whether the worker can contribute still more in a different or a higher job, it helps in his suitable promotion and placement.

By identifying the strengths and weaknesses of an employee, it serves as a guide for formulating a suitable *training and development* programme to improve his quality of performance in his present work.

It serves as a *feedback* to the employee. By letting the employee know how well he is doing or where he stands with his superiors it tells him what he can do to improve his present performance and go up in the management hierarchy.

It serves as an important *incentive to all the employees* who are by the existence of an appraisal system assured of the management's continued interest in them and of their continuous possibility to develop. The employees realize that not only are they being continuously observed but that they have not been forgotten.

The existence of a regular appraisal system tends to make the supervisors and executives more observant of their subordinates because they will be expected periodically to fill out rating forms and would be called upon to justify their estimates. This knowledge results in improved supervision.

Performance appraisal often provides the rational foundation for the payment of piecework *wage*, *bonuses*, etc. The estimates of the relative contributions of employees or of their characteristics help to determine the rewards and privileges.

Performance appraisal serves as a means for evaluating the effectiveness of devices for the selection and classification of workers. Alternatively, knowledge of the characteristics of superior and inferior workers can be helpful in selection and placement of workers.

Permanent performance appraisal records of employees help the management to give up sole reliance upon personal knowledge of supervisors who may be shifted.

Performance appraisal helps management to align performance with organizational strategies at different stages of the organizational life cycle. As the organizational life cycle moves from startup to growth to maturity there is change in strategy. Performance appraisal indicates whether or not there is need for a change in the characteristics of employees to successfully implement the new strategy.

#### 9.4.2 Steps In Designing Performance Management System

The specific design of a performance management system differs from one organization to another. However, the following steps are common across all organizations:

- Identifying the criteria and standards of performance appraisal
- Determining the frequency of appraisals and the appraiser
- Choosing appropriate methods of performance appraisal and
- Conducting post-appraisal interview

#### 9.4.3 Criteria and Standards of Performance Appraisal

Before conducting any appraisal it is important to identify on the basis of employees' job descriptions, various performance criteria which may be used to measure their performance. All performance criteria are usually of three types, viz., trait-based, behaviour-based or results-based.

**Trait-based criteria** seek information about the different characteristics of an employee such as his knowledge about corporate goals, attitude, creativity, initiative etc. **Behaviour-based criteria** seek

information about certain behaviours of an employee such as his customer-service orientation, upward communication of ideas, contribution to social and cultural values etc. **Results-based criteria** seek

information about various tangible aspects of a job such as profit, production, accidents, absents, etc.

It should be noted that whereas results-based criteria being objective in nature can be directly measured counted, criteria of the other two types being subjective in nature cannot be directly measured or counted. They can only be rated according to human judgement and opinion. This subjects them to certain kinds of errors likely to be found in the rating process. Objective criteria can be easily laid down at the lower levels of an organization where the jobs are generally specific and clearly defined. But they difficult to be specified further up in the hierarchy where jobs become more complex and vague.

In practice, organizations do not place complete reliance on any one type of criteria. They incorporate all the three types in various degrees to measure performance completely. They also change these criteria as they move from one stage to another of their life cycle. Thus, during the startup stage when the organization's competitive strength is low and there is need for employees to be innovative, the criteria may focus on their exploratory knowledge. But during the growth stage when the organization's competitive strength is high and there is need for employees to be exploitative the criteria may focus on their flexibility and cooperation.

After identifying various performance criteria for a job, we need to decide the standards of performance for each criterion. To specify "output" as the evaluation criterion for front-line supervisors is not enough. It is important to specify the standard by which performance on this criterion will be evaluated. Hence it is also necessary to specify the *number of units* which may constitute satisfactory good or excellent performance. Once these standards are established it is necessary to communicate them to the employees.

#### 9.4.4 Frequency of Appraisals

Appraisals can be either summative or formative. In a summative appraisal system, an individual's performance is evaluated at the end of a specified period of time, by summing his total achievements, of goals, objectives, strategies, etc. This type of appraisal does not act as a stimulus to improve performance standard because it provides feedback several months later. Formative appraisal system, on the other hand, sees appraisal as an ongoing, almost daily process in which individuals receive a constant feedback on their performance standard, to be used for their continued development. It should be remembered that a performance standard is a daily, ongoing skill or behaviour necessary for effectively accomplishing a job. A goal is a specific desired business result, to be achieved after a certain period.

#### Who can be the Appraiser?

It is possible for the appraisal to be done by one or a combination of the following:

- The immediate manager.
- Other managers familiar with the employee's work.
- A higher-level manager.
- Personnel department specialist.
- The employee's peers.
- Service users.
- The employee himself.

8. The employee's subordinates.

#### 9.4.5 360-degree Appraisal

This is a questionnaire-based appraisal of a person (mostly an executive) by his colleagues, above, below and to his side, and his service users. It is decided which sets of knowledge, skills and abilities are to be measured, and by whom. In order that the opinions may not be traced to individual respondents, someone who is widely respected for his fairness and honesty is nominated to receive the responses. The Internet or the Intranet of the organization can be used for administering the whole process. Indian Oil Corporation (IOC) is an example. 360-degree appraisal has the following advantages:

Since people are appraising only those dimensions of which they are in a good position to make judgements combined opinion gives an accurate, objective and well-rounded view from different perspectives.

Some skills (such as leadership) are better judged by subordinates and peers rather than superiors.

A comment that is hard to accept cannot be brushed off or ignored when a number of colleagues have expressed it independently.

The technique can help motivate people who undervalue themselves. It also *empowers* juniors when they are asked to give feedback on their superiors. Perhaps, the biggest advantage is that it *encourages* people to work together as a team.

The *objections* to 360-degree appraisal are:

It is time-consuming and costly, so the technique is often restricted to management levels.

It can become an opportunity for subjective gripes, unless handled carefully.

It can generate an environment of "I scratch your back, you scratch mine" thus tailoring feedback to one's ambitions. It is mandatory to create the right culture before introducing this appraisal system.

Its results can be hard to interpret if too many appraisers are used.

#### 9.4.6 Appraisal of Management

##### Factors Affecting Managerial Performance

According to S.K. Chakroaborty, appraisal of managerial performance should be done with caution. It is always advisable to make a preliminary survey of the following constraints within which the management of an organization is working.

**Environmental Constraints** There are several environmental constraints which may be outside the control of a middle level manager and to ignore this fact in judging his performance would be unjust. For example, the quality of manpower in an organization may deteriorate over a period or the market for its products may contract unexpectedly. As a result, both productivity and profits may suffer. But if selection of personnel and planning of markets have been done at higher levels in the organization, the performance appraisal of the middle level manager should not be affected.

**Organizational Leadership** It is the nature of leadership at the top which determines to a large extent the loyalty and commitment of managerial personnel to the goals of an organization. Effective top leadership orients and motivates the entire organization for better performance. Managers at every level become highly performance conscious. Performance appraisal under such conditions is liked by everybody. But in opposite conditions, it is considered an imposition or a stricture.

**Interdependence of Sub-systems** Since every organization is a big system composed of a number of interdependent sub-systems, the success or failure of anyone sub-system has got to be interpreted in the context of all other sub-systems to which it is related. For example, the sub-standard output of the production department may be due to the poor quality purchases made by the purchasing department or the cause of the trouble may be at some higher level sub-system where planning for the production and purchase departments has been done.

It is precisely because of this interdependence of sub-systems that the suggestion is often made to start appraisal of managerial performance from the apex. This leads to more systematic and logical cause-and-effect tracing of performances at all levels within the organization.

**Organization Structure** Organic structures tend to have quite flexible organizational relationships. There is minimal formal organizational consciousness. Elaborate organization charts or manuals are usually nonexistent. In rapidly changing environments, such structures can quickly manoeuvre themselves into vantage points to confront new situations. This dynamism makes such structures

readily responsive to innovations of all kinds. Mechanistic structures, on the other hand, tend to be rigid, with clearly defined relationships and responsibilities. A formal awareness of the structural pattern pervades such organizations as shown by readily available organization blueprints. By implication, these structures tend to be static and are designed to carry out a nearly fixed strategy in a relatively stable environment. Initiative, drive and imagination are not the qualities that receive encouragement in a mechanistic structure.

#### 9.4.7 Standards Used in Managerial Appraisal

Appraising managers against standards of personal traits (such as the ability to get along with people, industry, judgement, initiative, etc.) and work characteristics (such as job knowledge, production or cost results). This type of evaluation suffers from three main defects:

Connection between performance and possession of characteristics is doubtful.

There is lack of objectivity. The appraisal is not very discriminating.

It provides little tangibility to discuss performance and plan for improvement.

Appraising managers against standards based on fundamentals of management. H. Koontz and O'Donnell give us a list of 73 questions to appraise a manager's performance in planning, organizing, staffing, directing and controlling an organization. Each question has 6 ratings from 0 (inadequate) to 5 (superior)—a standard of performance which could not be improved under any circumstances known to the rater. They suggest that, in order to bring in objectivity, examples can be given and the ratings made by a superior reviewed by his superior.

Appraising managers against verifiable objectives. This technique concentrates on what a manager does rather than on what someone subjectively thinks of him. It should be remembered that this technique is not an independent appraisal tool but works successfully only when used as a last step of Management by Objectives (MBO). Prof. Reddin defines MBO as: "MBO is the establishment of effectiveness areas and effectiveness standards for managerial positions and the periodic conversion of these into measurable time-bound objectives, linked vertically and horizontally and with future planning."

In terms of the above definition, important steps of an MBO programme are: setting objectives, tracking progress and evaluating results or recycling.

**Setting Objectives** This step is implemented "top down". First the top executives meet and decide the organizational goals for some specific period. But this they do only after receiving inputs from lower levels. Next, goals are set at department levels. Finally, goals are set at individual levels. This involves cross checking meetings in which subordinates present their tentative goals, check the impact of these goals on one another and make adjustments before finalizing their individual goals. In the alternative, the process of working "bottom up" may also be adopted. Here goals are first set at the bottom and a consensus on them is developed at each higher level. It should, however, be remembered that whatever the process a manager's individual goals are always set within his Key Result Areas (KRA) which are identified for this purpose in very beginning. They are also always SMART, i.e., specific, measurable, ambitious, result-oriented and time-bound. They are called *stretch goals* or breakthrough objectives when they force the individual manager to think out of the box and to be creative. Thus, he may be asked to cut costs by half or reduce product development time from years to months. It is always ensured that such goals are neither unattainable nor unduly stressful.

**Tracking Progress** After the specific period the individual manager and his superior jointly review the progress against goals. Their discussion includes an analysis of the forces which have helped or hindered the attainment of goals during the period under review.

**Recycling Organized** tracking of progress leads to a repetition of the cycle with a revision of objectives, roles, priorities and allocation of resources from the overall organizational level through unit level, team level to individual level. The more specific the feedback, the more positive the effect.

An effective MBO system has the following *advantages* for any type of organization:

It requires each manager to actively involve himself in the setting of objectives of his area to be accomplished during a specific time-period. This is different from some systems in which higher level managers simply assign duties to lower level managers. Since they are involved in setting their objectives, managers are generally more committed to the goals established and will generally work harder to accomplish them.

It requires that the objectives of each department are consistent with the overall organizational objectives. This requirement ensures that people and departments do not work at cross purposes.

It encourages a more systematic evaluation of performance. Performance is evaluated on the basis of the degree of accomplishment of specific objectives. This is generally better than evaluating performance on the basis of personal characteristics.

It helps in the identification of effective managers, i.e. those who are able to choose right objectives. As pointed out earlier, for Peter Drucker, although efficiency is important for good managerial performance, effectiveness is critical.

It is a more positive technique because it shifts emphasis from the appraisal of an employee's weaknesses to the analysis of his strengths.

It reveals organizational deficiencies such as overlapping of authority, ineffective delegation and communication, etc.

Although it is a useful technique, MBO should not be viewed as a cure-all. Difficulties in applying MBO can arise. Some of them are as follows:

Sometimes it is not feasible to state specific objectives for a time-period. Imagine the difficulty, for example, of the research department stating specifically what is to be accomplished during the next six months. Jobs that involve speculation, trial and error or numerous unknowns are not easily adapted to MBO.

MBO presumes a certain level of trust throughout the hierarchy. But the organizational life teaches people to be cautious. This inhibits honest dialogue. Also, the status differentials between superior and subordinate may be too great to allow appropriate goal setting to take place in an open atmosphere.

The system can become so formalized that it becomes an end in itself. Carried to an extreme, MBO may require so much paperwork and so many meetings that managers do not have time to do their normal work.

MBO deals with an individual's performance on the present job only. It overlooks his past and also does not identify his future potentials. It may happen that an individual who has failed on a job in the present situation had done exceedingly well on it in the past, in another situation.

MBO system by concentrating on individual efforts:

- encourages employees to work for themselves and not for teams or a superordinate goal;
- pits people against each other for the same rewards;
- tempts low performers to emulate high performers by using quick-fix techniques;
- and
- divides employees into two unequal groups: one consisting of those few who are acclaimed as heroes and are supposed to run the organization and the other consisting of those many who have failed to achieve their targets. The second group naturally feels bitter, despondent, dejected or even depressed.

#### **9.4.8 Essentials of a Good Performance Management System**

The system should be easily understandable, continuous and not an annual event.

The system should have the support of all line people who administer it.

The system should be data-based.

The system should be truly indicative of the performance of the employees. The evidence favours behavior based criteria over those developed around traits which have little or no performance relationship.

The system should provide for trained appraisers. Evidence suggests that the training of appraisers can make them more accurate raters.

The system should be open and participative. It should provide ongoing feedback to the parties and clarify their roles. It should involve employee in the goal-setting process.

The system should focus more on the development and growth of employees than on generating data for administrative decision-making, related to promotions, increments, etc. There can be two separate appraisals in a year—one for identifying employees' strengths and weaknesses, and indicate training needs, and the other for deciding promotions etc.

The system should provide for continuous guidance and counseling of the employee.

The system should be periodically evaluated to ensure that it is meeting its goals.

## 9.5 SUMMARY

Training is the act of increasing the specific knowledge and skill of an employee for doing a particular job. Education is increasing general knowledge. Development implies an employee's growth and motorization. A systematic training programme helps in improving the quality and quantity of a worker's output, makes the worker committed and loyal to the organization, facilitates promotion and replacement and reduces spoiled work and accident rate. A training programme can be of anyone of the following types; induction or orientation training; job training; promotional training; refresher training; corrective training; behavioural training and global assignment training.

All training methods can be grouped into two categories: (a) training methods for operatives, and training methods for managers. On-the-job training method is by far the most commonly used method for training the rank and file workers in a factory. There are several methods, such as vestibule training, apprenticeship training and internship training which make use of the on-the-job training concept. Training methods used for managers are observation assignment, position rotation, serving on committees, assignment of special projects, conferences and seminars, case

study, incident method, role playing, sensitivity training, autonomy training, Johari Window and interaction analysis.

Selection of an appropriate training method depends upon the nature of the problem area, level of trainees, the method's ability to hold and arouse the interest of trainees during the training period, availability of competent trainers, finance and time.

Evaluation of training methods can be done in two ways: first is reaction evaluation, second is outcome evaluation. Organizations in India have generally remained unconcerned about the evaluation of their training programmes.

Performance appraisal is one of the most important tasks any manager has. Its major purposes are to let subordinates know formally how their current performance is being rated, to identify those subordinates who deserve merit raises and promotion, to locate those subordinates who require training, to provide a rational foundation for the payment of piecework wages and to evaluate the effectiveness of devices for the selection and classification of workers.

There are a number of performance criteria which may be used to measure the performance of an employee. If this measurement is done at the end of a specified period, it is called summative appraisal. But if it is an ongoing process, it is called a formative appraisal. Where a person is appraised by a number of appraisers, comprising his superior, subordinates, peers, etc., it is called a 360-degree appraisal.

A popular technique of appraisal of managerial performance is MBO. The basic elements in an effective MBO programme include: (a) goal setting by each subordinate in collaboration with his superior at the start of the appraisal period; (b) periodic review of performance; and (c) evaluation of results.

Essentials of a good appraisal system are: (a) It must be easily understandable, (b) It should have the support of line people, (c) It should be data-based, (d) It should be indicative of the intrinsic merit of the employees, (e) It should have built-in rewards, (f) It should be open and participative, (g) It should focus on the development of employees and (h) It should be periodically evaluated for its effectiveness.

Orientation helps the new employee and the organization to accommodate each other.

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**9.7 SUGGESTED READINGS**

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- Principal of Management: P.C. Tripathi, P.N. Reddy (*Tata McGraw Hill Private Limited*)
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**9.8 TERMINAL AND MODEL QUESTIONS**

- Define training. Explain the advantages of training to the employees and the organization.
- Discuss the methods of training which are used for training the operate employees.
- Explain the various principles of learning which are relevant for imparting training to workers.
- Explain the essential steps of a good training programme.
- 5. What id performance appraisal? W hat are the essentials of a good appraisal system?  
Evaluate the importance of performance appraisal in an industrial organization.  
What do you mean by induction? Discuss its objectives.

Activity 1

Define the appraisal of management.

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Activity 2

What are the differences between training and development?

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## CHAPTER - 10

### NATURE, PROCESS OF DIRECTING, MOTIVATION AND LEADERSHIP

#### 10.1 OBJECTIVE

**Explain** the meaning, nature and requirement of a effective direction

**Describe** the elements, importance and techniques of direction

**Discuss** the meaning, nature, types and importance of motivation

**Analysis** important content and process of motivation theories

**Examine** the techniques to increase motivation

**Discuss** the meaning, nature and leadership styles

**Define** the managerial grid

#### 10.2 INTRODUCTION

Management is the art of getting things done through others. One of the main functions of a manager is to direct subordinates effectively. Directing is concerned with carrying out the desired plans. It initiates organized and planned action and ensures effective performance by subordinates towards the accomplishment of group activities. Direction is called management in action. In the words of Theo Haimann, "In order to make any managerial decision really meaningful, it is necessary to convert it into effective action, which the manager accomplishes by directing. Without this managerial function nothing or at best very little is likely to come about. Planning, organizing and staffing can be considered preparatory managerial functions the purpose of controlling is to find out whether or not the goals are being achieved. The connecting and actuating link between these functions is the managerial function of directing, which means the issuance of directives and the guidance and overseeing of subordinates.]"

"Just as starting the motor of a car does not make it move unless put into gear and the accelerator pressed, in the same way organized actions are initiated in the enterprise only through the directing function of management.

#### Definitions of Directing

In order to clearly understand the meaning of directing function of management, a few definitions are given below :

**According to Massie,** "Directing concerns the total manner in which a manager influences the action of subordinates. It is the final action of manager in getting others to act after all preparations have been completed.]"

**In the words of Koontz and O'Donnel,** "Directing is the interpersonal aspect of managing by which subordinates are led to understand and contribute effectively and efficiently to the attainment of enterprise's objectives.]"

**Urwick and Breach,** "Directing is the guidance, the inspiration, the leadership of those men and women that constitute the real core of the responsibilities of management.]"

**Earnest Dale** Defines directing as, "telling people what to do and seeing that they do it to the best of their ability. It includes making assignment, explaining procedures, seeing that mistakes are corrected, providing on the job instruction, and of course, issuing order.]"

**Marshall E. Dimock,** "The heart of administration is the directing function which involves determining the course, giving order and instructions, providing the dynamic leadership.]"

**Haimann remarks,** "Directing consists of the process and techniques utilising in issuing instructions and making certain that operations are carried out as originally planned.]"

From the above definitions, we can conclude that the directing function of management is the heart of management process as it is concerned with initiating action. It consists of all those activities which are concerned with influencing, guiding or supervising the subordinates in their job.

#### 10.3 NATURE OR CHARACTERISTICS OF DIRECTION

The following features of direction bring out the nature of directing function of management.

**It is a dynamic function.** Directing is a dynamic and continuing function. A manager has to continuously direct, guide, motivate and lead his subordinates. With change in plans and organizational relationships, he will have to change the methods and techniques to direction.

**It initiates action.** Directing initiates organized and planned action and ensures effective performance by subordinates towards the accomplishment of group activities. It is regarded as the essence of management-in-action.

**It provides necessary link between various managerial functions.** Directing links the various managerial functions of planning, organizing, staffing and controlling. Without directing the function of controlling will never arise and the other preparatory functions of management will become meaningless. In the words of Haimann, "nothing happens unless and until the business automobile is put into gear and the accelerator pressed."

**It is a universal function.** Directing is a universal function that is performed in all organizations and at all the levels of management. All managers have to guide, motivate, lead, supervise and communicate with their subordinates, although more time is spent on directing at higher levels of management.

**It is concerned with human relationships.** The direction function of management deals with relationship between people working in an organization. It creates co-operation and harmony among the members of the group. It seeks to achieve orderly arrangement of group effort to provide unity of action in the pursuit of common objectives.

### 10.3.1 Principles of Effective Direction

Effective direction leads to greater contribution of subordinates to organization goals. The directing function of management can be effective only when certain well accepted principles are followed. The following are the basic principles of effective direction :

**Harmony of Objectives.** It is an essential function of management to make the people realise the objectives of the group and direct their efforts towards the achievement of their objectives. The interest of the group must always prevail over individual interest. The principle implies harmony of personal interest and common interest. Effective direction fosters the sense of belongingness among all subordinates in such a way that they always identify themselves with the enterprise and tune their goals with those of the enterprise.

**Unity of Command.** This principle states that one person should receive orders from only one superior, in other words, one person should be accountable to only one boss. If one person is under more than one boss then there can be contradictory orders and the subordinate fails to understand whose order to be followed. In the absence of unity of command, the authority is undermined, discipline weakened, loyalty divided and confusion and delays are caused.

**Unity of Direction.** To have effective direction, there should be one head and one plan for a group of activities having the same objectives. In other words, each group of activities having the same objectives must have one plan of action and must be under the control of one supervisor.

**Direct Supervision.** The directing function of management becomes more effective if the superior maintains direct personal contact with his subordinates. Direct supervision infuses a sense of participation among subordinates that encourages them to put in their best to achieve the organizational goals and develop an effective system of feed-back of information.

**Participative or Democratic Management.** The function of directing becomes more effective if participative or democratic style of management is followed. According to this principle, the superior must act according to the mutual consent and the decisions reached after consulting the subordinates. It provides necessary motivation to the workers by ensuring their participation and acceptance of work methods.

**Effective Communication.** To have effective direction, it is very essential to have an effective communication system which provides for free flow of ideas, information, suggestions, complaints and grievances.

**Follow-up.** In order to make direction effective, a manager has to continuously direct, guide, motivate and lead his subordinates. A manager has not only to issue orders and instructions but also to follow-up the performance so as to ensure that work is being performed as desired. He should intelligently oversee his subordinates at work and correct them whenever they go wrong.

### 10.3.2 Aspects or Elements of Direction

Directing is a very important function of management. It is rightly called the heart of management process as it is concerned with initiating action. It consists of all those activities which are concerned with influencing, guiding or supervising the subordinates in their job. The main aspects or elements of direction are as follows :

- |                                      |                    |
|--------------------------------------|--------------------|
| 1. Issuing Orders and Instructions ; | 2. Leadership ;    |
| 3. Communication ;                   | 4. Motivation ;    |
| 5. Supervision ; and                 | 6. Co-ordination ; |

**Issuing Orders and Instructions.** A manager is required to issue a number of orders to his subordinates to initiate, modify or halt any action. He is also required to guide and instruct workers in performance of their task towards the achievement of desired goals. Instructions are important in directing subordinates. Orders and instructions reflect the decisions of managers. A good order or instruction should have the following characteristics :

- It should be simple, unambiguous and clear.
- It should be brief but complete.
- It should be reasonable and enforceable.
- It should be convincing and acceptable.
- It should invoke co-operation.
- It should be compatible with the objectives of the organization.
- It should be in written form as far as possible.
- It should be backed up by follow-up action.

**Leadership.** Leadership is the process by which an executive or manager imaginatively directs/guides and influences the work of others in choosing and attaining specified goals by mediating between the individual and organization in such a manner that both will get maximum satisfaction. It is the ability to build up confidence and zeal among people and to create an urge in them to be led. To be a successful leader a manager must possess the qualities of foresight, drive, initiative, self-confidence and personal integrity. Different situations may demand different types of leadership viz., autocratic leadership, democratic leadership and free-rein leadership.

### 10.3.3 Elements of Direction

The Management in Action

Issuing Orders and Instructions, Leadership, Communication, Motivation, Supervision, Co-ordination

**Communication.** Communication constitutes a very important element of directing. It is said to be the number one problem of management today. Communication is the means by which the behaviour of the subordinates is modified and change is effected in their action.

The word communication has been derived from the latin word 'Communis' which means 'common'. Thus, communication means sharing of ideas in common. The essence of communication is getting the receiver and the sender tuned together for a particular message. Communication refers to the exchange of ideas, feelings, emotions, knowledge and information between two or more persons. In management ideas, objectives, orders, appeals, observations, instructions, suggestions etc. have to be exchanged among the managerial personnel and their subordinates operating at different levels of the organization for the purpose of planning and executing the business policies. Directing will mainly depend upon the effectiveness of communication. In case the orders and instructions are not properly conveyed then these may not be properly implemented.

**Motivation.** It is an important element of directing function. Motivation encourages persons to give their best performance and help in reaching enterprise goals. It is the degree of readiness for undertaking assigned task and doing it in the best possible way. Directing function tries to make best use of various factors of production available in the organization. This can be achieved only when employees co-operate in this task. Efforts should be made to make employees contribute their maximum.

**Supervision.** It consists of the process and technique involved in issuing instructions and confirming that operations are carried as originally planned. Supervision is a continuing activity and performed at every level of activity. It is inevitable at every level of management for putting the managerial plans and policies into action. In a way supervision is a sort of control as the supervisor is supposed to take corrective measures if the work is not in line with the plan.

**Co-ordination.** Co-ordination is an orderly arrangement of group effort to provide unity of action in pursuit of common purpose. The purpose of directing is to get various activities co-ordinated for achieving common goals. Co-ordination involves the integration of various parts of the organization. In order to achieve goals of an enterprise, both physical as well as mental co-ordination should be secured. Co-ordination is a part of directing exercise and helps in synchronization of various efforts.

### 10.3.4 Importance of Direction

Directing various employees in an organization is an important managerial task. It is indispensable for achieving enterprise objectives. Effective direction provides the following advantages:

**Initiates Action.** Direction is required to initiate action. The functions of planning organizing, staffing etc., will be taken up only when direction is given to initiate them. Direction starts the actual work for achieving enterprise objectives.

**Improves Efficiency.** A manager tries to get maximum work from his subordinates. This will be possible only through motivation and leadership and these techniques are a part of direction.

**Ensures co-ordination.** Direction helps in ensuring mutual understanding and team work. The individual efforts are directed in such a way that personal performances help in achieving enterprise objectives. The integration of various activities is possible through direction.

**Helpful in Implementing Changes.** A business operates in a changing environment. New situations develop every now and then. A proper system of motivation will help employees in taking up new challenges.

**Provides Stability.** Effective leadership, supervision and motivation will help in the smooth growth of an enterprise. A growing concern will provide stability to its activities.

**Motivation.** Motivation is an important element of direction. Motivation is a factor which encourages persons to give their best performance and help in achieving enterprise goals. A strong positive motivation will enable the increased output of employees. A key element in direction is motivation. It helps in getting willing co-operation of employees. Every organization makes efforts that its employees contribute maximum for achieving enterprise goals.

**Supervision.** Direction involves giving instructions to employees for undertaking some work. In order to see whether employees are doing the things as per targets or not there is a need for supervision. In supervision all the activities of the employees are controlled and efforts are made to ensure proper achievement of targets. In case the performance is less than the targets then remedial steps are taken for improving the performance. So supervision is an integral part of direction.

**Co-ordination.** Direction will be effective only when there is a proper co-ordination. In direction, different persons are asked to perform specific tasks. In order to see that efforts of every employee are in the direction of achieving organizational goals there is a need to co-ordinate various activities. In the absence of co-ordination every person will go in his own direction without bothering for the enterprise target. When various activities are co-originated then overall enterprise objectives will be easily achieved.

### 10.3.5 Techniques of Directing

Directing is an important function carried out by top management. It is the order or instruction to subordinate staff to perform a work or not to perform in a specific way. The techniques of directing are : delegation, supervision, orders and instructions.

**Delegation.** Delegation is an important mean of directing. The subordinates are assigned tasks and given powers to recruit them. In delegation, a superior assigns some of his work to the subordinates and gives them rights or powers. The subordinates are authorized to undertake the assigned work. Delegation is a means of sharing authority with the subordinates and providing them with an opportunity to learn. Delegation as a means of directing may bring out some problems.

It may be difficult to spell out exact tasks and assignments of the subordinates. There may be some overlapping and uncertainties in job descriptions. The subordinates should learn to adjust them in such situations.

There may be some contradiction in assignment of task and delegation of authority.

The subordinates may sometimes act beyond the assigned authority taking it as implied from the superiors. The superiors will have to bear with such situations.

An indiscriminate delegation may create an imbalance in the organization since every subordinate may not have the same capacity and maturity.

If the delegation of authority is too rigid then it kills initiative and creativity.

**Supervision.** Supervision is a means to oversee the work performed by subordinates. It should be ensured that work is performed as per the plans and guidelines. Every superior has to supervise the work of his subordinates. At operative level supervision is the job of a manager. A supervisor at the lower level remains in touch with the workers. He guides them for doing the work,

maintains discipline and work standards and solves the grievances of workers. Supervision at different levels acts as a directing activity.

**Issuing Orders and Instructions.** The issuing of orders and instructions is essential to undertake the work for achieving the organizational goals. No manager can get a work done without issuing orders and instructions to subordinates. An order, instruction, directing or command is a means of initiating, modifying or stopping an activity. In the words of Koontz and O'Donnel, "as a directional technique, an instruction is understood to be a charge (command) by a superior requiring a subordinate to act or refrain from acting in a given circumstance." According to this definition an instruction is always given by a superior to a subordinate directing to undertake a work in a specified manner or prohibit him from some activity. The orders and instructions are the primary tools of directing by means of which the activities are started, altered, guided and terminated.

While issuing an order a manager should be clear in his mind what he wants the subordinates to do or not to do. The clarity of orders will determine the level of performance of subordinates. A good order has the following characteristics :

The order should be clear and easily understood.

The order should be complete in all respects. It should not create doubts in the minds of subordinates.

It should be compatible with the objectives of the organization.

There should be specific instructions as to the time by which the order should be executed or completed.

The order should be so conveyed that it stimulates ready acceptance.

The order should preferably be in writing.

The order should be conveyed through proper chain of command and it should also contain the reasons for issuing it.

## **10.4 MOTIVATION**

### **10.4.1 Introduction**

Every management tries to coordinate various factors of production in such a way that their contribution is maximum in achieving organizational goals. The performance of non-human factors like machines, etc. will depend upon the level of technology and the competence of those who use them. To improve the overall performance in a business it becomes essential to increase the efficiency of human beings. The performance of persons depends upon two factors, *i.e.* (i) ability to do a work, and (ii) motivation. Both these factors taken together, will increase the efficiency of human beings. If a person does not have the capability or ability to do a work then he cannot increase his efficiency. On the other hand, even if a person has got the ability but is not properly motivated even then his performance will be low.

Motivation is an important factor which encourages persons to give their best performance and help in reaching enterprise goals. A strong positive motivation will enable the increased output of employees but a negative motivation will reduce their performance. A key element in personnel management is motivation. According to Likert, "It is the core of management which shows that every human being gives him a sense of worth in face-to-face groups which are most important to him. A supervisor should strive to treat individuals with dignity and a recognition of their personal worth."

### **Definitions**

Motivation has been variously defined by scholars. Some definitions are discussed as follows:

*"A motive is an inner state that energizes, activates, or moves and directs or channels behaviour goals."* **Berelson and Steiner**

*"It is the stimulation of any emotion or desire operating upon one's will and promoting or driving it to action."* **Lillis**

### **The Encyclopedia of Management**

*"Motivation refers to degree of readiness of an organism to pursue some designated goal and implies the determination of the nature and locus of the forces, including the degree of readiness."*

*"Motivation is the complex of forces starting and keeping a person at work in an organization."* **Dubin**

*"Motivation implies any emotion or desire which so conditions one's will that the individual is properly led into action."* **Vance**

*“Motivation represents an unsatisfied need which creates a state of tension or disequilibrium, causing the individual to make in a goal-directed pattern towards restoring a state of equilibrium by satisfying the need.”*

**Vitales**

*“A willingness to expend energy to achieve a goal or reward. It is a force that activates dormant energies and sets in motion the action of the people. It is the function that kindles a burning passion for action among the human beings of an organization.”*

**Memoria**

#### **10.4.2 Nature of Motivation**

Motivation is a psychological phenomena which generates within an individual. A person feels the lack of certain needs, to satisfy which he feels working more. The need satisfying ego motivates a person to do better than he normally does. From definitions given earlier the following inferences can be derived :

Motivation is an inner feeling which energizes a person to work more.

The emotions or desires of a person prompt him for doing a particular work.

There are unsatisfied needs of a person which disturb his equilibrium.

A person moves to fulfill his unsatisfied needs by conditioning his energies.

There are dormant energies in a person which are activated by channelizing them into actions.

#### **10.4.3 Types of Motivation**

When a manager wants to get more work from his subordinates then he will have to motivate them for improving their performance. They will either be offered incentive for more work, or may be in the space of rewards, better reports, recognition etc., or he may instill fear in them or use force for getting desired work. The following are the types of motivation :

**Positive Motivation.** Positive motivation or incentive motivation is based on reward. The workers are offered incentives for achieving the desired goals. The incentives may be in the shape of more pay, promotion, recognition of work, etc. The employees are offered the incentives and try to improve their performance willingly. According to Peter Drucker, the real and positive motivators are responsible for placement, high standard of performance, information adequate for self-control and the participation of the worker as a responsible citizen in the plant community. Positive motivation is achieved by the co-operation of employees and they have a feeling of happiness.

**Negative Motivation.** Negative or fear motivation is based on force or fear. Fear causes employees to act in a certain way. In case, they do not act accordingly then they may be punished with demotions or lay-offs. The fear acts as a push mechanism. The employees do not willingly co-operate, rather they want to avoid the punishment. Though employees work upto a level where punishment is avoided but this type of motivation causes anger and frustration. This type of motivation generally becomes a cause of industrial unrest.

In spite of the drawbacks of negative motivation, this method is commonly used to achieve desired results. There may be hardly any management which has not used negative motivation at one or the other time.

#### **10.4.4 Importance of Motivation**

Management tries to utilize all the sources of production in a best possible manner. This can be achieved only when employees co-operate in this task. Efforts should be made to motivate employees for contributing their maximum. The efforts of management will not bear fruit if the employees are not encouraged to work more. The motivated employees become an asset to the organization. The following is the importance of motivation.

**High Performance.** Motivated employees will put maximum efforts for achieving organizational goals. The untapped reservoirs of physical and mental abilities are tapped to the maximum. Better performance will also result in higher productivity. The cost of production can also be brought down if productivity is raised. The employees should be offered more incentive for increasing their performance. Motivation will act as a stimulant for improving the performance of employees.

**Low Employee Turnover and Absenteeism.** When the employees are not satisfied with their job then they will leave it whenever they get an alternative offer. The dissatisfaction among employees also increases absenteeism. The employment training of new employees costs dearly to the organization. When the employees are satisfied with their jobs and they are well motivated by offering them financial and non-financial incentives then they will not leave the job. The rate of absenteeism will also be low because they will try to increase their output.

**Better Organizational Image.** Those enterprises which offer better monetary and non-monetary facilities to their employees have a better image among them. Such concerns are successful in attracting better qualified and experienced persons. Since there is a better manpower to development programme, the employees will like to join such organizations. Motivational efforts will simplify personnel functions also.

**Better Industrial Relations.** A good motivational system will create job satisfaction among employees. The employment will offer them better service conditions and various other incentives. There will be an atmosphere of confidence among employers and employees. There will be no reason for conflict and cordial relations among both sides will create a healthy atmosphere. So motivation among employees will lead to better industrial relations.

**Acceptability to Change.** The changing social and industrial situations will require changes and improvements in the working of enterprises. There will be a need to introduce new and better methods of work from time to time. Generally, employees resist changes for fear of an adverse effect on their employment. When the employees are given various opportunities of development then they can easily adapt to new situations. They will think of positive side of new changes and will co-operate with the management. If the employees are satisfied with their work and are not offered better avenues then they will oppose everything suggested by the management. Motivation will ensure the acceptability of new changes by the employees.

#### 10.4.5 Theories of Motivation

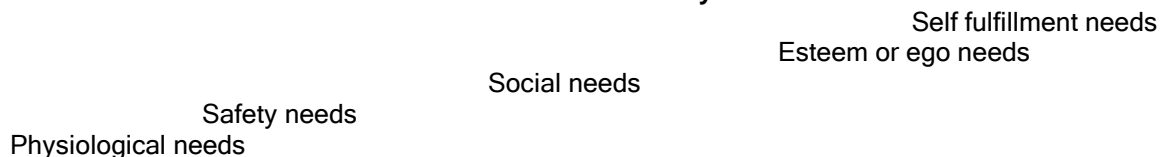
It has always been tried to find out the factors which motivate employees the most. There has been no satisfactory answer until today. Various researches have been undertaken to find out motivating factors but no generalization could be reached. The human nature is so complex that it responds unpredictably at different times. The motivators differ from time to time, place to place and situation to situation and persons to person. The same set of factors may motivate some persons but not all, the same factors may not motivate the same persons at different times and so on. So it is very difficult to give a specific theory, which will be universally accepted. Some scholars have devised different theories which hold good under given situations. Some important theories of motivation have been discussed here.

#### 10.4.6 Maslow's Need Hierarchy

Motivation is influenced by the needs of a person. There is a priority of certain needs over others. The importance of needs will influence the level of motivation. A.H Maslow, an American social scientist, has given a framework that helps to explain the strength of certain needs.' He has categorized human needs into *five* categories. He is of the opinion that a person tries to achieve first category first and then moves on to the next and so on.

Table 1 gives the hierarchy of needs. These needs are discussed as follows :

**Table M. 1**  
**Maslow's Need Hierarchy**



**Physiological Needs.** These needs are most essential for the survival and maintenance of body. These include food, clothing, drinking, shelter, rest, exercise, etc. A man will try to satisfy these needs first. Unless physiological needs are satisfied no other needs will motivate him. Once these needs are satisfied then these will cease to motivate him and he will want to satisfy the other needs.

**Safety Needs.** Once physiological needs are satisfied then safety needs take the precedence. These are the needs to be free from physical danger and the fear of loss of job, property, shelter, etc. One would like to be free from economic worries like loss of job, sickness, old age pension etc. The physical safety against murder, accident, fire, etc. is also essential. The physical and economic needs act as motivators upto the time they are not properly met.

According to McGregor, "Safety needs may serve as motivators in such circumstances as arbitrary management actions, behaviour which arouses uncertainty with respect to continued

unemployment and unpredictable administration of policy. The organization can meet safety needs by installing safety devices at work and can start pension scheme, insurance plan etc.

**Social Needs.** Since people are human beings, they need to belong, to be accepted by others. When social needs become dominant, human being will strike to have meaningful association with others. In an organization workers may form informal groups for exchange of ideas. If management tries to have close supervision and control then workers may retort against such environment. The communication among workers should be encouraged to remove the irritants.

**Esteem or Ego Needs.** The needs are concerned with self-respect, self-confidence, feeling of being unique, recognition, etc. The satisfaction of these needs brings confidence, power, control and prestige. Some of the social problems have their roots in the unfulfilment of these needs.

**Self Fulfillment or Actualization Needs.** Self-fulfillment is the highest need in Maslow's hierarchy. This refers to the needs which helps an individual to develop his potentialities. He tries to do whatever he can and has a sort of self-development. A person tries to do whatever he is capable of doing. He tries to bring out something hidden in him. The self-fulfillment needs give satisfaction to the person concerned and are good for the society also.

Maslow has categorized the needs in order of priority. An individual spends money from one need to another. When one need is satisfied then the other becomes the motivator. All the needs are interdependent. It is not necessary that only one need is satisfied at one time. A person may move to other needs even if earlier -needs are not fully satisfied. When the peak of a need passes then it causes to be a motivator.

### **Critical Analysis of Maslow's Theory**

A number of research studies have been undertaken to see the validity of hierarchy of needs. Lawler and Suttle collected data on 187 managers in two different organizations for a period of six months to one year. No evidence was found to support Maslow's theory. They found there were two levels of needs— biological and other needs— and that other needs would emerge only when biological needs were reasonably satisfied. A survey conducted in India of 200 factory workers revealed that they give top priority to job security, earnings and personal benefits—all lower other needs.

It is generally seen that needs do not follow Maslow's hierarchy. The hierarchy is determined by individuals differently. They proceed to follow their own pattern of needs satisfaction. Some people may try for self-actualizing needs rather than lower needs. For some persons esteem needs are more important than social needs.

There is no cause and effect relation between need and behaviour. A particular need may cause behaviour in different ways in different persons. Similarly, one particular behaviour may result due to different needs. It is said that higher needs motivate a person when lower needs are reasonably satisfied. The word 'reasonably satisfied' is a subjective matter. The levels of satisfaction may be different for different persons.

### **10.4.7 Herzberg's Motivation-Hygiene Theory**

The priority of needs characterizes the type of behaviour. The satisfaction of some needs may not have positive effect on motivation but their non-satisfaction may act as a negative factor. A question arises as to what types of needs are important for improvising motivation. Frederick Herzberg and his associates conducted a study of need satisfaction of 200 engineers and accountants employed by firms in and around Pittsburgh.

The persons were asked to describe a few previous job experiences in which they felt exceptionally good or exceptionally bad about jobs. The influence of these experiences on job was also studied.

Herzberg concluded that there were two sets of conditions. First type of conditions, described as maintenance or hygiene factors, do not motivate employees by their presence but their absence dissatisfies them. The other conditions, called motivational factors, operate to build strong motivation and high job satisfaction, but their absence hardly proves strongly dissatisfying.

### **Maintenance or Hygiene Factors**

These were called maintenance or hygiene factors since they were necessary to maintain current status *i.e.*, reasonable level of satisfaction. These factors are more dissatisfied by their absence but their presence will not motivate. The addition of more and more of these factors will not help in motivating once they are satisfactory. Herzberg named the hygiene factors: Company policy and administration, technical



supervision, inter- personal relations with supervisor, interpersonal relations with peers, inter-personal relations with subordinates, salary, job security, personal life, work relations with subordinates, status. These factors relate to conditions under which the job is performed. They produce no growth in workers but restrict loss of growth. These factors. are necessary to maintain reasonable level of satisfaction in employees.

#### **Motivational Factors**

The presence of these factors build high motivation and job satisfaction. However, if these conditions are not present, they do not cause dissatisfaction. There are six factors : achievement, recognition, advancement, work itself, possibilities of personal growth, responsibility. Most of these factors relate to job contents. Their performance of an employee on the job and the satisfaction which he achieves from them from the contents of these factors. The increase in these factors will be essential for increasing motivation of employees.

Herzberg pointed out that managers have been very much concerned with hygiene factors only. They could not enlist the full co-operation of employees by increasing salaries etc. They did not realise the importance of motivating factors. The employees are motivated by the content of the job. The satisfaction which an employee will derive from the job will go to increase his output. The management should try to reduce dissatisfaction arising out of hygiene factor and building up the satisfaction from motivators.

#### **10.4.8 Carrot And Stick Approach Theory**

This approach comes from an old story that the best way to make a donkey move is to put a carrot out in front of him or jab him with a stick from behind. The carrot is the reward for moving, the stick is the punishment for not moving. For motivating people to work more some kinds of rewards can be offered. Often this is money in the form of pay or bonuses. There can be non-monetary reward too. The punishment can also be used to push a desirable behaviour of employees. These can be in the form of reduction of bonus, demotion, fear of loss of job, loss of income etc.

Though there is no reference to carrot and stick in motivation theories but still these form basis of motivation. The control of interest environment in an organization requires a desired behaviour of various employees. Management uses rewards as well as punishments for enforcing a particular behaviour. The carrot, rewards, are recognised in various theories of motivation. The performance of employees is behind certain rewards. The employees would be motivated to improve their performance and they get financial and non-financial incentives in return. The stick, punishment, also pushes employees raise their performance. In order to make the stick to work effectively, some factors may have to be kept in mind. It is important to decide the proper time using the stick. The negative motivation can also bring retaliation from employees. Punishment only temporarily supresses the behaviour. It should also be taken into consideration that stick should not become a reward for undesirable behaviour.

Both carrot and stick should be used judiciously otherwise they will not help in achieving the desired results.

#### **10.4.9 Mcgregor's Theory X And Theory Y**

Douglas Mcgregor introduced these two theories *i.e.*, Theory X and Theory Y, based on two distinct views of human beings. He proposed, at opposite extremes, two pairs of assumptions about human beings which he thought were implied by the actions of the managers. Theory X deals with one extreme, based on one set of assumptions and Theory Y, deals with another extreme based on another set of assumptions. These theories are not based on any research, but according to McGregor, these are intuitive deductions.

**Theory X.** This theory is based on the traditional approach to human behaviour. The assumptions generally, held by the managers in this theory are :

The average human beings inherently dislike work and will try to avoid it, whenever *possible*.

As the employees are lazy, they must be controlled, coerced, threatened with punishment to achieve goals, to which they are indifferent.

Average employees will try to avoid responsibility and seek formal directions whenever possible, because they have relatively little ambition.

Most workers place security above all other factors associated with work. These assumptions about human nature are negative in their approach. Managers who advocate these views feel

that extreme control is most appropriate for dealing with irresponsible and immature employees. This is an autocratic style of leadership based on the traditional theory of what workers are like and what management must do to motivate them. Workers have to be persuaded and pushed into performance.

**Theory Y.** This approach assumes that management by direction and control is a questionable method for motivating such people whose physiological and social needs have been satisfied and whose social ; esteem and self actualization needs are becoming more important. For such people, Theory Y, seems to be applicable, which is the contrast of Theory X. This theory makes the following assumptions about people :

The average human being does not inherently dislike work. He can view work as natural or enjoyable as rest or play.

Employees will exercise self direction and self control in the attainment of the objectives to which they are committed.

Given proper working conditions, average person can learn to accept and even to seek responsibility.

Commitment to objectives is a function of the rewards associated with their achievement

All the people are capable of making innovative and creative decisions and the decision making is not the sole province of the people in management positions.

This theory has assumed a new approach in management. It emphasises on co-operation between management and employees. The individual and organizational goals do not conflict in this approach. This theory places greater emphasis on satisfaction of high level needs of the employees. McGregor himself holds that the assumptions of theory Y are more valid than Theory X. Thus, delegation of authority, job enlargement, management by objectives and participative management techniques are great motivators for the employee.

#### **Applicability of Theory X And Theory Y**

Theory X and the Theory Y represent two extremes. No person can belong to these two extreme situations. Each person possesses the traits of Theory X and Theory Y, though the degrees may be different under different situations. Though, no generalizations can be made, still it appears that theory X is more applicable to unskilled and uneducated lower class workers who work for the satisfaction of their physiological needs only. Theory Y appears to be applicable to the educated, skilled and professional employees who understand their responsibilities and do not need any direction and control. However, there can be exceptions. A lower level employee may be more responsible and mature than a well qualified high level employee. Still these theories are very important tools in understanding the behaviour of human beings and in designing the motivational schemes. The management should use a combination of both the theories to motivate different employees. Management by objectives and participative management techniques are great motivators for the employee.

#### **10.4.10 Ouchi's Theory Z**

Of all the contemporary motivational theories the one that has received a great deal of attention is theory Z. It is a new way of viewing the essential nature of man and the factors that motivate him. Theory Z has originated from the Japanese management practices. A notable feature of Japanese management is that managers seem to make better use of human capital. The managerial techniques of Japan are of special interest because these are quite different from those used in developed western countries. Japan is among the highly successful industrial countries in the world. The rate of increment in productivity in Japan is roughly two to three times that of America firm, the absenteeism has been low, organizational commitment is high and turnover rate is half compared to America. Management experts and organizational scientists, in the recent past have tried to analyse the 'Industrial Miracle' of Japanese firms and the result of their analysis is the management style called Theory Z. William G. Ouchi, who has given Theory Z has identified seven major dimensions along which the American and Japanese firm differ. These dimensions are given as below :

**Lifetime Employment.** One of the important managerial practice in Japan is the employment of employees for a lifetime. The employees spend their working life in a single enterprise. The promotions are based on seniority. The employees spend longer periods on every job and upward movement is very slow. They develop an affinity with the firm and see their own progress in its growth. The employees develop loyalty and close identification with the aims of the company.

The life long employment system may prove costly to a firm when there is inadequate work at times. Now the firms are questioning this practice but the change is very slow. The system of seniority gives privileges to older employees who remain with the firm. The system discourages younger employees who have talent and leadership qualities. Some big companies have now started attracting talent from outside for higher jobs.

Even though the practice of live long employment and seniority based promotions look out of place in the present environment but these practices have been very successful in Japan. In America the employment is time bound and frequent job change is a common practice. Even in America some firms want to use such practices. Japanese multinationals having manufacturing units in America are successfully using traditional Japanese managerial techniques.

**Decision Making.** Japanese follow entirely a different system of decision making as compared to that followed by Americans. In Japan a decision is initiated at a lower level and then it goes to top executive through various stages.

The proposal is discussed at every level and the initiator provides details to the superiors if they so require. The problem is properly specified and thoroughly discussed. Once a decision is taken there is no problem in implementing it. Everybody in the hierarchy becomes acquainted with the problem and its implementation needs least efforts because the decision has the concurrence of concerned persons. The decision-making is through consensus and participation. Once the decision is taken at the top then it is sent to the initiator for implementation. In America, this practice is just the reverse. The decisions are taken at higher levels and are communicated to lower levels just for implementation. There may be resistance at lower levels since they are not aware of the problem and their viewpoints have not been taken into account before making a decision. The Japanese decision making has been successful and western countries are now following this practice in the garb of participative decision-making.

**Responsibility.** In the American type, employees are required to assume individual responsibilities as the rate of labour turnover is very high and employees come and go frequently, whereas in type Z organizations, it is virtually collective responsibility of employees to achieve the goals of the organization.

**Evaluation and Promotion.** The evaluation/appraisal and promotion of employees in American firms are frequent and quick whereas in Japan evaluations are infrequent and promotions are slow. The promotions are based on seniority. The employees spend longer periods on every job and upward movement is very slow.

**Control.** The control mechanism followed by Japanese firms is also quite different as compared to American firms. In Japan, control system is implicit and informal whereas it is explicit and formal in American type organizations. The Japanese philosophy of management advocates control of employees through informal standards. A number of factors, apart from the current level of performance, like personality traits, cooperation with other employees etc. are taken into consideration while evaluating employees. Mistakes of the employees are ignored as these are considered part of the learning process.

**Specialization.** In the American type organizations, employees are specialized in particular areas whereas in Japanese firms, i.e. type Z, employees are not kept in their narrow areas of specialization but they are rotated laterally. This gives employees the opportunity to understand the entire organization.

**Concern.** One of the major strategy used by the Japanese firms is the socialization process wherein the organization's concern is oriented towards the entire personal life of the employees.

It is a holistic concern whereas in American type organizations there is segmented concern where employee is valued only during the period he is involved in the organization.

### **Features of Theory Z**

William G. Ouchi has laid down five broad features of theory Z :

**Trust between employees, supervisors, work groups, Unions, management and government.** Ouchi is of the opinion that trust, integrity and openness are closely related; when an organization relies on trust and openness, employees try their best to cooperate to the maximum and the chances of conflict are reduced to the minimum.

**Strong bond between organization and employees.** Theory Z suggests that there should be strong bond between organization and employees which may be achieved through the provision of lifetime employment, participative decision making, conducive work environment etc.

**Participation of employees** in decision making. Another important feature of theory Z is the involvement and participation of employees in the decision making process. However, there can be some decisions where employee's suggestions are taken but final decisions are made by the management.

**No formal structure of organization.** Theory Z suggests that there should be no formal structure for the organization rather there must be a perfect team work and cooperation just like a basket ball team which plays well together and solves all problems with no formal reporting relationships.

**Coordination of human beings.** According to theory Z, the role of the leader is to coordinate people and not technology to improve productivity. A new philosophy of management has to be created whereby people's skills are developed through trust and openness. Thus, it can be concluded that theory Z suggests complete transformation of motivational aspects of employees.

#### 10.4.11 Vroom's Expectancy Theory

Victor Vroom made an important contribution to the understanding of the concept of motivation and the decision processes that people use to determine how much effort they will expend on their jobs. Criticizing Herzberg's two factors theory, he said that a person's motivation towards an action at any time would be determined by an individual's perception that a certain type of action would lead to a specific outcome and his personal preference for this outcome.

This model is based on the belief that motivation is determined by the nature of the reward people expect to get as a result of their job performance. Because man is a rational human being he will try to maximise the perceived value of such rewards. People will be highly motivated if they are made to believe that if they behave in a particular way, they will receive a certain type of outcome according to their personal preference. There are three variables in Vroom's model given in the form of an equation. Since the model is a multiplier, all the three variables must have high positive value to imply motivated performance choices. If any of the variable is zero, the probability of motivated performance tends to be zero.

#### **MOTIVATION = VALENCE x EXPECTANCY x INSTRUMENTALITY**

All these three variables are explained as follows :

**Valence.** Valence means the attraction (or repulsion) of an outcome to the individual. Whenever an individual has preference for a reward valence is the strength of that preference. The valence is something subjective and varies from person to person. Valence is deemed to be positive for an individual if he prefers attaining the outcome to not attaining it. Valence is zero, if the individual is indifferent towards the outcome and the valence will be negative if the individual prefers not attaining the outcome to attaining it. In simple words we can say that the worker must value the reward as desired and satisfactory. It is not the actual value of the reward, but the perceived value of the reward in the mind of the worker which is important. For example, a person who is more interested in getting recognition for the hard work, will not have any valence for cash reward.

**Expectancy.** Expectancy is also referred to as the Effort-Performance Probability. It refers to the extent to which the person believes his efforts will lead to the first level outcome *i.e.*, completion of the task. Expectancy is the probability that a particular action will lead to the outcome, it is the perception in the mind of the individual of the likelihood that a particular action or behaviour will lead to a certain outcome. Since it is an association between effort and performance, its value can range between 0 and 1. If the individual feels that the probability of achieving an outcome is zero, he will not even try. On the other hand, if probability is higher, he will put more efforts to achieve the desired outcome.

**Instrumentality (Performance-Reward Probability).** Instrumentality refers to the probabilities attached by the individual to each possible performance-outcome alternative just as the individual previously assigned probabilities to various levels of effort leading to different levels of performance (expectancy). In simple words, instrumentality refers to the belief and expectation of a person that his performance will lead to a particular desired reward. For example, if an individual wants a promotion and feels that superior performance is very important in receiving the promotion. Superior performance is the first level outcome and the promotion is the second level outcome. Superior performance (First level outcome) will be instrumental in obtaining the desired promotion (Second level outcome). The value of

instrumentality also varies between 0 to 1 as it is also the probability of achieving the desired outcome.

As the relationship suggests, ( $Motivation = V \times E \times I$ ) motivational force will be highest when all the three factors are high and the force will be reduced when any one or more of valence, expectancy or instrumentality approaches zero.

The management must recognize and determine the situation as it exists and take steps to improve up on these factors for modification of behaviour, so that highest value can be achieved individually. Management for example, can deal with the different situations in the following way:

**(i) Low Effort-Performance Expectancy**

| <b>Reasons</b>  | <b>Steps of be taken</b>  |
|---|---|
| Lack of necessary skills & training, so that the workers do <b>not</b> know that their extra efforts will lead to better performance. | Management should provide opportunities for training to improve skills in order to improve Effort Performance relationship. |

**(ii) Low Performance-Reward Instrumentality Relationship**

| <b>Reasons</b>  | <b>Steps</b>  |
|---|---|
| Reward policy may be inconsistent and may depend upon factors other than performance which the worker may not be aware of or may not consider fair. | Management should reevaluate the appraisal techniques and formulate policies that strengthen this relationship as just and equitable. |

**(iii) Low Reward-Valence**

| <b>Reasons</b>   | <b>Steps to be taken</b>   |
|--|--|
| The rewards may not be desirable for the workers. Some workers may find monetary rewards desirable while some others may value recognition more. | Management must investigate the desirability of the rewards which are given on the basis of performance. |

**Evaluation of The Expectancy Model**

Vroom's theory has become very popular and it has provided an alternative to content theories, which according to him, were inadequate explanations of the complex process of work motivation. The plus points of this theory are :

The expectancy model is highly useful in understanding organizational behaviour. It can improve the relationship between the individual and the organizational goals. This model explains how individual's goals influence his efforts and like need-based models reveal that individual behaviour is goal oriented.

The expectancy theory is a cognitive theory, which values human dignity. Individuals are considered rational human beings who can anticipate their future on the basis of their beliefs and expectations.

This theory helps the managers in looking beyond what Maslow and Herzberg implied. According to him motivation does not mean satisfying the unsatisfied needs. The managers must make it possible for an employee to see that effort can result in appropriate need satisfying rewards. This level of expectations will improve the motivation to work.

Despite these plus points, there are some drawbacks of Vroom's expectancy model as given below :

Vroom's theory is difficult to research and apply in practice. This is evident by the fact that there have been a very few research studies designed specifically to test Vroom's theory.

This theory assumes man to be a rational human being who makes all the decisions consciously. But there are numerous instances where decisions are taken with no conscious thought. This is particularly true for routine jobs.

Although, it is an important theory of motivation but it is quite complex. Many managers, in actual organizational situations, do not have the time or sources to use a complex system on the job.

To conclude, we can say that from the theoretical point of view, this model is a step in the right direction, but from practical point of view, it does not help the manager in solving the complex motivational problem.

## **B. Non-financial Motivators**

These motivators are in the nature of better status, recognition, participation, job security etc. Some of these motivators are discussed here:

**Recognition.** Every person wants his work to be recognized by his superiors. When he knows that his performance is known to his boss then he will try to improve it more and more. The recognition may be in the form of a word of praise, a pat on the back, a word of praise, a letter of appreciation, entry in annual confidential report etc. There may also be awards, certificates, plaque etc. The recognition may be for better output, saving in time, improving quality of products, suggestions for better ways of doing things etc.

These types of recognitions will act as motivator. If the performance of persons is not recognized and everybody is treated on the same footing then good persons will not like to put their best efforts.

**Participation.** Participation has been considered a good technique for motivation. It implies physical and mental involvement of people in decision-making process. It satisfies ego and self-esteem of persons. They feel important when asked to make suggestions in their field of activity. There is no doubt that most of the people know the problems they will face and their possible solutions. Participation results in motivation and knowledge valuable for the enterprise success. Participation gives a sense of affiliation and accomplishment. It certainly acts as motivator.

Participation should not mean that managers should abdicate their positions. They should encourage subordinates to participate in matters where they can help. Managers should listen various view-points and then take decisions themselves.

**Status.** It refers to a social status of a person and it satisfies egoistic needs. A management may create some status symbols in the organization. This can be done by way of giving various facilities to the persons. These may be superior furniture, carpets on the floor, attachment of peons, personal assistant etc. To get these facilities a person will have to show a certain amount of performance. When a person achieves certain facilities then he tries to get better status by working more. In this way status needs act as motivator.

**Competition.** In some organizations competition is used as a motivator. Various persons are given certain objectives and everybody tries to achieve them ahead of others. There may be praises, appreciation letters, financial incentives to those who reach the goals first. The competition encourages persons to improve their performance.

**Job Enrichment.** Job enrichment has been recognized as an important motivator by various researches. The job is made more important and challenging for the workers, may be given wide latitude in deciding about their work methods. The employees will also perform the management functions of planning and control so far as the work is concerned. According to Herzberg, job enrichment would provide an opportunity for the employees' psychological growth. The employee is given the dealings and quality standards he must meet. Within a framework he is given a free-hand to decide and perform the work. It brings more job satisfaction and high morale. So it is recognized device of motivation.

## **10.5 LEADERSHIP**

### **10.5.1 Introduction**

Leadership is an important element of the directing function of management. Wherever there is organized group of people working towards a common goal, some type of leadership becomes essential. The power of leadership is the power of integrating. The leader stimulates what is best in us, he unites and concentrates what we feel only groupingly and scatteringly. He is a is who gives form to the unutilized energy in every man. The person who influences me most is not he who does great deeds, but he who makes me feel that I can do great deeds. || Marry Parker Follet.

Leadership is the ability to build up confidence and zeal among people and to create an urge in them to be led. To be a successful leader, a manager must possess the qualities of foresight drive, initiative, self-confidence and personal integrity. Different situations may demand different types of leadership.

### **Definitions**

Leadership has been defined in various ways. Stogdill has rightly remarked that there are almost as many definitions of leadership as there are people who have tried to define it. The definitions given by some famous authors and management experts are given below :

*Koontz and O.,Donnell.* Leadership is the ability of a manager to induce subordinates to work with confidence and zeal.

*Dubin. R.* Leadership is the exercise of authority and making of decisions.

*Ailford and Beaty.* Leadership is the ability to secure desirable actions from a group of followers voluntarily, without the use of coercion.

*George R. Terry.* Leadership is the activity of influencing people to strive willingly for group objectives.

*Hemphill. J.K.* Leadership is the initiation of acts which result in insistent pattern of group interaction directed towards the solution of mutual problem.

*Jame J. Cribbin.* Leadership is a process of influence on a group in a particular situation at a given point of time, and in a specific set of circumstances that stimulates people to strive willingly to attain organizational objectives and satisfaction with the type of leadership provided.

*Peter Drucker.* Leadership is not making friends and influencing people, *i.e.*, salesmanship It is the lifting of man's visions to higher sights, the raising of man's personality beyond normal limitations.

In the various definitions of leadership the emphasis is on the capacity of an individual to influence and direct group effort towards the achievement of organizational goals. Thus, we can say that leadership is the practice of influence that stimulates subordinates or followers to do their best towards the achievement of desired goals.

### 10.5.2 Nature And Characteristics of Leadership

An analysis of the definitions cited above reveals the following important characteristics of leadership :

Leadership is a personal quality.

It exists only with followers. If there are no followers, there is not leadership.

It is the willingness of people to follow that makes person a leader.

Leadership is a process of influence. A leader must be able to influence the behaviour, attitude and beliefs of his subordinates.

It exists only for the realization of common goals.

It involves readiness to accept complete responsibility in all situations.

Leadership is the function of stimulating the followers to strive willingly to attain organizational objectives.

Leadership styles do change under different circumstances.

Leadership is neither bossism nor synonymous with management.

### 10.5.3 Leadership Styles or Types of Leaders

The term *\_leadership style*, refers to the consistent behaviour patten of a leader as perceived by people around him. Every leader develops a pattern in the way he handles his subordinates or followers in various situations. The leadership style is the result of the philosophy, personality and experience of the leader. It also depends upon the types of followers and the conditions prevailing in an organization. According to their attitude and behaviour patterns leaders are classified as under :

Autocratic or Authoritarian style leader.

Laissez-faire or Free-rein style leader

Democratic or participative style leader.

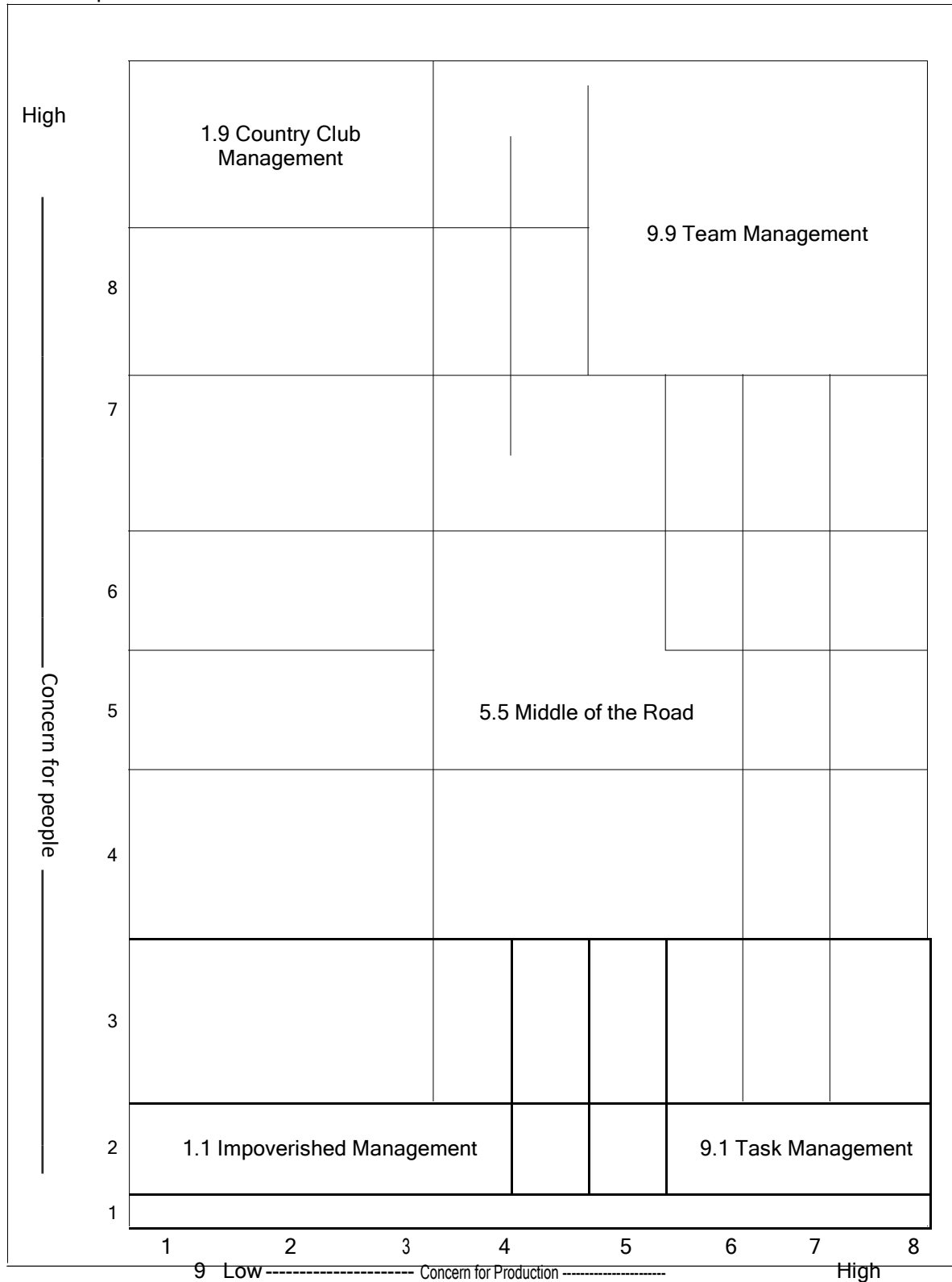
Paternalistic style leader.

**Autocratic or Authoritarian Style Leader.** An autocratic also known as authoritarian style of leadership implies yielding absolute power. Under this style, the leader expects complete obedience from his subordinates and all decision-making power is centralized in the leader. No suggestions or initiative from subordinates is entertained. The leader forces the subordinates to obey him without questioning. An autocratic leader is, in fact, no leader. He is merely the formal head of the organization and is generally disliked by the subordinates. The style of leadership may be practiced to direct those subordinates who feel comfortable to depend completely on the leader.

**Laissez-faire or Free-rein Style Leader.** Under this type of leadership, maximum freedom is allowed to subordinates. They are given free had in deciding their own policies and methods and to make independent decisions. The leader provides help only when required by his subordinates otherwise he does not interfere in their work. The style of leadership creates self-confidence in the workers and provides them an opportunity to develop their talents. But it may not work under all situations with all the

workers and under all situations. Such leadership can be employed with success where workers are competent, sincere and self-disciplined.

**Democratic or Participative Style Leader.** The democratic or participative style of leadership implies compromise between the two extremes of autocratic and laissez-fair style of leadership.





Under this style, the supervisor acts according to the mutual consent and the decisions reached after consulting the subordinates. Subordinates are encouraged to make suggestions and take initiative. It provides necessary motivation to the workers by ensuring their participation and acceptance of work methods. Mutual trust and confidence is also created resulting in job satisfaction and improved morale of workers. It reduces the number of complaints, employee's grievances, industrial unrest and strikes. But this style of leadership may sometimes cause delay in decisions and lead to indiscipline in workers.

**Paternalistic Style Leader.** This style of leadership is based upon sentiments and emotions of people. A paternalistic leader is like a father to his subordinates. He looks after the subordinates like a father looks after his family. He helps, guides and protects all of his subordinates but under him no one grows. The subordinates become dependent upon the leader.

#### 10.5.4 Formal And Informal Leaders

From the view point of official recognition from top management, leaders may be classified as formal and informal leaders. A formal leader is one who is formally appointed or elected to direct and control the activities of the subordinates. He is a person created by the formal structure, enjoys organizational authority and is accountable to those who have elected him in a formal way. The formal leader has a two-fold responsibility. On the one hand, he has to fulfill the demands of the organization, while on the other he is also supposed to help, guide and direct his subordinates in satisfying their needs and aspirations.

Informal leaders are not formally recognized. They derive authority from the people who are under their influence. In any organization we can always find some persons who command respect and who are approached to help, guide and protect the interest of the people. They are known as informal leaders. The informal leaders have only one task to perform, *i.e.*, to help their followers in achieving their individual and group goals. Informal leaders are created to satisfy those needs which are not satisfied by the formal leaders. An organization can make effective use of informal leaders to strengthen the formal leadership.

#### 10.5.5 The Managerial Grid

Robert R. Blake and Jane S. Mouton developed the Managerial Grid which has been used as a means of managerial training and of identifying various combinations of leadership

concern for people ; and (ii) concern for production. There are five representative styles of leadership on the managerial grid :

**Improvised Management.** The first style (1.1) is the improvised management under which the manager is least concerned with either people or production.

Exertion of minimum effort to get required work done is appropriate to sustain organization members.||

**Country Club Management.** The country club management as shown in grid at 1.9 is one in which the management (leaders) have great concern for their people but lack production orientation. Thoughtful action to needs of people for satisfying relationships leads to a comfortable friendly organization atmosphere and work tempo.||

**Task Management.** Efficiency in operations result from arranging conditions for work in such a way that human elements interfere to a minimum degree.|| As shown in the grid at 9. 1. the leaders with high concern for production fall under this style. Their concern for people, however, is minimum.

**Team Management.** Work accomplishment is from committed people, interdependence through a common stake in organization purpose leads to relationships of trust and respect.|| As shown in the grid at 9.9, the leaders having high concern for production as well as people fall under this style.

**Middle of the Road.** Adequate organization performance is possible through balancing the necessity to get out work while maintaining morale of people at a satisfactory level.|| This has been shown in the grid at 5.5. The leaders of this style have medium concern for both people and production and try to maintain a balance in the two.

file marginal grid implies that the most desirable leader behaviour is Team management (9.9) in which the leader has high concern for production as well as people. The managerial grid is useful for identifying various combinations of leadership styles. But it is unable to point out the factors which lead the manager to such a style.

### 10.5.6 Leadership Functions

Following are the important functions of a leader :

**Setting goals.** A leader is expected to perform creative function of laying out goals and policies to persuade the subordinates to work with zeal and confidence.

**Organizing.** The second function of a leader is to create and shape the organization on scientific lines by assigning roles appropriate to individual abilities with the view to make its various components to operate sensitively towards the achievement of enterprise goals.

**Co-ordination.** A leader has to reconcile the interests of the individual members of the group with that of the organization. He has to ensure voluntary co-operation from the group in realizing the common objectives.

**Direction and Motivation.** It is the primary function of a leader to guide and direct his group and motivate people to do their best in the achievement of desired goals. He should build up confidence and zeal in the work group.

**Link between Management and Workers.** A leader works as a necessary link between the management and the workers. He interprets the policies and programmes of the management to his subordinates and represents the subordinates' interests before the management. He can prove effective only when he can act as the true guardian of the interests of the subordinates.

### 10.5.7 Importance of Leadership In Management

The importance of leadership in any group activity is too obvious to be over-emphasised. Wherever there is an organized group of people working towards a common goal, some type leadership becomes essential. Lawrence A. Appley remarked that the time had come to substitute the word leadership for management. Although the concern for leadership is as old as recorded history, it has become more acute during the last few decades due to the complexities of production methods, high degree of specialization and social changes in the modern organizations.

A good dynamic leader is compared to a 'dynamo generating energy' that charges and activates the entire group in such a way that near miracles may be achieved. The success of an enterprise depends to a great extent, upon effective leadership. The importance of leadership can be highlighted from the following:

**It improves motivation and morale.** Through dynamic leadership managers can improve motivation and morale of their subordinates. A good leader influences the behaviour of an individual in such a manner that he voluntarily works towards the achievement of enterprise goals.

**It acts as a motive power to group efforts.** Leadership serves as a motive power to group efforts. It leads the group to a higher level of performance through its persistent efforts and impact on human relations.

**It acts as an aid to authority.** The use of authority alone cannot always bring the desired results. Leadership acts as an aid to authority by influencing, inspiring and initiating action.

**It is needed at all levels of management.** Leadership plays a pivotal role at all levels of management because in the absence of effective leadership no management can achieve the desired results.

**It rectifies the imperfectness of the formal organizational relationships.** No organizational structure can provide all types of relationships and people with common interest may work beyond the confines of formal relationships. Such informal relationships are more effective in controlling and regulating the behaviour of the subordinates. Effective leadership uses these informal relationships to accomplish the enterprise goals.

**It provides the basis for co-operation.** Effective leadership increases the understanding between the subordinates and the management and promotes co-operation among them.

**Process or techniques of Effective Leadership.** The following are the techniques of effective leadership :

The leader should consult the group in framing the policies and lines of action and in initiating any radical change therein

He should attempt to develop voluntary co-operation from his subordinates in realizing common objectives.

He should exercise authority whenever necessary to implement the policies. He should give clear, complete and intelligible instructions to his subordinates.

He should build-up confidence and zeal in his followers.

He should listen to his subordinates properly and appreciate their feelings.  
He should communicate effectively.  
He should follow the principle of motivation

### 10.5.8 Successful Leadership Vs Effective Leadership

A very important question is whether there is any relationship between successful leadership and effective leadership. Are the successful managers always effective or is there a distinction between successful leaders and effective leaders. Let us try to understand this relationship :

A manager always tries to influence the behaviour of the subordinates through leadership. The subordinate may come up to the expectations of the leader or not. Moreover, if the behaviour of the subordinate is compatible with the expectations of the leader it may be due to two reasons (i) *Impact of leader's appropriate, style* or (ii) *because of the position power of the leader*. In the first case, the leader is effective because he has influenced the behaviour of the subordinate and the subordinate sees the accomplishment of his own needs being satisfied by satisfying the goals of the leader and the organization. In the second case, the leader is successful but he is not effective. It is because of the reason that he has received the desired response from the subordinates but by using his power.

**Success of Leadership.** Success of a leader depends upon :

How the individual or the group behaves.  
Position power.  
Close Supervision.

**Effectiveness of Leadership.** Effectiveness of leadership depends upon :

Internal shape or predisposition of an individual or a group and thus, it is attitudinal in nature.  
Personal power  
General Supervision.

The position power can be delegated downward in the organization but the personal power cannot be delegated but is generated upward from below through acceptance by subordinates.

Thus, a manager can be successful but ineffective. It means he will have only short-run influence over the behaviour of others. A successful and effective manager is the ideal one whose influence tends to lead to long run productivity.

The successful and effective framework is just one way of evaluating the response to a specific behavioural aspect and not of evaluating performance over time. Leadership is just one of the factors which influences the total performance and hence, performance should be evaluated in the light of all these factors.

### 10.6 SUMMERY

One of the basic functions of management is direction. Direction means the use of leadership and motivation to guide the performance of subordinates towards the achievements of the organization's goals. Important requirements for effective direction are: harmony of objectives, unity of command, direct supervision, efficient communication and follow up.

Giving orders is the commonest techniques of direction. Some characteristics of good order are: feasibility, acceptability, clearness and completeness and following the chain of command. There can be three types of orders: command, request and implied order. Each order can be either verbal or in writing.

Motivation is an extremely significant subject for managers since managers get work done through others. Important characteristics of motives are: individuals differ in their motives; sometimes the individual himself motives make the choice of goals difficult for an individual.

Views about the nature of motivation have changed from the early monistic model, which suggested that people are motivated by monetary rewards to the pluralistic model which recognizes four groups of variables affecting the motivation of an individual: individual characteristics, job characteristics, organizational characteristics and external environment.

Among important writers on motivation are Maslow, Alderfer, Herzberg, McClelland, Vroom, Adam and Skinner. Maslow theorized that individuals are motivated to fulfill a hierarchy of needs, with the need for self actualization at the top. Alderfer condensed Maslow's Five levels into three, Herzberg developed a two factor approach to work-motivation in which job ratification was attributed to factors related to the job content and dissatisfaction to factors related to the job context. McClelland found that the three important human needs are: need for achievement, need

for affiliation and need for power. Need for achievement is most closely associated with successful performance in the work place.

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### 10.9 TERMINAL AND MODEL QUESTIONS

- What do you understand by "Directing"? Explain the elements that are considered essential in the process of directing in management.  
Define "direction". Explain its salient characteristics.  
What is motivation? Describe the nature and types of motivation.  
Define motivation. What is its importance for a business?  
Discuss briefly various theories of motivation.  
Critically evaluate Maslow's need hierarchy theory of motivation.  
Describe McGregor's theory X and theory Y.  
Define leadership. What is its importance in management?

Activity 1

Define the managerial grid.

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Activity 2

Describe the nature and types of motivation.

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## CHAPTER - 11

### **NATURE, PROCESS AND CONTROLLING TECHNIQUES 11.1 OBJECTIVE**

**Define** control

**Explain** the steps in control process

**Describe** the need for and benefits of control

**Explain** the requirement of control system

**Describe** the various control techniques

### **11.2 INTRODUCTION**

The objective of every organization is to use scarce resources in a best possible way. Plans are framed to achieve better results. Control is the process of checking whether the plans are being adhered to or not, keeping a record of progress and then taking corrective measures if there is any deviation. Control is one of the managerial functions. These functions start with planning and end at controlling. The other functions like organizing, staffing, directing act as the connecting link between planning and controlling. Planning will be successful only if the progress is properly controlled. Planning involves setting up of goals and objectives while controlling seeks to ensure performance in accordance with plan.

#### **Definitions**

**George R. Terry.** "Controlling is determining what is being accomplished that is evaluating the performance, and if necessary, applying correct measures so that the performance takes place according to plans." In Terry's views, controlling helps in proper implementing of plans. If the plans are not progressing at a proper pace then necessary measures are taken to set the things right. Controlling is a channel through which plans may be properly implemented.

**Robert N. Anthony.** "Management Control is the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of an organization's objectives." Control is a tool in the hands of management for ensuring better utilization of resources. Anthony even goes to the extent of saying that control even ensures the arrangement of required resources.

**Ernest Dale.** "The modern concept of control envisages a system that not only provides a historical record of what has happened to the, business as a whole but pin-points the reason why it has happened and provides data that enable the chief executive or the departmental head to take corrective steps if he finds he is on the wrong track." Dale has enlarged the scope of control by saying that it helps in finding out the reasons for low performance and then suggesting the way of improving it. It also gives information to the top executives to assess their performance and then take corrective measures if necessary.

**Koontz and O'Donnel.** The measurement and correction of the performance of activities of subordinates in order to make sure that enterprise objectives and plans devised to attain them are being accomplished." The accomplishment of organizational goals is the main aim of every management. The performance of subordinates should be constantly watched to ensure proper implementation of plans. Co-ordination is the channel through which goals can be achieved and necessary corrective actions may be taken if things are not going as per the objectives.

**Henry Fayol.** "In an undertaking, control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and principles established." It has to point out weakness and errors in order to rectify them and prevent recurrence. It operates on everything things, people, actions, etc.

### **11.3 CHARACTERISTICS OF CONTROL**

From the discussion of above given definitions, following inferences may be drawn :

**Managerial Function.** Control is one of the managerial functions. It is not only the function of chief executive but is the duty of every manager. A manager is responsible for whatever work is assigned to him. He will control the performance of his subordinates for ensuring the accomplishment of goals. Control is mainly the function of line organization but manager may ask for data from staff personnel.

**Forward Looking.** Control is forward looking. Past is already gone thus cannot be controlled. Measures can be devised to control future activities only. Past provides a base for determining controls

for future. The manager will study the past performance in order to find out the reasons for low results. A corrective action will be taken to ensure that work in future is not adversely affected. Take for example, production for a particular month is low than the standard. Manager will not be able to do anything about the past performance. However, he may study the reasons for low production. He should take appropriate steps so that the same mistakes are not repeated and production will not suffer in future.

**Continuous Activity.** Control is regularly exercised. It is not an activity in isolation. The manager will have to see that his subordinates perform according to plans at all the times. Once the control is withdrawn it will adversely affect the work. So, control will have to be exercised continuously.

**Control is related to Planning.** Planning is the first function of management while control is the last. Control cannot be exercised without planning. First the objectives are set and then efforts are made to see whether these are accomplished or not. Whenever there is a laxity in performance and things are not happening as per the plans then corrective measures are taken immediately. So planning provides a base for controlling.

**Essence of Control is Action.** Whenever performance is not as per the standards then immediate action is needed to correct the things. The purpose of control will be defeated if corrective action is not taken immediately. If the sales are less than the standard set for marketing department then steps will be taken to ensure that performance is not low in future. If no such steps are taken then there will be lack of control. In practice, immediate action is the essence of control.

### 11.3.1 Controlling And The Human Element

Employees sometimes, dislike controls because they take them as restraints. The best control system enlightens employees about the positive side of control. Controls help employees in improving their performance. Employees gain satisfaction from doing a good job. The implementation part of control is very important. Even good controls may dampen the spirit of employees if these are badly administered. To make controls effective and useful for employees, following things should be taken into consideration.

**Considering Employees' Needs.** The control should be devised in such a way that needs of employees are taken into consideration. The employees should be aware of expectancy from them. They should be clear about the standards of performance which will satisfy the manager. Such awareness will help employees in improving their performance. When employees feel that controls are justifiable then they will also support them.

**Developing Mutual Interest.** The objectives of the organization should be clearly spelled out. There should be mutual interest of management and employees in reaching those objectives. The employees should be briefed about their interests in various objectives. When controls are established to realise those goals then employees will support them as it will be in their interest too.

**Providing Information about Control Measures.** The measures used for control should be properly explained to everyone in the organization. When employees are clear about various standards, etc. then these will be properly implemented. If the employees are capable of understanding the devising and implementation of various control measures then they should be associated with this exercise. The management will be relieved of much botheration and employees themselves will help in implementing control techniques.

**Controls be Adjusted Automatically.** The controls should be such that these are automatically adjusted with the change in situations. If quality standards of a product are changed then controls should also be readjusted. Control should not be changed to reduce the standards of performance but they should be adjusted as per the needs of new situations. When there is flexibility in controls then employees will not have any grievance. The flexibility should be used to improve performance standards and not otherwise.

### 11.3.2 Pre-Requisites of Control System

Control system cannot operate in isolation. A number of other functions are also required to be performed for making control effective. The following factors are essential for making control system useful :

**Planning.** Planning is the first pre-requisite for making control effective. Planning involves the setting of objectives and then deciding about the appropriate course of action. First of all organizational goals are set and then departmental or sectional objectives are decided. The objectives are the targets for the achievement of which all energies are pooled. The objectives must be specific so that their

achievement may be determined. The pre-determined course of action should be used to reach various objectives.

Control is concerned with finding out whether the objectives have been achieved or not. If the results are not according to the standards set then deviations are ascertained. Controlling relates to the finding out of deviations and taking corrective measures. If the performance is low then immediate steps should be taken to set the things right.

Control can be exercised only when objectives are set and plans will be effective only when they are properly implemented. Control cannot be exercised without planning. Planning must precede control. It is essential to plan first and then exercise control for its implementation.

**Action.** Timely action on the part of manager is essential for exercising control. Manager should give proper guidelines to his subordinates for undertaking various functions. Instead of finding out faults later it will be proper to guide first so that things are done in a systematic manner.

Besides all precautions, there may be some deviations. The deviations should be reported at the earliest. Any delay in their reporting will delay a corrective action also. Manager should give instructions in such a way that whenever the performance is below the standards then it will be reported to the appropriate authority.

There should be a quick action to take remedial steps. There will be no use of reporting a deviation if it is not corrected at the earliest.

To make control effective, manager should give proper guidelines for doing work, reporting a deviation and taking corrective action. In the absence of an action plan control may not be exercised effectively.

**Delegation of Authority.** Delegation of authority is essential for exercising control. Controlling process involves evaluating performance, ascertaining deviations and taking corrective measures. All these steps require some kind of authority. When we ask production manager to increase production by 20% in the current year then he will require authority.

(a) to employ more workers :

(b) to give incentives to workers for improving their performance :

(c) to take disciplinary action against inefficient workers.

Unless other wise proper authority is delegated no control will be possible. So delegation of authority is a pre-requisite of a control system.

**Prompt Flow of Information.** There should be a proper feed back of information for exercising control. The performance of subordinates should reach the manager at the earliest. This will enable him to take rectifying measures. The steps suggested for improving efficiency should also reach subordinates at the earliest so that they are able to act upon the advice.

The time factor is very important in reporting. If the reports of performance are delayed then measures to improve it will also be late. An effective control can be exercised only if flow of information both upward and downward is prompt.

### 11.3.3 Steps In Controlling Process

Control is a continuous process. It is not applied when everything else is done. There may be some inbuilt controls in the exercise of managerial techniques. In spite of this, there may be a difference in standards to be achieved and actual performance. This may be due to human limitations. Some control methods may have to be applied to improve performance. There are four steps in control process :

setting of control standards, (2) measurement of actual performance (3) comparing actual and standard performance and (4) taking corrective action. These steps are discussed in detail :

**Setting of Control Standards.** Every enterprise plans its activities in advance. On the basis of plans, the objectives and goals of every department, branch etc. are fixed. These goals are converted into quantity, value, man hour etc. These are to be achieved in future. There may also be qualitative goals. The achievement of various targets is made the responsibility of specific persons. The levels of achievement are also decided in advance. Whether a particular result is to be taken as satisfactory, average or poor should be predetermined so that the persons responsible for that work should be able to assess their performance.

Some strategic points should be selected as controls or yardsticks. Prof. Newman has suggested four guidelines for selecting strategic points:

The control points should be timely so that they may be able to reveal significant deviation in time, thereby, saving further loss.



Control points should be such as to permit economical observation and report.  
Control points, especially for executives at higher levels, should provide comprehensive coverage.  
Control points should be such as would promote balanced performance.

**Measurement of Performance.** The second step in controlling process is the measurement of performance. The actual performance is measured against the standards set. This will enable management to determine whether the work is being done according to plans or not. The measurement of quantitative objectives is easy since figures of work done will be available. The qualitative performance such as human relations, employee morale, etc. can only be measured through psychological tests and surveys.

Measurement of performance is an important part of control process. If measurement is such that deviation is detected at the earliest then it will enable appropriate action well in time. If that is not possible then deviations should be detected as early as possible

**Comparing Actual and Standard Performance.** The next step in control process is the comparison of actual performance with the standards set. The purpose of this comparison is :

(a) to find out deviations, if any and (b) to determine the reasons for such deviation. While comparing actual performance with the standard, some permissible limits are also fixed. When the deviations are within the prescribed limits then there is no cause for worry. But if the deviations are more than the allowable limits then it calls for urgent action. This is also known as "management by exception". When things are going as per plans or within the allowable limits then top management is not required to take any note of it. But on the other hand, if performance is not upto the level then it is brought to the notice of top management for taking corrective action. If the manager gives attention to every deviation then he will not be able to give enough time for important things.

When the actual performance is not upto the level then causes for it should be pin-pointed. Necessary steps are taken so that performance is not adversely affected once again. If no efforts are made to rectify the weak areas then the whole control process will be futile. Whenever the performance is low than the standards, the reasons for it should immediately be found.

**Taking Corrective Action.** The last but most important step in controlling process is of taking corrective action. Whenever the performance is less than the standards, efforts should be made to rectify it. Whatever the reasons for low performance, efforts are made to achieve organizational goals. No control process can automatically rectify the mistakes in a system. It is the action which is required to set the things right. Sometimes, the targets are not achievable even with more efforts then these will have to be revised. The control action may involve review of plans and goals, change in the methods of work, change in the assignment of task, change in existing technique of direction and change in organization structure.

The corrective actions generally involve top management. It is said by some persons that taking corrective action is not a part of control but a separate managerial function. The overlapping of control function only shows the unity of manager's job. It shows that managing process should be an integrated one.

#### 11.3.4 Requirements of A Control System

Every organization requires control in order to ensure that everything goes on as per plans. There is no universal control system which will fit in every organization. The environment and requirements of every enterprise are different and control system should be such that it fits into the organization and helps in achieving the desired results. Every control system has certain essential features. Some of them are discussed as follows :

**Should be Easily Understandable.** The control should be such that it is easily understood by the managers and as well as by the subordinates. If the managers are not clear about the controls then they will not be effectively exercised. On the other hand, subordinates must know the type of controls they will be subjected to. It is not only the top managers who should understand controls but junior managers should also be clear about them. Generally, the first line managers are expected to exercise controls because they directly come in contact with workers. The managers may devise certain mathematical formulas or statistical charts for finding out deviations in performance. These complicated devices may

not be properly followed by junior managers. In case the controls are difficult then junior managers will develop their own controls and these may not be the same as desired by the top management. So the first requirement of a good control system is its easy understandability.

**Reflect Organization Needs.** The control tools should be such which are suitable to organizational needs. There are a number of control techniques like Budgets, Statistical charts, PERT, CPM, etc, but these may not be used in every type of enterprise. The best control is that which is properly used in an organization and is able to give results. So the controls should reflect organizational needs.

**Report Deviations Quickly.** The control should be such that deviations in performance are reported quickly. A manager cannot control past but deviations are determined only when actual figures are reported to him. The effort should be to determine deviations as early as possible otherwise the corrective means will be delayed. This can be possible only when manager does not wait for the reporting of actual results by accounts department and collects some approximate figures for finding out the level of performance. The need is to know at the earliest whether the performance is satisfactory or not. If it is not upto the mark then immediate steps are needed to avoid further loss. The units using electronic data processing devices are comparatively better placed in exercising control systems because the data is reported quickly or almost immediately. Quick reporting is essential for a good control system.

**Must be Appropriate and Adequate.** The control must be such which should help the enterprise to achieve its objectives. The controls will be different for various departments and sections. The controls for marketing department will be different from those used by manufacturing department. Even at different levels of management the control will vary. The chief executive will have different controls to assess the work of their subordinates. The controls used by big enterprises will be more elaborate than those of small concerns.

The controls should be such which adequately reflect the activities of the enterprise. There are many control techniques like standard hours, standard costs, budgets, financial ratios. It is the duty of the manager to select those techniques which are adequate for this business. Only those techniques should be used which can suitably be used in the enterprise.

**Forward Looking.** Controls should be forward looking. This concept is such that results precede the exercise of control. Nothing can be done about what has already happened. The manager should try to take corrective action at the earliest. The control system should help in planning process. The data needed for plans should be provided by control system.

**Must be Flexible.** A good control system should be able to change with the needs of the future. The future is always uncertain and nothing can be said with certainty. The controls which are devised for the present may not be adequate in future. The rigidity in controls will have to play with the system. If the expenditure for sales department is fixed with a specific sales figure in mind and in due course of time the sales have doubled, the budgeted expenditure will have to be increased similarly. If the expenditure of sales department is not increased under the garb of rigidity then its working will be adversely affected. The flexibility in controls will help in making amends whenever a situation demands it. There should be an inbuilt flexibility in controls.

**Economical.** The controls are essential for every type of enterprise irrespective of its size. In spite of the need for controls, the cost factor cannot be overlooked. The expenditure on controls should correspond with the utility derived from them. A small concern cannot afford to have costly control techniques whereas a big enterprise may be able to spend more on them. The controls should be economical otherwise they may not be used. The economical nature of a control system will be judged from its relative contribution to the enterprise. If the benefits derived or the adverse consequences avoided in the absence of controls are more than the expenses incurred then they will be economical.

**Must Report Deviations Quickly.** A control system should be such that deviations must be reported at the earliest. The deviations can be known only when actual performance is reported. The manager cannot control the past but should try to improve the work in future. This can be possible only when deviations are reported at the earliest. Thus accounting department maintains actual records and it may take time to report the deviations. The manager should not wait for exact data, he may act on the basis of approximate figures if there is a possibility of deviations. There will be no use of late reporting of deviations. The control system should be so devised that discrepancies in performance are reported quickly.

**Motivating.** The controls should motivate both the controller and the controlled. The control should be used in a positive sense. They should not be taken as a device to give punishment to employees. They should rather help in improving their performance. Since the performance is regularly monitored, the employees will feel motivated to increase their performance.

### 11.3.5 Importance of Control

The control function helps management in various ways. It guides the management in achieving pre-determined goals. The efficiency of various functions is also ensured by the control process. The shortcomings in various fields are also reported for taking corrective measures. The following are some of the advantages of control system.

**Basis for Future Action.** Control provides basis of future action. The continuous flow of information about projects keeps the long range planning on the right track. It helps in taking corrective actions in future if the performance is not upto the mark. It also enables management to avoid repetition of past mistakes.

**Facilitates Decision-making.** Whenever there is deviation between standard and actual performance the controls will help in deciding the future course of action. A decision about follow up actions is also facilitated.

**Facilitates Decentralization.** Decentralization of authority is necessary in big enterprises. The management cannot delegate authority without ensuring proper controls. The targets or goals of various departments are used as a control technique. If the work is going on satisfactorily then top management should not worry. The 'management by exception' enables top management to concentrate on policy formulation. Various control techniques like budgeting, cost control, pre-action approvals allow decentralization without losing control over activities.

**Facilitates Co-ordination.** Control helps in co-ordination of activities through unity of action. Every manager will try to co-ordinate the activities of his subordinates in order to achieve departmental goals. Similarly, chief executive will co-ordinate the functioning of various departments. The controls will act as checks on the performance and proper results will be achieved only when activities are co-ordinated.

**Helps in Improving Efficiency.** The control system helps in improving organization efficiency. Various control devices act as motivators to managers. The performance of every person is regularly monitored and any deficiency is corrected at the earliest.

**Psychological Pressure.** Controls put psychological pressure on persons in the organization. Everybody knows that his performance is regularly evaluated and he will try to improve upon his previous work. The rewards and punishments are also linked with performance. The employees will always be under pressure to improve upon their work. Since performance measurement is one of the important tools of control it ensures that every person tries to maximise his contribution.

### 11.3.6 Limitations of Control

Though control is essential for better performance and maintenance of good standards, there are certain limitations also. Some of the limitations are discussed as such :

**Influence of External Factors.** There may be an effective control system but external factors which are not in the ambit of management may have adverse effect on the working. These factors may be government policy, technological changes, change in fashion, etc. The influence of these factors cannot be checked by the control system in the organisation.

**Expensive.** The control system involves huge expenditure on its exercise. The performance of each and every person in the organization will have to be measured and reported to higher authorities. This requires a number of persons to be employed for this purpose. If the performance cannot be quantitatively measured then it will be observed by the superiors. The exercise of control requires both time and effort.

**Lack of Satisfactory Standards.** The performance of certain activities involving human behaviour cannot be fixed in terms of quantities. It is difficult to fix standards for the activities like public relations, research, etc. The evaluation of work of persons engaged in these activities will be difficult.

**Opposition from Subordinates.** The effectiveness of control process will depend upon its acceptability by subordinates. Since control interferes with the individual actions and thinking of subordinates they will oppose it. It may also increase the pressure of work on subordinates because their performance is regularly monitored and evaluated. These factors are responsible for the opposition of controls by subordinates.

## 11.4 CONTROL TECHNIQUES

### 11.4.1 Introduction

Every management wants to ensure that the scarce resources at its disposal are effectively and productively utilized. To achieve this objective it has to devise a monitoring system which will keep the

management informed about the implementation of its plans and policies. In case the plans are not properly implemented then variations in performance must come to the notice of management so that timely corrective measures are taken up. A control system should be devised to evaluate the performance of various segments of the enterprise. Every organization has its own methods to exercise control and some of these devices are as follows :

### Control Techniques

| Traditional Control Techniques   | Modern Control Techniques   |
|--|---|
| <ul style="list-style-type: none"> <li>- Budgeting and Budgetary Control</li> <li>- Cost Control</li> <br/> <li>- Production Planning and Control</li> <li>- Inventory Control</li> <li>- Break Even Analysis</li> <li>- Profit and Loss Control</li> <li>- Statistical Data Analysis</li> </ul> | <ul style="list-style-type: none"> <li>- Return on Investment Control</li> <li>- Programme Evaluation and Review Technique (PERT)</li> <br/> <li>- Management Information System (MIS)</li> <li>- Management Audit</li> </ul> |

#### 11.4.2 Budgeting

A budget is the monetary or/and quantitative expansion of business plans and policies to be pursued in the future period of time. The term budgeting is used for preparing budgets and other procedures for planning, co-ordination and control of business enterprise. So a budget is a pre-determined statement of management policy during a given period which provides a standard for comparison with the results actually achieved.

Types of Budgets. Budgets are classified according to their nature and purpose. Some of their types are given as follows :

**Sales Budget.** A sales budget is an estimate of expected sales during a budget period. A sales budget is known as a nerve centre or backbone of the enterprise. The degree of accuracy with which sales are estimated will determine the practicability of operating budgets. A sales budget is the starting point on which other budgets are also based.

A sales budget lays down potential sales figures in value as well as in quantity'. It lays down a comprehensive plan and programme for sales department. The sales manager is made responsible for preparing sales budget. He uses all possible information available from internal and external sources. The following factors are taken into account while preparing sales budget :

- Past sales figures
- Assessment and reports by salesmen
- Availability of raw materials.
- Seasonal fluctuations
- Availability of finances
- Plant capacity.

**Selling and Distribution Cost Budget.** Selling and distribution cost budget forecasts the cost of selling and distributing the products. This budget depends upon the sales budget. These expenses will vary with the expected sales figures during the period. These expenses may be estimates per unit of sales or some percentage on sales, etc. The persons incharge of sales and distribution should sit together to prepare this budget.

**Production Budget.** The production budget is prepared in relation to the sales budget. Whatever is to be sold should be produced in time so that it is delivered to the customer. It is a forecast of the production for the budget period. Production budget is prepared for the number of units to be produced and also for the cost to be incurred on materials, labour and factory' overheads. Two important considerations involved in the preparation of production budget are:

- What is to be produced?
- When is it to be produced?

The preparation of production budget involves the following stages:

- Production planning
- Consideration of plant capacity
- Stock quantity to be held

Sales budget figures.

**Cost of Production Budget.** The production budget determines the number of units to be produced. When these units are converted into monetary terms, it becomes a cost of production budget. The cost of production budget is the total amount to be spent on producing the units stipulated in the production budget. The physical units are broken into elements, i.e, material, quantity, labour, time and manufacturing overheads. The material cost, labour cost and overheads required for manufacturing are totaled together to make it a cost of production budget.

**Materials Budget.** The materials budget is concerned with determining the quantity of raw materials required for production. The programme for purchasing raw materials is adjusted according to the production budget. The materials are purchased as per the requirements of production department. The requirements of materials are determined productwise. The rate of consumption of raw materials is also determined. The number of units to be produced multiplied by the rate of consumption (raw materials required for producing one unit) will give the figure of materials required. The stocks of materials required in hand at any time are added to the materials required for production. The opening stock of materials is deducted from the figures determined as above. In this way, the requirements of materials in units will be determined. The units of materials required multiplied by the rate per unit of raw materials will give us a figure of material cost. The raw materials budget will serve the following purposes:

The Purchase Department will be able to plan the purchase of raw materials at different times.

It will enable the fixation of minimum stock level, maximum stock level and reordering level.

The raw materials purchase budget will be determined.

The budgeted cost of raw materials will be determined.

**Direct Labour Budget.** The labour required for production may be classified into direct and indirect labour. The labour required for manufacturing the product is known as direct labour. The labour which cannot be specific with production is called indirect labour. Though two budgets may be prepared for direct and indirect labour but from costing point of view only direct labour budget is prepared because indirect labour is made a part of manufacturing overheads.

The labour content of each item is determined in terms of grades of workers required as per production budget. The labour time needed for each job, process and operation is determined with the help of time and motion study. The rates of pay including all allowances are multiplied by labour time for calculating labour cost. If labour incentive schemes are in operation then labour rates should be suitably increased. If piece-rate system for paying wages is in operation then labour cost will be calculated by multiplying budgeted units by the labour rate per unit.

Labour budget is useful for anticipating labour time required for production. It also helps in determining the finances required for labour. The personnel department is also able to make arrangements for recruitment of workers, etc.

**Manufacturing Overhead Cost Budget.** The manufacturing overheads cost is that part of works cost which arises from indirect labour, indirect materials, overheads and other factory expenses. Manufacturing cost is excluded from direct materials and direct labour. A manufacturing overheads cost may be classified into fixed cost, variable cost and semi-variable cost.

The fixed works overheads cost remains constant irrespective of output and it is estimated on the basis of past experience. The variable works overheads cost is determined per unit of cost and it is calculated by multiplying the rate per unit by the budgeted output. The semi-variable cost increases with the increase in output. But the rate per unit decreases with the increase in input. While budgeting manufacturing overheads cost, management must consider the level of activity to be attained in future so that the expenses are estimated accurately.

**Cash Budget.** A cash budget is an estimate of cash receipts and disbursements during a future period of time. It precedes various other budgets like materials budget, labour budget, overheads cost budget, capital expenditure budget and research and development budget. It is an analysis of flow of cash in a business over a future short or long period of time. It is a forecast of expected cash intake and outlay.

The cash receipts from various sources are anticipated. The estimated cash collections from sales, debts, bills receivables, interests, dividends and other incomes and sales of investments and other assets will be taken into account. The amounts to be spent on purchase of materials, payments to creditors and meeting various other revenue and capital expenditure needs should be considered. Cash forecasts will include all possible sources from which cash will be received and the channels in which payments are to be made so that a consolidated cash position is determined.

The cash budget should be co-ordinated with other activities of the business. The functional budgets may be adjusted according to the cash budget. The available funds should be fruitfully used and the concern should not suffer for want of funds.

#### **11.4.3 Zero-Base Budgeting (ZBB)**

Zero-base budgeting is the latest technique of budgeting and it has an increased use as managerial tool. This technique was first used in America in 1962. The former President of America, Jimmy Carter used this technique when he was the Governor of Georgia for controlling state expenditure.

As the name suggests it is starting from a 'scratch'. The normal technique of budgeting is to use previous year's Cost Levels as a base for preparing this year's budget. This method carries previous year's inefficiencies to the present year because we take last year as a guide and decide 'what is to be done this year when this much was the performance of the last year'. In zero-base budgeting every year is taken as new year and previous year is not taken as a base. The budget for this year will have to be justified according to present situation. Zero is taken as a base and likely future activities are decided according to the present situations. In the words of Peter A. Pyher, 'A planning and budgeting process which requires each manager to justify his entire budget request in detail from scratch (hence zero-base) and shifts the burden of proof to each manager to justify why he should spend money at all. The approach requires that all activities be analysed in decision packages' which are evaluated by systematic analysis and ranked in order of importance.¶

In zero-base budgeting a manager is to justify why he wants to spend. The preference of spending on various activities will depend upon their justification and priority for spending will be drawn. It will have to be proved that an activity is essential and the amounts asked for are really reasonable taking into account the volume of activity.

#### **11.4.4 Budgetary Control**

Budgetary control is the process of determining various budgeted figures for the enterprise for the future period and then comparing the budgeted figures with the actual performance for calculating variances, if any. First of all, budgets are prepared and then actual results are recorded. The comparison of budgeted and actual figures will enable the management to find out discrepancies and take remedial measures at a proper time. The budgetary control is a continuous process which helps in planning and co-ordination. It provides a method of control too. A budget is a means and budgetary control is the end-result.

##### **Definitions**

According to **Brown and Howard**, 'Budgetary control is a system of controlling costs which includes the preparation of budgets, co-ordinating the departments and establishing responsibilities, comparing actual performance with the budgeted and acting upon results to achieve maximum profitability.¶ Weldon characterises budgetary control as planning in advance of the various functions of a business so that the business as a whole is controlled.

**J. Batty** defines it as, 'A system which uses budgets as a means of planning and controlling all aspects of producing and/or selling commodities and services. Welsch relates budgetary control with day-to-day control process. According to him, 'Budgetary control involves the use of budget and budgetary reports, throughout the period to co-ordinate, evaluate and control day-to-day operations in accordance with the goals specified by the budget.¶ From the above given definitions it is clear that budgetary control involves the following :

The objects are set by preparing budgets.

The business is divided into various responsibility centres for preparing various budgets.

The actual figures are recorded.

The budgeted and actual figures are compared for studying the performance of different cost centres.

If actual performance is less than the budgeted norms, a remedial action is taken immediately.

##### **Objectives of Budgetary Control**

Budgetary control is essential for policy planning and control. It also acts as an instrument of co-ordination. The main objectives of budgetary control are as follows :

To ensure planning for future by setting up various budgets, the requirements and expected performance of the enterprise are anticipated.

- To co-ordinate the activities of different departments.
- To operate various cost centres and departments with efficiency and economy.
- Elimination of wastes and increase in profitability.
- To anticipate capital expenditure for future.
- To centralize the control system.
- Correction of deviations from the established standards.
- Fixation of responsibility of various individuals in the organization.

### **Essentials of Budgetary Control**

There are certain steps which are necessary for the successful implementation of a budgetary control system. These are as follows :

- Organization for Budgetary Control
- Budget Centres
- Budget Manual
- Budget Officer
- Budget Committee
- Budget Period
- Determination of Key Factor.

**Organization for Budgetary Control.** The proper organization is essential for the successful preparation, maintenance and administration of budgets. A Budgetary Committee is formed, which comprises the departmental heads of various departments. All the functional heads are entrusted with the responsibility of ensuring proper implementation of their respective departmental budgets.

The Chief Executive is the overall incharge of budgetary system. He constitutes a budget committee for preparing realistic budgets. A budget officer is the convener of the budget committee who co-ordinates the budgets of different departments. The managers of different departments are made

responsible for their departmental budgets.

**Budget Centres.** A budget centre is that part of the organization for which the budget is prepared. A budget centre may be a department, section of a department or any other part of the department. The establishment of budget centres is essential for covering all parts of the organization. The budget centres are also necessary for cost control purposes. The appraisal performance of different parts of the organization becomes easy when different centres are established.

**Budget Manual.** A budget manual is a document which spells out the duties and also the responsibilities of various executives concerned with the budgets. It specifies the relations amongst various functionaries.

**Budget Officer.** The Chief Executive, who is at the top of the organization, appoints some person as Budget Officer. The budget officer is empowered to scrutinize the budgets prepared by different functional heads and to make changes in them, if the situations so demand. The actual performance of different departments is communicated to the Budget Officer. He determines the deviations in the budgets and the actual performance and takes necessary steps to rectify the deficiencies, if any. He works as a co-ordinator among different departments and monitors the relevant information. He also informs the top management about the performance of different departments. The budget officer will be able to carry out his work fully well only if he is conversant with the working of all the departments.

**Budget Committee.** In small-scale concerns the accountant is made responsible for preparation and implementation of budgets. In large-scale concerns a committee known as Budget Committee is formed. The heads of all the important departments are made members of this committee. The Committee is responsible for preparation and execution of budgets. The members of this committee put up the case of their respective departments and help the committee to take collective decisions if necessary. The Budget Officer acts as convener of this committee.

**Budget Period.** A budget period is the length of time for which a budget is prepared and employed. The budget period depends upon a number of factors, it may be different for different industries or even it may be different in the same industry or business. The budget period depends upon the following considerations :

The type of budget i.e., sales budget, production budget, raw materials purchase budget, capital expenditure budget. A capital expenditure budget may be for a longer period i.e., 3 to 5 years; purchase, sale budgets may be for one year.

The nature of demand for the products.

The timings for the availability of the finances.

The economic situation of the country.

The length of trade cycles.

All the above-mentioned factors are taken into account while fixing the period of budgets

**Determination of Key Factor.** The budgets are prepared for all functional areas. These budgets are inter-dependent and inter-related. A proper co-ordination among different budgets is necessary for making the budgetary control a success. The constraints on some budgets may have an effect on other budgets too. A factor which influences all other budgets is known as Key Factor or Principal Factor. There may be a limitation on the quantity of goods a concern may sell. In this case, sales will be a key factor and all, other budgets will be prepared by keeping in view the amount of goods the concern will be able to sell. The raw material supply may be limited, so production, sales and cash budgets will be decided according to raw materials budget. Similarly, plant capacity may be a key factor if the supply of other factors is easily available.

The key factor may not necessarily remain the same. The raw materials supply may be limited at one time but it may be easily available at another time. The sales may be increased by adding more sales staff, etc. Similarly, other factors may also improve at different times. The key factor also highlights the limitations of the enterprise. This will enable the management to improve the working of those departments where scope for improvement exists.

### **Advantages of Budgetary Control**

The budgetary control system helps in fixing the goals for the organization as a whole and concerted efforts are made for its achievements. It enables economies in the enterprise. Some of the advantages of budgetary control are :

**Maximisation of Profits.** The budgetary control aims at the maximisation of profits of the enterprise. To achieve this aim, a proper planning and co-ordination of different functions is undertaken. There is a proper control over various capital and revenue expenditures. The resources are put to the best possible use.

**Co-ordination.** The working of different departments and sectors is properly co-ordinated. The budgets of different departments have a bearing on one another. The co-ordination of various executives and subordinates is necessary for achieving budgeted targets.

**Specific Aims.** The plans, policies and goals are decided by the top management. All efforts are put together to reach the common goal of the organization. Every department is given a target to be achieved. The efforts are directed towards achieving some specific aims. If there is no definite aim then the efforts will be wasted in pursuing different aims.

**Tool for Measuring Performance.** By providing targets to various departments, budgetary control provides a tool for measuring managerial performance. The budgeted targets are compared to actual results and deviations are determined. The performance of each department is reported to the top management. This system enables the introduction of management by exception.

**Economy.** The planning of expenditure will be systematic and there will be economy in spending. The finances will be put to optimum use. The benefits derived for the concern will ultimately extend to industry and then to national economy. The national resources will be used economically and wastage will be eliminated.

**Determining Weaknesses.** The deviations in budgeted and actual performance will enable the determination of weak spots. Efforts--are concentrated on those aspects where performance is less than the stipulated.

**Corrective Action.** The management will be able to take corrective measures whenever there is a discrepancy in performance. The deviations will be regularly reported so that necessary action is taken at the earliest. In the absence of a budgetary control system the deviations can be determined only at the end of the financial period.

**Consciousness.** It creates budget consciousness among the employees. By fixing targets for the employees, they are made conscious of their responsibility. Everybody knows what he is expected to do and he continues with his work uninterrupted.



**Reduces Costs.** In the present day competitive world budgetary control has a significant role to play. Every businessman tries to reduce the cost of production for increasing sales. He tries to have those combinations of products where profitability is more.

**Introduction of Incentive Schemes.** Budgetary control system also enables the introduction of incentive schemes of remuneration. The comparison of budgeted and actual performance will enable the use of such schemes.

### **Limitations of Budgetary Control**

Despite of many good points of budgetary control there are some limitations of this system Some of the limitations are discussed as follows:

**Uncertain Future.** The budgets are prepared for the future period. Despite best estimates made for the future, the predictions may not always come true. The future is always uncertain and the situation which is presumed to prevail in future may change. The change in future conditions upsets the budgets which have to be prepared on the basis of certain assumptions. The future uncertainties reduce the utility of budgetary control system.

**Budgetary Revision Required.** Budgets are prepared on the assumptions that certain conditions will prevail. Because of future uncertainties, assumed conditions may not prevail necessitating the revision of budgetary targets. The frequent revision of targets will reduce the value of budgets and revisions involve huge expenditures too.

**Discourage Efficient Persons.** Under budgetary control system the every person in the organization. The common tendency of people is to achieve the targets only. There may be some efficient persons who can exceed the targets but they will also feel contented by reaching the targets. So budgets may serve as constraints on managerial initiatives.

**Problem of Co-ordination.** The success of budgetary control depends upon the co-ordination among different departments. The performance of one department affects the results of other departments. To overcome the problem of co-ordination a Budgetary Officer is needed. Every concern cannot afford to appoint a Budgetary Officer. The lack of co-ordination among different departments results in poor performance.

**Conflict Among Different Departments.** Budgetary control may lead to conflicts among functional departments. Every departmental head worries for his departmental goals without thinking of business goals. Every department tries to get maximum allocation of funds and this raises a conflict among different departments.

**Depends upon Support of Top Management.** Budgetary control system depends upon the support of top management. The management should be enthusiastic for the success of this system and should give full support for it. If at any time there is a lack of support from top management then this system will collapse.

### **10.4.5 Cost Control**

Cost control is a control of all the costs of an enterprise in order to achieve cost effectiveness in business operations. Cost can be classified as : fixed cost, variable cost, semi-variable cost. The fixed costs are incurred over a period of time and are not directly related to production. These costs remain the same even if there is an increase or decrease in production. Variable costs, on the other hand, change in the proportion of output. Semi-variable costs are fixed as well as variable in nature. Some costs may be incurred continuously, others now and then and still others only deemed to be incurred (depreciation).

There may be different methods of recording cost for various products. In each method, classification, recording and allocation of expenses may be done differently. In each method there will be a system where deviations in standard or budgeted costs and actual costs will be reported to the concerned officials for taking corrective measures.

The cost standards are fixed for each product or activity and actual cost records are also sent to the incharge of the product or activity. In case of any deviation in cost, immediate remedial measures are taken up. The regular cost control system will help in keeping cost under check.

### **Merits**

Cost Control System helps in discovering efficient and inefficient operations. The activities which are not profitable can either be closed or efforts for improving them may be made. On the other hand, profitable activities can be encouraged.

Cost control records provide valuable information for submitting tenders or quoting prices of products or services.

It helps in pinpointing the factors leading to losses. If the causes of losses are pinpointed then it will become easy to control them.

The reasons for variations in profit can be ascertained.

It helps in keeping a check on inventories. There will be a proper system of receiving, storing, issuing and using of materials and other stores.

Cost records become a basis for planning future production policies.

#### 10.4.6 Production Planning And Control

Production planning and control is an important task of production manager. It has to see that production process is properly decided in advance and is carried out as per plan. Production planning is the function of looking ahead, anticipating difficulties to be faced and the likely remedial steps to remove them. Production control, on the other hand, guides and directs flow of production so that products are manufactured in a best way and conform to a planned schedule and are of the right quality. Control facilitates the task of manufacturing and see that everything goes as per the plans.

**Techniques.** Following techniques are helpful in production planning and control.

**Routing.** It is the determination of exact path which will be followed in production. It is the selection of the path from where each unit will have to pass before reaching the final stage. Route determines the best and cheapest sequence of operations to be followed.

**Scheduling.** It is the determining of time and date when each operation is to be commenced and completed. The time and date for manufacturing each component is fixed in such a way that assembling for final product is not delayed in any way.

**Despatching (Implementation)** It refers to the process of actually ordering the work to be done. It involves putting the plan into effect by issuing orders. It is concerned with starting the process and operations on the basis of route sheets and schedule charts.

**Follow up and Expediting.** It is related to evaluation and appraisal of work performed. This is an important function of production control. If goods are to be produced as per the plans then a proper follow up of work is essential to see whether production schedule is properly adhered to or not. In case there are any bottlenecks then these must be removed in time.

**Inspection.** The purpose of inspection is to see whether the products manufactured are of requisite quality or not. It is carried on at various levels of production process so that predetermined standards of quality are achieved. In case the products are not of proper quality then immediate steps are taken to correct things.

#### 10.4.7 Inventory Control

Inventory control or materials management connotes controlling the kind, amount, location and timing of various commodities used in and produced by the industrial enterprises. It is the control of materials in such a manner that it ensures maximum return on working capital.

Inventory control is necessary for the smooth and uninterrupted functioning of production department. It's main purpose is to maintain an adequate supply of correct material at the lowest total cost. Inventory control is exercised at three stages.

purchasing of materials

storing of materials

issuing of materials.

Inventory control can be exercised by establishing various parameters :

safety inventory level i.e. the stock which must be maintained at all time so that uninterrupted production is carried out.

maximum inventory level i.e. the stock limits beyond which materials should not be stored.

re-ordering level is the point at which fresh orders for purchasing inventory should go

danger level i.e. the level of stock at which extra effort should be made to replenish stocks so that production is not discontinued for want of materials.

#### 10.4.8 Break Even Analysis

These days a great deal of importance is given to cost-volume-profit relationship. An effort is made to study the general effect of the different levels of activity upon total revenue and total cost with the

help of revenue output function and cost volume function respectively. This technique measures profits corresponding to the different levels of output. The study of cost-volume-profit relationship is frequently referred to as break-even analysis.

The term break-even analysis is used in two senses-narrow sense and broad sense. In its broad sense, break-even analysis refers to the study of relationship between costs, volume and profit at different levels of sales or production. In its narrow sense, it refers to a technique of determining that level of operations where total revenues equal total expenses i.e. the point of no profit, no loss.

**Assumptions.** The break even analysis is based on the following assumptions :

All elements of cost *i.e.* production, administration and selling and distribution can be segregated into fixed and variable components.

Variable cost remains constant per unit of output and thus fluctuates directly in proportion to changes in the volume of output.

Fixed cost remains constant at all volumes of output.

Volume of production is the only factor that influences cost.

There is a synchronization between production and sales.

Some words which are generally used in break-even analysis :

**Break-even Point.** It is a level of production at which revenue and costs (fixed and variable) are the same, at this point there is neither profit nor loss. Every concern tries to reach this level of production at the earliest and profit starts only when production increases beyond this level.

**Contribution.** It is the difference between sales and variable cost or marginal cost of sales. It may also be defined as the excess of selling price over variable cost per unit. Contribution is the amount that is contributed towards fixed expenses and profit.

**Profit/Volume Ratio (P/V Ratio).** It establishes the relationship between contribution and sales and is of vital importance for studying the profitability of operations of a business. It reveals the effect on profit or changes in the volume. The concept of P/V ratio is useful to calculate the break-even point, the profit at a given volume of sales, the sales volume required to earn a given profit and the volume of sales required to maintain the present profits if the selling price is reduced by a specified percentage.

Break even point is an indicative of effectiveness and control. The production targets are fixed in advance and break even point helps in this fixation. In case there is an adverse change in break-even point then the causes for it are properly analysed. Break even point is a yard stick for measuring the performance of management. Break-even analysis is based on certain assumptions which may not always be correct so it cannot always be used as reliable standard for performance.

#### **10.4.9 Profit And Loss Control**

Profit and loss control is a simple and commonly used overall control device to find out the immediate revenue or cost factors responsible for either the success or failure of an enterprise. As a control device it is regarded very effective in certain respects because it enables the management to influence in advance revenues, expenses and consequently even profits. The sales, expenses and profit of different departments or for different products are compared with that of other departments or products. The department or product becomes a cost centre. The incharge of the department is responsible for its performance. Even historical comparison is done to assess the performance. In case there are deviations in performance then immediate steps are taken to rectify them.

#### **10.4.10 Statistical Data Analysis**

Statistical data analysis is an important control technique. This analysis is possible by means of comparison of ratios, percentages, averages, trends etc. of different periods with a view to pinpoint deviations and causes. This method of control is very useful in case of inventory control, production control and quality control. The minimum and maximum control limits are fixed and deviations within these limits are allowed but if variations go beyond prescribed parameters then immediate steps are taken to correct them. Statistical control charts are prepared with the help of collected data and permissible limits are plotted. A look at the chart will give an idea to the viewer if everything is going as per the plans or not. So analysis of data is a good device of control.

## 10.5 MODERN CONTROL TECHNIQUES

Following are the modern techniques of control which are commonly used at present.

**Return on Investment Control (ROI).** Profits are the measure of overall efficiency of a business. Profit earned in relation to the capital employed in a business is an important control device. If the rate of return on investment (shareholders funds) is quite satisfactory, it will be taken as a yard-stick of good performance. The return on investment can be compared over a period of time as well as with that of other similar concerns. This comparison will show the present performance in relation to earlier periods and also the level of achievement of the concern in comparison to other concerns.

The return on investment is computed by dividing the operating net profit (before interest and tax) by the capital employed in the concern. The following formula is used for this purpose:

$$\text{Return on Investment} = \frac{\text{Net Profit before interest and tax}}{\text{Capital employed}}$$

ROI is used to measure the overall efficiency of a concern. It reveals how well the resources of a concern are used, higher the return better are the results.

An important drawback of this method is the determination of capital employed in a concern as this concept is open to conflicting interpretations. Generally capital employed includes equity share capital, preference share capital, free reserves and long-term loans, it means that total assets less current liabilities will form the capital employed.

**Programme Evaluation and Review Technique (PERT).** Programme evaluation and review technique (PERT) was first developed as a management tool for coordination and early completion of Polaris Ballistic Missile Project in USA resulting in a reduction of 30 per cent time in project execution. A contemporary of PERT is CPM (Critical Path Method) and was developed in connection with maintenance and construction work.

PERT is useful at several stages of project management starting from early planning stages when various alternative programmes are being considered to the scheduling phase, when time and resources schedules are laid out, to final stage in operation, when used as control device to measure actual versus planned progress. PERT uses 'network' as the basic tool of project management and is helpful in completing a project on schedule by co-ordinating different jobs involved in its completion.

**III. Management Information System (MIS).** Management information system (MIS) is an approach of providing timely, adequate and accurate information to the right person in the organization which helps in taking right decisions. So MIS is a planned and organized approach to the transferring of intelligence within an organization for better management. The information is furnished into useful quantum's of knowledge in the form of reports. An effective system of MIS collects data from all possible sources. The information is properly processed and stored for use in future.

MIS is of two types (i) Management operating system meant for meeting the information needs of lower and middle level management. The information supplied generally relates to operations of the business. (ii) Management reporting system which supplies information to top level management for decision-making. The information is presented in a way which enables management to take quick decisions.

An MIS should be so designed which helps management in exercising effective control over all aspects of the organization.

**IV. Management Audit.** Management audit is an investigation by an independent organization to find out whether the management is carried out most effectively or not. In case there are drawbacks at any level then recommendations should be given to improve managerial efficiency. In the words of Leslie R. Howard, "Management audit is an investigation of a business from the highest level downward in order to ascertain whether sound management prevails throughout, thus facilitating the most effective relationship with the outside world and the most efficient organization and smooth running internally."

### Objectives

Management audit has the following objectives :

To see whether the work at all levels is undertaken efficiently or not.

If the management is not done effectively then suitable recommendations are made to tone it up.

Whether the plans and programmes are executed properly or not?

Suggesting ways and means of increasing managerial efficiency.

It also aims to help management at all levels in the effective and efficient discharge of duties and responsibilities.

The organizational structure is also reviewed to assess whether it can achieve overall business objectives or not.

Whether the enterprise's share in the market is increasing or declining and how it stands in comparison to competitors.

Management audit assesses every aspect of managerial performance. In case the management is not able to achieve its objectives then this point is brought to the notice of shareholders or owners. This review will enable the taking up of corrective measures so that the working of the business is improved.

### **10.5.1 Information Technology**

Modern civilization has become complicated and sophisticated and has to survive in a competitive world. With the advent of educational reforms, the mankind is surrounded with a vast amount of data available. There is a bulk collection of data from different sources which needs to be rearranged and filed in a way that it is available when needed for planning, decision making and control. Looking at the whole of the national and international community, and at the ways the organizations are run, highlights the fact that every segment of society is heavily dependent on communication, processing and storage of information. It is said that we are moving towards 'Information Society' in which majority of the labour force will be engaged in information processing and the use of information technology. The growth of size of business has necessitated the delegation of authority at various levels of management. There are problems of control, co-ordination and communication. The decision making has become a difficult task. The decisions have wider ramifications for the business and a wrong decision may lead to its closure. Management needs full information before taking any decisions. Good decisions can minimise costs and optimise returns. Management Information System (MIS) can be helpful to the management in undertaking managerial functions smoothly and effectively. It is an approach of providing timely, adequate and accurate information to the right person in the organization which helps him in taking right decisions. So MIS is a planned and organized approach to the transferring of intelligence within an organization for the organization of management.

### **Expanding Data Base**

It has now been realised by managers that the traditional data collected for calculating profits is not sufficient for planning, decision-making and control. A manager needs much more information than provided by the traditional accounting system. There is a need for non-accounting information about the external environment, such as social, economic, political and technical developments. In addition, non-accounting information on internal operations is also required for managerial purposes. This information may be quantitative as well as qualitative. The use of computers and operations research has led to enormous expansion of managerial information. This can be seen especially in relation to data on marketing, production and distribution, product cost, technological change, labour productivity etc.

### **Use of Computers In Handling Information**

There is a widespread use of computers in handling information. A computer is an electronic data processing device which can read, write, compute, compare, store and process large volume of data with high speed, accuracy and reliability. It works on the instructions given to it. Once the data and instructions are fed into its memory, it obeys the instructions, performs action on the data and produces results. A computer consists of input devices, central processing unit and output devices. Input devices help the user to feed the instructions and the data into the computer. An output device carries the instructions from user to memory of computer for processing after translating the information into machine language. The most common input devices include keyboard, punch card reader, paper tape reader, optical readers, speech recognition system floppy disk and tape drive. The central processing unit (CPU) is an important part of the system which actually does the computing i.e. addition, multiplication, comparison and all that. CPU are of various types, small or big, depending upon their data handling capability. The third stage in a computer is to get the results. The output devices are used for extracting the processed value results from a computer. The commonly used output devices include visual display unit (VDU) printer, plotters, microfilm, recorders etc. So the use of computers has revolutionized information handling in a business organization.

### **Impact of Computers on Manager's Work**

Different levels of management have different information needs. Therefore, the impact of computers will vary for different managerial levels.

**The lower level managers** (supervising level) deal with day to day operations or activities which may include inventory control, payroll, processing sales transactions and keeping track of employee work hours. They normally perform structured tasks which are routine and repetitive. The use of computers is widespread at this level.

**Middle level managers** are required to coordinate, control and monitor various activities in an organization and acts as liaison between operational managers and top managers. The tasks performed by middle managers are partly structured and partly unstructured. The information available at middle level is also available at the level if the company has a comprehensive information system. There will be a limited need of computers at this level. Some people opine that the need for middle managers will be reduced in future.

**Top level managers** establish the vision and the long-term goals of the organization and chart its overall course. Their decisions tend to be unstructured. Since they determine the general direction of the company, they need interaction with the outside environment. The decisions of top managers require judgement, intuition and experience. Their decisions are not easily programmable. But even then they can use computers to retrieve information from a database that facilitates the application of decision models. The computers will not affect the job of top managers that importantly than it will affect the job of those at lower level.

### **Challenges Created By Information Technology**

At present the use of computers has become a common thing. Electronic data processing systems make and store documents in magnetic media. Besides creating compact records, information technology has some challenges to meet i.e. resistance to use of computers, telecommuting, speech recognition devices and implementing computer networks.

#### **Resistance to computer application**

Some managers resist the use of computers. They are generally in the age group of 56 years or above. They are afraid of looking unskilled if they are not able to understand the new technology or do not have the typing skills which is necessary for inputting the data into the computer. The earlier substitute of computers is considered to be typing which was the job of assistants. So some managers think that the use of computers is not necessary for them. The chief executive officers say that computers are required at the managerial levels and not above, thus including themselves from their use. This attitude on the part of managers and others should be avoided. The computers should be used in such a way that everybody is able to make their use voluntarily and realise their importance in day to day operations.

#### **Telecommuting**

Telecommunication refers to transmitting different forms of data over different media from one set of electronic devices to another set of electronic devices that are geographically separated. Generally it is thought that telecommunications has something to do with telephones but tele simply means 'at a distance'. The widespread use of computers and the ease of linking them through telephone lines to company's mainframe or a fairly large computer has led to the use of telecommuting facility. It means that a person sitting at home can work at a computer terminal instead of going to work place. The advantage of such work may be the saving of office space, saving in transport cost for going to office and flexibility in scheduling the work. Though there may be a facility of working at home but a person misses a chat with co-workers while going to office. There may be a better co-ordination in the work of different workers if they sit and work in office. Though telecommuting has some good points but it may not be able to replace the office.

#### **Speech Recognition Services**

This is another method of increasing the use of computers. Instead of putting information into computer by the use of keyboard, the voice is fed into it by speaking in a normal manner. Many companies are working on this area. Speech recognition has been achieved to a limited extent. There are problems in differentiating the sound of words which are spoken similarly but have different meanings. For example, sounds of 'to', 'too' and 'two' and 'then' and 'than'. Such words create difficulty when spoken in a computer. Once speech recognition devices become successful there will be a revolution in office operations.

## Computer Networks

The development of computer systems has improved communication facilities which extend the power of the computer beyond the computer room and allow system benefits to be more widely available. The other terminal is connected on telephone network or through other methods and the database can be used for required purposes. The blend of computers and communications is now widely used by business organizations. In this way persons at several workstations can communicate with each other as well as access other computers. With the small computer now available in many offices and homes, there is often a need to share data and programs and other information between various computers. The fact that the data base computer needs to be assessed via an information channel between the computers provides the basis for a computer network. The work stations can be connected to costly hardware that may be underutilized by a single user. A laser printer may be used by several users through computer network. Computer network may be used for electronic mail, gathering and disseminating of industry data etc. Since fast developments are taking place in computers and communication systems, computer networks will be widely used in near future for information handling.

### 10.6 SUMMARY

Control is a very important process through which managers ensure that actual activities conform to planned activities. It involves three basic steps: (a) establishment of standards; (b) measurement and comparison of results against standards; and (c) taking corrective action.

A control system is needed for four purposes: (a) to measure progress; (b) to uncover deviations;

(c) to indicate corrective action, and (d) to transmit corrective action to the operation.

Most control methods can be grouped into two basic categories: steering controls, which detect performance deviations *before* a given operation is completed, and post-action controls in which past experience is applied to future operations.

For a control system to be effective, it must be suitable, forward-looking, objective, flexible, economic al, prescriptive, acceptable, motivating and focused on strategic control points.

A control system may fail if (a) the magnitude of change (which forms the basis of control) far exceeds the anticipated amount; (b) there is a communication barrier; (c) there is time lag in feedback; (d) there has been some mistake in setting the standards; (e) there is resistance from the employees.

All control techniques can be broadly divided into two: old and new. Budgeting is the most widely used among the old techniques. Budgets have both advantages and limitations. Their advantages are that they improve coordination and communication, boost motivation and morale and increase learning from past experience. Their disadvantages are that they are rigid, inflexible, expensive and curb the initiative of a good manager. Other old techniques are standard costing, responsibility accounting, financial statements, ratio analysis, break-even analysis, internal and external audits, reports, rules and personal observation.

The new control techniques are PERT, CPM and Human Resources Accounting. PERT and CPM illustrate the tasks involved in a project, the time (or cost) it will take to complete them and the interrelationships between those tasks. In this way, a project can be planned and integrated more efficiently, and the project completion date (or cost) can be determined and controlled more easily.

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### 10.8 SUGGESTED READINGS

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### 10.9 TERMINAL AND MODEL QUESTIONS

1. What do you mean by controlling? What are the pre-requisites of a control system?  
Explain various steps required in controlling process.  
Discuss the objectives and limitations of control.  
What is the purpose of budgeting? Discuss various types of budgets.  
Discuss various modern techniques of control.  
What are the important characteristics of budgetary control? What steps are taken in the process of budgetary control?  
Define budget and explain the procedure for the preparation of budget.  
What role does control play in modern management?

#### Activity 1

What is the need and benefits of control?

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#### Activity 2

Discuss the limitations of control.

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## CHAPTER - 12

### **MBO and TQM**

#### **12.1 OBJECTIVE**

- Define** the Nature, Objective and benefits of MBO
- Explain** the Process, Limitation and making MBO effective
- Define** the concepts and objective of TQM
- Explain** the components of total quality management
- Explain** the need, benefits of TQM

#### **12.2 INTRODUCTION**

Every rational human activity must have certain clear-cut objectives. A manager, before performing the managerial functions, must ask : What are the objective of the activity he is going to manage ? The answer to this question will serve many functions. The objectives provide orientation by depicting a future state of affairs which the organization strives to achieve. The set down guideline for group activity. Objectives constitute a source of legitimacy which justifies the activities of the organization and indeed its very existence, Moreover, objectives serve as standards for assessing the success of organization. Thus, objectives will check the members of the organization deviating from the route they have set for themselves.

The accomplishment of objectives is necessary for the survival of any business enterprise. The management must specify the objectives in all areas on which the survival of the business depends. Well defined objectives in major area of the business will achieve the followings benefits:

*Unity of Direction.* All managers at various levels make plans of their own. Planning may lose its consistency unless various plans have the same focus of action.

*Means of Decentralization.* Managerial work with appropriate authority and capacity for independent decision is shared by a large number of managers. This may lead to disintegration in place of decentralization unless there is a common goal. The objectives guide to coordinate and remove conflicts or misunderstanding between various individuals.

*Stimulates Motivation.* Objectives fit individual goals into overall organization goals and make the job meaningful and worthwhile and stimulate human motivation.

*Basis of Control.* Objectives provide the basis of control by clarifying the contribution of each job as well as each unit.

*Better Communication.* Objectives lead to improved communication and organization structure which help in locating problem areas.

*Coordination.* Objectives facilitate coordination of efforts and resources of the enterprise by providing unity of direction. Objectives force managers to think in terms of results.

*Higher Productivity.* Managing by objectives leads to increased productivity because management concentrates on the important tasks rather than wasting energies on unimportant matters.

#### **12.3 NATURE OF OBJECTIVES**

##### **Definition of Objectives**

According to Louis A. Allen "Objectives are goals established to guide the efforts of the company and each of its components." Objectives are key to effective planning. In fact, planning has no meaning unless it is related to certain well-defined objectives or goals. Objectives are not only useful in planning but also in other managerial functions like organizing, directing and controlling. They are an important aid in decision-making in any area of business. Clear-cut objectives encourage consistency in decision-making the long-run.

Objectives are the ends towards which the activities of an enterprise are directed. They provide direction to various activities of the enterprise. They depict a future state of affairs which an organization strives to realize. They lay down guidelines for various activities and also constitute a source of legitimacy which justifies the various activities of an organization and also its very existence. Objectives serve as bench marks of measuring the performance of various people working in the organization and the overall effectiveness and efficiency of the organization.

## **Major and Derivative Objectives**

Generally, big enterprises have both major and derivative objectives. Major objectives are set up for the entire organization. They are broader scope and are applicable throughout the enterprise. They are also known as primary objectives of the enterprise. Derivative objectives are derived from the major objectives of the enterprise. Every department draws its specific objectives in order to contribute to the major goals of the enterprise. They are also known as departmental objectives and are subsidiary to the main objectives of the enterprise.

## **Time Dimension of Objectives**

Since a business enterprise is a continuous entity, it must have both long-range as well as short-range objectives. Short-range objectives are set up for a short period of time, say upto one year, and long-range objectives are to be followed in the long-run. As a matter of fact, short-range objectives are devised to achieve the long-range objectives of the enterprise. They are more specific as compared to the long-range objectives.

## **Hierarchy of Objectives**

The objectives of a company can be structured into a hierarchy. The objectives at the lower levels are the means for the higher levels. For example, a company may have the overall objective at the highest level to earn fair rate of return by manufacturing and marketing specialized machine tools. If we go down the hierarchy, we shall find that the major objective followed by different departments focuses on creating the form of specialized machine tools. At the next level, there may be intermediate objectives concerned manufacturing and assembling the major components. At the lowest level, the objectives of the individuals consist of performing the detailed work on sub-components parts.

The above example illustrates the fact that the objectives at various levels in a company are integrated and follow a logical sequence as reflected by its organization chart. Each operation has a specific objective which must contribute to the overall objective. In fact, there is the 'end-means' chain in the company. The objective at the top level provides the basis for setting the objective at the second level which in turn becomes the basis for objective at the third level and so on.

## **Multiplicity of Objectives**

It is wrong to presume that there can be only one objective of an organization. Peter Drucker has exposed the fallacy of single objective. "Much of today lively discussion of management by objectives is concerned with the search for the one right objective. This search is not only likely to be as unproductive as the quest for the philosopher's stone ; it does harm and misdirects. To manage a business is to balance a variety of needs and goals. And this requires multiple objectives".

Peter Drucker suggested the following eight key areas in which objectives must be set (i) Marketing, (ii) Innovation, (iii) Human Organization, (iv) Financial Resources, (v) Physical Resources, (vi) Productivity, (vii) Social responsibility, and (viii) Profit Requirements.

Koontz and O'Donnel are also of the view that broad major enterprise objectives are normally multiple. "A business might include among its overall objectives a certain rate of profit and return on investment; emphasis on research to develop a continuing flow of proprietary products ; developing publicly held stock ownership ; financing primarily by earnings plough-back and bank debt : distribution products in foreign markets ; assuring competitive prices for superior products ; achieving a dominant position in an industry ; and adhering, in all respects, to the values of our society. Objectives in key areas enable the management : (i) to organize and explain the whole range of business phenomena by such objectives, (ii) to test the objectives in actual experience, (iii) to predict behaviour, (iv) to appraise the soundness of decisions while they are still being made, and (v) to set managers on all levels analyse their own experience and, as a result, improve their performance.

### **12.3.1 Essential Requirements of Effective Objectives**

Peter Drucker has given the following guidelines regarding the objectives of a business organization :

Objectives must be derived from "what our business is, what it will be and what it should be".

They are not abstractions. They are the action commitments through which the mission of a business is to be carried out and the standards against which performance is to be measured.

Objectives, in other words, are the fundamental strategy of a business.

Objectives must be operational. They must be capable of being converted into specific targets and assignments. They must also be capable of becoming the basis, as well as the motivation, for work and achievement.

Objectives must make possible concentration of resources and efforts. They must winnow out the fundamentals among the goals of a business so that the key resources of men, money and physical resources can be concentrated. They must, therefore, be selective rather than encompassing everything.

There must be multiple objectives rather than a single objective.

Objectives are needed in all areas on which the survival of the business depends. The specific targets in any area depend on the strategy of the individual business. But the areas in which objectives are needed are the same for all businesses, for all businesses depend on the same factors for their survival.

### **12.3.2 MBO Philosophy**

The concept of 'Management by Objectives' was introduced by Peter Drucker in 1954 and later developed by various writers like Job Humble, Dale McConkey, George Ordiorne, Edward Schleh and Douglas McGregor. It is significant to note that even many years before 1954, objectives were emphasized by classical management writers like Fayol, Urwick and Barnard. But in recent years, management by objectives has become a philosophy of managing in many enterprises and it has come to be recognized as the most dynamic and exciting thinking in the area of management.

Peter Drucker believes that what the business enterprise needs is a principle of management that will give full scope to individual strength and responsibility and at the same time give common direction to vision and effort, establish team-work and harmonise the goals of the individuals with the common organizational goals. The only principle that can do this is the management by objectives. Peter Drucker emphasises that objectives are needed in every area where performance and results directly and vitally affect the survival and prosperity of the business. The performance that is expected of the manager must be derived from the performance goals of the business, results must be measured by the contribution they make to the success of enterprise. This in turn requires management by objectives and control by self-control.

'Management by Objectives' was called 'work planning and review' by General Electric Company. U.S.A. General Electric Company laid out the elements of managing objectives in its extensive planning for reorganization programme in 1954. Its manual pointed out, 'Decentralization of managerial decision-making requires that objective goals and objective measurements of progress towards these goals be substituted for subjective appraisals and personal supervision. Through a programme of objective measurements, managers will be equipped to focus attention on the relevant trends, and on the future. To the extent, therefore, that we are able to develop sound, objective measurements of business performance, our philosophy of decentralization authority and responsibility will be rendered more effective.'

### **12.3.3 What is Managing by Objectives (MBO)?**

John Humble defined managing by objectives as a dynamic system which integrates the company's need to achieve its goals for profit and growth with manager's need to contribute and develop himself. According to George S. Ordiorne, the system of Management by objectives can be described as a process whereby the superior and subordinate managers of an organization jointly identify its common goals, define each individual's major areas of responsibility in terms of results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members. Ordiorne also stressed that MBO is not merely a set of rules, a series of procedures, or even a set method of managing, but it is away of thinking about management.

Management by objectives is also known as management by results and goal setting approach. Dale D. McConkey has preferred the term management by results and has defined it as an approach to management planning and evaluation in which specific targets for a year, or some other length of time, are established for each manager, on the basis of the results which each must achieve if the overall objectives of the company are to be realised. At the end of this period, the actual results achieved are measured against the original goals, i.e., against the expected results which each manager knows he is responsible for achieving.

### **12.3.4 Benefits of MBO**

Management by objectives is a comprehensive management planning and control technique and is bound to affect the entire organization structure, culture and style. Management by objectives calls for regulating the entire process of managing in terms of meaningful, specific and variable objectives at

different levels of management hierarchy. Management by objectives moulds planning, directing and controlling a number of ways. It stimulates meaningful action for better performance and higher accomplishment. It is closely associated with the concept of decentralization because decentralization cannot work without the support of management by objectives.

Thus, management by objectives is not merely a philosophy of management, but is also a system which aims at synchronising the objectives of the individuals with the objectives of the organization. When applied consciously and systematically, it leads to the following results:

Improvement in productivity due to the fact that management team concentrates on the important task of reducing costs and harnessing opportunities rather than dissipating energies on less important matters.

A greater sense of identification by the management team with the objectives of the enterprise where in controls are reckoned as tools of 'self-control' rather than devices to be used against managers.

Improved communication and organization structure which helps in locating weak and problem areas.

Serving as a device for organization control and integration.

Stimulating the subordinates' motivation.

Providing a realistic means of analysing training needs and opportunities for growth on the basis of measurement of performance against accepted standards.

### 12.3.5 The Process of MBO

The process of managing by objectives revolves around the setting up of organizational goals and the goals of various divisions and sub-divisions. It is a never ending process; The continuous nature of the process of MBO not only ensures sustained concentration of efforts towards organizational objectives, but also helps in modifying objectives to suit the changed situation. The steps in MBO are described below:

**Setting of Objectives.** The first step while installing the system of 'Management by Objectives' in an organization is to establish verifiable objectives for the organization and for various positions at various levels. In order to set objectives of the enterprise, a detailed assessment has to be made of the various resources at its disposal. A market survey must be conducted to know what types of goods and services are required by the community. Proper forecasts should be made to estimate the demand and the business conditions in the country. This detailed analysis would lead to highlighting of desirable objectives, both long-range and short-range. An attempt should be made to set specific goals in various key areas on which the survival and growth of the business depends. These are the objectives which the top management will tend to achieve.

The major activities of every enterprise are divided on some basis of departmentation. The top management must determine the objective of every department. At this stage, the top management should discuss the objectives with the departmental managers so that a statement of agreed objectives may be evolved. Each department sets its both long-range and short-range objectives with approval of top management. This process of setting objectives is repeated at lower levels of management. At each level, objectives are set in verifiable units so that performance of every department and individual may be reviewed after the end of a particular period. Once this process is complete, there will exist a meeting of minds of each superior and his subordinates as to what is to be accomplished and why it is to be accomplished.

**Revision of Organization Structure.** When the goals for each individual are reset under MBO, there is a considerable change in the job description of various positions. This may call for a revision of the existing organization structure. The organization charts and manuals should be suitably amended to depict the change brought by the introduction of management by objectives. The job descriptions of various jobs must define their objectives, responsibilities and authority. They must clearly lay down the relationship with other job positions in the organization.

**Establishing Check-Points.** Management by objectives ensures periodic meetings between the superior and the subordinate to review the progress towards the accomplishment of targets of the subordinate. For this, the superior must establish check-points or standards of performance for evaluating the progress of the subordinate. The standards should be defined quantitatively as far as possible and the subordinate must understand them fully. This practice should be followed by every superior for each of

his subordinates and it should lead to key result analysis as targets or goals are represented in terms of results. The key result analysis should be reduced into writing. It should contain the following information:

The overall objectives of the job of the subordinate.

The key results he must achieve to fulfill his objectives.

The long-term and short-term priorities of tasks he must adhere to.

The scope and extent of assistance he may expect from his superior and related departmental managers and the assistance he must extend to other departments.

The nature of information and reports he will receive to carry out self evaluation.

The standards by which his performance shall be evaluated.

**Appraisal of Performance.** While informal performance appraisal of a subordinate is done by his immediate superior almost everyday, formal appraisal at periodic intervals, usually once or twice a year, does ensure that a thorough evaluation of a manager's performance. is done and his achievements are carefully analysed against the background of prevailing circumstances and given objectives. The design and format of the Performance Review Form will depend on the nature of the enterprise.

The important benefit of MBO is that it does away with the judgmental role of the supervisor. The performance of every individual is evaluated in terms of the standards or end-results clearly agreed to by the superior and the subordinate. Whenever MBO has been introduced, it has led to greater satisfaction, more agreement, greater comfort and less tension and hostility between the superiors and the subordinates. Under MBO, the superior does not evaluate the individual concerned but his performance in terms of the standards set in advance. Moreover, the performance review is aimed to assist the subordinate to improve his performance in the future. It also helps in setting goals for the next period.

### 12.3.6 Limitations of MBO

The limitations which make the implementation of MBO difficult are follows:

**Poor Planning.** One of the major weaknesses often seen in MBO is poor planning of the programme prior to implementation. Implementors must be well-trained. They must know how to involve all levels of management and obtain their support.

**Lack of Training.** There is generally lack of training and knowledge on the part of the supervisor in implementing the programme. Many are prone to sit down with the subordinate, dictate the goals and targets with no input permitted from the subordinate, and then demand they be met in a specified time. Whether they are realistic goals or not does not enter the picture. No consideration is given to any outside factors over which the subordinate has no control or influence. In this type of environment, there can't be two-way communication because of the outer-imposed objective. This stab at MBO will destroy morale, initiative and goods results faster than anything else in the enterprise.

**Lack of Follow-up.** Lack of follow-up by the superior at the appropriate time is another hurdle in the successful implementation of MBO. In practice, superiors have many things to do. It is most easy to procrastinate. The superior must get with the subordinate at the appropriate time. The subordinate is prepared to tell the boss exactly what has been accomplished and how. If the superior delays the meeting, the subordinate will think this is just one of the those management programmes that everyone got so hepped up over and has now gone down the drain. Job effort probably will be relaxed since the superior does not appear to attach much importance to a review of results. Needless to say, this may affect his performance in a negative way.

**Inflexibility.** Management by objectives may tend to introduce inflexibility in the organization. Since goals are set after every six months or one year, the superior may not like to modify them in between because of fear of resistance from the subordinate. There may arise a need to revise the goals at lower levels to achieve the long-range objectives of the enterprise. The manager must handle such a situation properly. Some managers give more emphasis on goal setting. But they should remember that they are also to perform other functions of management like organizing, directing and control.

### 12.3.7 Making MBO Effective

Despite various difficulties and shortcomings in management by objectives, it is an efficient way of managing as it emphasises in practice the setting of objectives as the logic of planning and control. In order to achieve all the advantages of managing by objectives, it is essential that it should start at the top of the organization. The active participation of top management to this programme is essential for its implementation. If the top manager uses the objectives as an instrument for managing his subordinates,

this practice will also be followed down in the organization. In order to achieve all the advantages from managing by objectives, the following guidelines should be followed:

**Top Management Support.** It is essential that MBO should start at the top of the organization. The active participation of top management to this programme is essential for its implementation. If the top managers use the objectives as an instrument for managing, this practice will be followed down in the organization.

**Education about MBO.** The organizational members must be adequately educated about the philosophy of MBO. They must also be clear about the purpose of the MBO programme. MBO is a means rather than an in itself. The details and emphasis of the MBO system will vary with the purpose for which it is designed. MBO can produce the anticipated results only when its purpose is precisely defined and techniques chosen are appropriate to the purpose.

**Active participation in Goal Setting.** It is essential that goals should be set by participation with the subordinate. There should be face-to-face communication between the superior and the subordinate for setting the goals, discussing the subordinate's problems and for resetting the goals, discussing the subordinate's problems and for reviewing his performance. Thus, there must be effective two-way communication in the organization.

**Decent realisation of Authority.** A greater degree of decentralization of authority is required for the success of MBO. The subordinates who have accepted the challenging assignments through discussion with the superior must be given adequate authority to accomplish their goals. MBO will not work if the manager is not willing to delegate sufficient authority to the subordinates as the subordinates will not be willing to accept new assignments and may even resist the setting of clearly defined goals.

**Orientation of Executives.** The philosophy of MBO is to be implemented by the executives. They must be adequately oriented about the value of MBO. They should be imparted adequate training for the effective implementation of management by objectives.

**Integration of MBO Programme.** MBO should not be implemented as an isolated programme. It must be integrated with all the organization programmes including human resource

planning, human resource development, product planning and development, production control, financial planning and so on.

## **12.4 TOTAL QUALITY MANAGEMENT**

### **12.4.1 Introduction**

According to International Organization for Standardization (ISO), Quality means the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs. While earlier quality meant product specifications and test reports, today it refers to the entire organization—its systems, strengths and ability to deliver cost effective and consistently good products or services. In simple words, quality means meeting the customer or client needs every time.

Quality is a dynamic concept and so is its management. Total Quality management (TQM) has been accepted throughout the world these days. It calls for continuous improvement of quality with the cooperation of workers through innovation in product and technology so as to meet the changing requirements of the customer. The launching of ISO : 9000 series standards by the International Standards Organization is an attempt to help the industrial organizations in adopting Total Quality Management to improve their quality and productivity and to serve their customers efficiently. There is a new awareness about quality in industry. The opening of Indian markets to multinationals since 1990 has forced a sense of competition in Indian producers. Since independence the industrial policy statements have been restricting the scope for private entrepreneurs and major areas of growth were earmarked for public sector. The lack of competition from outside world brought a sense of complacency both in public and private sectors. The consumer has been buying whatever was offered to him since demand always exceeded supply. The globalization of Indian economy by P.V. Narsimha Rao's government opened a new chapter in Indian industry. The consumer started preferring goods from foreign producers for the reason of lower prices and better quality. It is at this stage that Indian producers started thinking of product or service quality. The organizations which will maintain productivity and quality on a continuous basis will be able to stay in the market for long. There is now a competition in India for implementing total quality management and getting ISO 9000 certification. The impact of poor quality on an organization leads to low customer satisfaction and low market share, low productivity, revenue and profit, low morale of workforce etc.

The modern view of quality is that product should satisfy customer needs and expectations on a continuous basis. Quality is a customer's determination and not manufacturer's or marketer's determination. This concept of quality calls for (i) well designed products with functional perfections (ii) prompt satisfaction of customer's expectations, (iii) excellence in service and (iv) absolute empathy with customer.

### **Defining Quality**

A number of definitions have been given by experts, some of them are given as follows :

**According to Joseph M. Juran.** Quality is fitness for use of purpose

**According to Armand V. Feigenbaum.** Total composite of product and service characteristics of marketing, engineering, manufacturing and maintenance through which the product and service in use will meet the expectation by the customer.

**According to W. Edwards Deming.** TQM is a predictable degree of uniformity and dependability at low cost and suited to market.

**Bill Conway. development,** manufacture, administration and distribution of consistently low cost products and services that customers need and want.

**ISO 8402 : Quality Vocabulary.** The totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs.

The definitions given above emphasise the customer satisfaction and economic cost of products. The customer satisfaction will come when the product satisfies his needs and aspirations from it. A proper quality of the product is necessary to satisfy the consumer.

**Total Quality.** Total quality is the mobilisation of the whole organization to achieve quality continuously, economically and in entirety. Normally it is thought that quality can be improved through production process only. It is not a true thinking. Quality improvement is possible through an improvement in purchasing, marketing, after sales service and many other factors. The producing of zero defect products may not bring out a required quality. Total quality can be achieved with the co-ordination of various aspects relating to purchase, production, sales etc. In the words of Atkinson, total quality is a strategic approach to producing the best product and service possible-through constant innovation. In Atkinson's views the innovation is an important element of quality improvement. There are pre-determined standards or specifications and product and service quality must be upto that level. Total quality control is an effort in which every one and every function of the organization participates.

### **12.4.2 The Concept of Total Quality Management (TQM)**

Total Quality Management (TQM) is a philosophy which believes in a company-wide responsibility towards quality. The main aim of TQM is to actively involve the production personnel in the pursuit of quality and to infuse in them the spirit of continuous improvement.

According to Sashkin and Kiser, "Total Quality Management may be defined as creating an organization at culture committed to the continuous improvement of skills, teamwork, processes, product and service quality, and customer satisfaction. This definition is anchored to organizational culture because successful TQM is deeply embedded virtually in every aspect of organizational life and calls for the active involvement of all human resources in quality improvement for the delight of customers. Thus, Total Quality management is a continuous customer-centred employee driven improvement.

Total Quality Management (TQM) refers to meeting the requirements of customers consistently by continuous improvement in the quality of work of all employees. For achieving total quality, three things are essential:

- Meeting customers' requirement;
- Continuous improvement through management process;
- Involvement of all employees.

Total Quality Management is a dynamic concept as the quality standards do not remain the same for ever. They are to be modified or changed to meet the requirements of customers and to make use of new technology. Even the ISO:9000 series standards have a provision of revision, modification or deletion of quality standards after every five years. Total Quality Management also calls for involvement of employees in this programme. Without the active involvement of employees, high quality standards can't be achieved. Further, the whole concept of TQM is directed towards meeting the requirements of customers.

### 12.4.3 Elements of TQM

The six elements of TQM, normally used by Japanese companies, are as follows :

The quality is first in all business thinking and action.

The quality of new product development should be assured.

The quality should be customer-oriented and not product-oriented.

The next step of any process should be customer.

Use a continuous plan, do, check, act (PDCA) cycle in all business elements.

There should be a respect for humanity.

In TQM it is not just products, process and customers and employees but it is the entire gamut of organizational activities which is involved.

### 12.4.4 Characteristics of TQM

There are four major characteristics of TQM which symbolise it.

**Totality.** It implies that all areas, functions, activities, and employees are striving for optimum quality all the time.

**Documentation.** It is integrated people-machine-information relations that make TQM effort happen. Documentation helps in dissemination of every information to all persons. The information will help persons in visualising their work assignments and responsibilities in quality activity.

**Improvements.** There should be an endeavour to improve quality activities of the business. This will help in achieving highest levels of quality and competitiveness in operations products and services.

**Foundation.** The solid foundation to whole organizational structure is imperative. If the company is well organized then it enables the broad scope of quality activities to be properly managed. Good organizational systems equip management and employees of the company to come to grips to customer requirements and satisfaction.

### 12.4.5 Fundamentals of TQM

TQM system to be successful requires focus on various aspects relating to it. Some aspects should be kept in mind before TQM is implemented. The important fundamentals of TQM are as follows :

**Focus on Customer.** The main fundamental of TQM is its focus on customer requirements and their satisfaction. TQM philosophy focuses on the theme 'Consumer is the king'. Every business organization manufactures products for some type of a customer. If one producer does not satisfy the customer then the second will come in. The companies should frame their processes and products which must satisfy the customer. The companies in India still hanker on their 'product oriented' approach. This is the main reason that they are not able to have footage in international markets. The latest approach has shifted from customer satisfaction to 'Customer delightment'. This approach is necessary to have an international footage.

**Management by Fact.** The concept of management by fact means that decisions should be based on facts. Facts here mean the information which is essential for reaching a decision and solving a problem. The subordinates normally raise a problem but donot provide facts for solving them. The decisions should be taken by using statistical tools. When the required data is available then it becomes easy to take a decision. Even the tough decisions can be taken by using simple statistical tools. TQM will be successful only when decision making is based on facts of every case. The employees should also be trained to use factual information for taking every decision.

**Focus on Prevention.** The focus of TQM is on avoiding the recurrence of same problems. When a problem is solved then the mechanism should be so designed that it is solved for ever and it does not recur again. In Indian companies he the same problems are solved again and again. The companies must ensure that problems are solved once for all so that the recurrence of these problems is prevented.

**Principle of PDCA Cycle.** The plan-do-check-act principle is also an essential tool for implementing TQM programme. This is the principle of continuous improvement. TQM will work successfully only if continuous effects are made for improvements. A systematic process for examining how to improve things is necessary. Managers should never be satisfied by status quo. The complacency will allow competitors to win, but by following PDCA principle complacency can be avoided.



**Employee Involvement.** TQM will be successfully implemented if employees are fully involved in this programme. The employees have proper understanding of various issues and can give practical suggestions for consideration. The company should recognise the importance of employees' involvement and giving due weightage to their suggestions. This principle will encourage employees to think positively about the company and help management in solving various problems. The employee involvement is a precondition for the success of TQM programme.

#### 12.4.6 Key Activity Areas of A TQM System

Before planning TQM system it is essential to identify key activity areas which will have to be tackled. TQM is possible only when every activity of a company is geared up to achieve the desired results. Following key area activities should be taken care of:

**Preproduction Quality Evaluation.** It is not only the actual production activity but product and process design which are also important in TQM system. The process and design should be so laid down that it will lead to the desired quality standards. Sometimes the system is so defective that it cannot lead to desired results even with best efforts.

**Quality Planning.** The planning of those activities which will lead to desired quality standards is also essential. The activities start from purchase of raw materials to actual execution of production. There should be a proper procedure to control the quality of purchased materials. This procedure should include even the Vendors who supply the materials so that quality norms are conformed. There should also be norms to measure, attain and control the desired product quality and consistency of manufacturing process.

**Quality Evaluation of Product and Process.** This step involves the evaluation of the whole system designed for TQM. There should be quality checks by personnel. The operators should have the means to measure the desired quality standards. A provision should be made to maintain proper quality records.

**Quality Information System.** An information about the systems and equipment should be readily available. The information should be properly analysed and used to control quality activities. When information is readily available then it enables remedial measures also if the things are not going as per plans.

**Quality Training and Orientation.** The training and orientation of personal concerned with quality maintenance is essential. They should know what is expected of them. The effectiveness of quality training and orientation will be measured by personnel capability developed as part of this act of activity.

**Post Production Quality Service.** This activity is a part of 'after sales service'. There should be a mechanism to answer complaints and making rectifications which will result in satisfied customer.

#### 12.4.7 Major Process Components of TQM

The major process components of TQM are policy management, daily management and team activity. Some companies include Vendor quality also in this process since their quality depends upon Vendor's products and services.

**Policy Management.** It can also be referred to as policy deployment, management by policy, etc. Policy management is a systematic process used to direct corporate resources towards solving problems and making improvements in selecting high priority areas. Policy management is essential for executing corporate strategy. There should be a total commitment from top management and other employees for policy management.

**Daily Management.** Daily management process is to ensure that overall operations are improved and the things done as per planning. Daily management is a means both to control and to improve day to day operations. Day to day management problems are solved by daily management process. Top management ensures that processes for satisfying customer needs are in place. The managers and supervisors are responsible for actual execution and checking of TQM system.

**Team Activity.** Team activity is essential to achieve organizational goals and helping in quality improvement. The team characteristics may differ depending on the type and nature of problem to be solved. A work atmosphere must be developed where managers and workers listen to and respect each others ideas. This type of atmosphere can be developed only when there is a commitment to achieve objectives. The team approach is a better way of building trust and respect.

**Vendor Quality.** Sometimes a concern buys products and services from a vendor for completing its own processes. In such a case total quality will be maintained only if the vendor will be having proper quality standards for its products. Vendors may not essentially use a particular quality

approach adopted by the company to ensure quality but there should be systematic quality processes in place that can be checked to ensure that the company standards are met. The quality process of the vendors should be properly inspected and they should be clearly told what is expected of them in this regard.

#### 12.4.8 HR'S Role In Quality Management

HR managers can facilitate the introduction and implementation of TQM in several ways :

To identify uses of TQM techniques.

To develop communication systems for introducing TQM and improve quality awareness.

To select and train people carefully so that they possess requisite skills for implementing TQM.

To match the appraisals to TQM philosophy.

To institute reward schemes for scaling new heights through TQM.

To carry out employee attitude and organizational climate surveys that highlight weak spots to point attention towards rectificational efforts.

To conduct quality and ethics audit.

To benchmark TQM applications with the best competing units and find out the ways and means to get ahead continually.

To treat TQM as a systematic and continuous way of doing business.

To adopt the principles and language of quality, follow the processes, set examples and guide others.

Total Quality HRM is about caring for people sincerely. To get people to care about quality, you have to care about them. The role of HR managers in TQM is influenced by the philosophies of various TQM gurus. These philosophies are discussed as follows:

#### 12.4.9 TQM Gurus

The name 'Total Quality Management' was first suggested by Nancy Warren, a behavioural scientist in the U.S. Navy, in 1985. Starting after World War II a number of philosophers and thinkers made their contributions towards the movement of TQM. Many of the TQM gurus are Americans but some of them are of Japanese Origin. The four best known and respected quality gurus are (i) Dr. W. Edwards Deming (ii) Joseph M. Juran (iii) Dr. Genichi Taguchi and (iv) Philip B. Crosby

#### 12.4.10 W. Edwards Deming

Dr. W. Edwards Deming was born on 14th October, 1900. He graduated in electrical engineering and then did PhD. in mathematical physics from Yale University, U.S.A. He worked in U.S. Government Census for many years. He went to Japan after Second World War and helped industry in improving the quality of products. He talked of new climate which consisted of three elements Joy in Work, innovation and cooperation. He encouraged Japanese managers and engineers to go beyond the utilization of statistics and strive for continuous improvement. He also suggested the use of modern customer research conducting regular customer surveys and following closely the developments and changes in the market place. He stressed the efficient use of statistical techniques for ensuring positive competitiveness in the market-place and the obtainment of the desired returns. He provided the famous fourteen point methodology for quality improvement philosophy.

**Constancy of Purpose.** Creation of consistency of purpose for continued improvement of products, processes and services.

**New Philosophy.** We can no longer live with commonly accepted delays, mistakes, defective materials and defective workmanship. The new philosophy is to be accepted to halt the continued decline in the industry.

**Cease Dependence on Inspection.** We should cease dependence on mass inspection for achieving quality. The quality is to be built in the product in the first place.

**End Contracts on Tenders.** The practice of giving contracts to those giving lowest tenders should be stopped. We should go for meaningful measures of quality along with price. The aim should be to minimise total cost, not initial cost.

**Improve Processes.** Improve constantly the system of production and service. Search continually for problems in order to improve every activity in time company, better quality, increase productivity and decrease costs.

**Institute On the Job Training.** Institute modern methods of training and education on the job, including management, to make better use of all employees.

**Institute Leadership.** Adopt and institute leadership aimed at helping people do a better job. The aim of supervision should be to help people, machines and gadgets to do a better job.

**Drive out Fear.** Drive out fear from the organization so that everyone may work effectively for the company.

**Break Down Barriers.** The compartmentalization in departments should be removed. Construct bridges, not walls.

**Eliminate Slogans.** Eliminate slogans, exhortations and targets for the workforce asking for zero defects. Such exhortations create adverse social relations. Only realistic targets should be tailored.

**Eliminate Numerical Targets.** The quotas and qualitative objectives should be eliminated. Substitute aids and helpful supervision.

**Feeling of Pride.** Cultivate a feeling of pride among performers.

**Encourage Education.** Institute a vigorous programme of education and self-development.

**Top Management Commitment.** Top management should be permanently committed to ever improving quality and productivity and its obligation to implement all these principles.

#### 12.4.11 Joseph M. Juran

Joseph M. Juran has also contributed substantially to the movement of total quality. He was of the opinion that quality improvement also helps in reducing costs. He wrote a book : *Quality Control Handbook*, in 1951 which came an essential reference for every manager. Juran was an engineer by profession working in the U.S.A. He went to Japan in 1954 and helped in rebuilding the war torn industry. Juran proposed three managerial processes which he thought are necessary for the structured implementation of a total quality programme : (i) planning (ii) improvement and (iii) control. His project by project improvement approach is very popular among Indian companies. He gave ten points for quality improvement.

#### Juran's Ten Steps for Quality Improvement

Build awareness of the need and opportunity for improvement.

Set goals for improvement.

Organize to reach the goals (e.g. establish a quality council, identify problems, select processes that need improvement, appoint teams, train facilitates and team members).

Provide training throughout the organization.

Carry out projects to solve.

Report progress

Give recognition

Communicate results

Keep score

Maintain momentum by making actual improvement part of the regular systems and processes of the company.

#### 12.4.12 Genichi Taguchi

Taguchi developed techniques for industrial optimization and methods for on-line and off-line quality control which form the basis for his approach towards total quality assurance. His methods incorporate the use of statistical techniques. They are intended for designers and engineers to optimise the setting so that products are robust. The statistical methods are intended as a trouble shooting problem solving tool in the early stages of the product development cycle. Taguchi's methods enable the identification of 'noise' variables which if not controlled can affect product manufacture and performance.

Taguchi worked as Director of the Japanese Academy of Quality between 1978-82 and was awarded by the Emperor for his contributions towards quality improvement. Taguchi followed the following eight point approach for quality improvement.

#### Taguchi's Eight Point Approach

Identify the main function, side effects and future modes.

Identify noise factors and the testing conditions for evaluating quality loss.

The quality characteristics to be observed should be identified and the objective function to be optimised.

The control factors and alternate levels be identified.  
Design the matrix experiment and define the data analysis procedure.  
Conduct the matrix experiment.  
Analyse the data, determine optimum levels for the control factors and predict performance under these levels.  
Conduct the verification experiment and plan future actions.

#### **12.4.13 Philip B. Crosby**

Philip B. Crosby is better known for his more vocational style and popular programmes such as zero defects (ZD), conformance to requirements, and quality is free. He was a former corporate Vice-President for Quality at ITT and was the founder of Crosby Quality College arranging courses and seminars on quality for senior managers. In Crosby's views the major causes of poor quality in industry are : (i) those which are due to employees's poor awareness and knowledge and (ii) Others which are due to carelessness and lack of attention. The former can be easily identified, measured and solved but the latter need long term management effort in changing culture and attitudes. Crosby mentions four absolutes of quality management : (i) quality means conformance (ii) quality comes from prevention (iii) quality performance standard is zero defects quality measurement is the price of non-conformance. These absolutes must be ingrained in the mind and fabric of an organization. These should be regularly implemented if success is to be achieved in quality improvement. Crosby has put fourteen steps for quality improvement. These steps are as follows.

#### **Crosby's Fourteen Points for Quality Improvement**

Management Commitment. Management should be committed to help quality improvement programme.

Quality Improvement Team. A representative team from different departments be formed to undertake this work.

Quality Measurement. The quality status should be determined for the whole company. Measures should be carefully developed.

Cost of Quality Education. The cost of quality should be established to indicate where corrective action will be profitable for the company. Its use as a managerial tool should also be explained.

Quality Awareness. Provide a method of raising the personal concern felt by all personnel in the company towards the conformance of the product or service and the quality reputation of the company.

Corrective Action. A systematic method of resolving the problems that are identified should be provided.

Zero Defect Planning. An ad hoc committee should be established for implementing zero defect programme.

Employee education. All employees of the company should be educated for quality improvement programme.

Zero Defect Day. It is to create an event that will let all employees realise, through personal experience, that there has been a change.

Goal setting. Regular meetings between superiors and employees help people learn to think in terms of meeting goals and accomplishing specific tasks as a team. Goals should be chosen by the group and posted for every one to see.

Removal of Cause of Error. It is like asking people to state the problem they have so that something can be done about it.

Recognition. Award programmes must be established to recognise those who meet their goals or perform outstanding acts. It is not financial awards which are important but recognition is what is important.

Quality Councils. Quality professionals and others should meet regularly to communicate and determine actions to upgrade quality improvement programme.

Do It Over Again. Quality improvement programme should always continue.

#### **12.5 QUALITY SYSTEM STANDARDS**

The liberalisation of economy brought growing competition in manufacturing as well as service sector. In order to survive in the new environment upgradation of quality systems in line with international standards has assumed a greater importance. The challenge to a developing country like India is to

motivate the manufacturers and service providers to adopt and implement these standards and to establish a credible national quality registration system which will be recognised and be acceptable to its trading partners. The Corporations from all over the world are not expected to adhere to ISO 9000 standards. The ISO 9000 accreditation is an internationally accepted standard and is simply laid down.

### **12.5.1 ISO 9000 Series**

The roots of ISO 9000 can be traced to the defence procurement philosophy prevalent in the North Atlantic Treaty Organization (NATO) in the 1950s and 1960s and which by 1970s spread to commercial establishments also.

The International Organization For Standardization (ISO) is a specialized agency for standardization. It is a Worldwide federation of national standards bodies in more than 100 countries. The Bureau of Indian Standards (BIS) is the national standards body of India represented on ISO. ISO is based in Geneva, has over 200 technical committees to prepare international standards. ISO has the main objective of coordination and unification of international standards.

ISO Work is carried out through 2000 technical bodies, over 20,000 experts from all parts of the world participate each year in its technical work. Once 6500 standards have been published till date. Technical Committee 176 has formulated ISO 9000 series of standards on quality systems. ISO 9000 standards emphasise that quality system is the right way to achieve and maintain quality, India through BIS has adopted ISO 9000 series of standards as IS/ISO 9000 series of Indian standards. ISO 9000 is equally applicable to small and large enterprises. It defines the basic concept, specifies procedures and formulates criteria to ensure that the products of an organization meet the customer's requirements. It is necessary for all Indian Companies to implement ISO 9000 and TQM for their survival and growth during the next millenium. The ISO 9000 Series comprises ISO 9000 which embraces ISO 9001, 9002, 9003 and 9004. The Indian equivalents to these standards are 14000, 14001, 14002, 14003 and 14004. These standards are titled.

**ISO 9000.** Quality management and Quality Assurance Standards-Guidelines for selection and use.

**ISO 9001.** Quality Systems-Model for Quality Assurance in Design! Development, Production, Installation and Servicing.

**ISO 9002.** Quality Systems-Model for Quality Assurance in Production and Installation.

**ISO 9003.** Quality Systems-Model for Quality Assurance in Final Inspection and Test.

**ISO 9004.** Quality Management and Quality System Elements-Guidelines.

### **12.5.2 Registration of ISO 9000**

Registration means the certification of a company's Quality Management System (QMS) by the third party through their procedure of registration. The registration is done by having an accredited independent third party on site audit of company's operations against the requirements of the appropriate standard. If the audit is successfully complete, the company will receive a registration certificates that identifies the company's quality systems as being in compliance with ISO 9001, 9002 or 9003, etc . The company will also be listed in a register maintained by the accredited third party registration organization.

### **12.5.3 Steps for Registration**

Following steps are taken in the ISO 9000 registration process :

The quality procedures existing in the company are evaluated against the requirements of the ISO 9001 to 9003 series.

The corrective actions required to be taken to confirm to ISO 9000 series requirements are identified.

The certifiable quality management system is prepared.

The new procedure is defined, documented and implemented.

Quality manual is prepared.

A pre-assessment meeting with registrar to analyse quality manual is held.

The actual assessment of the system is held.

The system is certified and registration is done.

### **12.5.4 Quality Circles (QC)**

Quality circle is a small group of people who voluntarily perform quality improvement activities at the work place. Quality circles comprise the most widely publicised team approach to problem solving. This technique was started by Kaoru Ishikawa in Japan in the early 1960s. The American industry began

to implement this concept in the late 1970s and 1980s. Ishikawa recognised the significance of shifting responsibility for problem identification and problem solving to those on the factory floor. He was of the opinion that people on the factory floor are closest to the problems that interfere with delivering a quality product and meeting production schedules. The externally developed solutions will not easily be accepted by the work centre people.

The most commonly used definition of quality circles originated in Japan. As per this definition quality circle is a small group of employees in the same work area or doing a similar type of work who voluntarily meet regularly for about an hour every week to identify, analyse and resolve work-related problems, leading to improvement in their quality performance and enrichment of their work life.

#### **12.5.5 Characteristics of QC**

Following are the characteristics of quality circles :

Quality circles consist of small groups of people who normally work at the same place and are doing similar work.

These groups meet at regular intervals and discuss problems encountered in quality improvement. Since such people take up the same type of work so their problems are similarly known to all of them.

The quality circles identify the problems first and try to find out the solutions themselves. The solutions are tried and rectifications are made again, if necessary.

The efforts of quality circles are ultimately directed towards quality improvement on a regular basis. This exercise also helps in improving the performance of participating persons.

Quality circles are voluntary associations of persons having a common cause.

#### **12.5.6 Organization of QCs**

Quality circles were originally organized along the lines of the factory work centre. Ishikawa wanted that the people in a work centre should constitute the quality centre and centre's supervisor should head it. The quality circle team will exactly be the same as that of work centre. Ishikawa emphasised the importance of training in quality assurance technologies prior to expecting results from the quality circle.

Quality circles meet on a regular basis to identify work centre problems and develop solutions to these problems. The idea here is that the quality circle should meet in a free period. They normally met at the lunch hour or after the factory hours. The meetings are loosely structured and often begin with a group brainstorming session to identify on going quality, schedule and other problems being experienced by the work centre. The meetings then turns to solve the problems faced by the circles.

#### **12.5.7 Benefits of QCs**

Quality circles helps in improving human relations at the work centre.

The participative culture is developed in the organization.

The workers take keen interest in solving their quality problems.

It helps in reducing the defects of products/services.

It helps in improving productivity.

Encourages the attitude of problem prevention.

There is an improved communication between management and employees.

It helps in leadership development in the organization.

#### **12.5.8 Misconceptions about QCs**

Quality circles donot restrict themselves to solving problems and quality only, it also solve issues affecting productivity, cost reduction, safety, etc.

These are not forums for grievance settlement or raising other demands.

These are not the means for management to unload all their problems.

Quality circles are not replacement for task force, product committee, suggestion schemes, etc.

Quality circles are not panacea for all ills in the organizations.

#### **12.5.9 Objectives of TQM Philosophy**

Meeting the customer's requirements is the primary objective and the key to organizational survival and growth. Customers are never regarded as people to whom the company presents its product in a 'take it or leave it' spirit. Relationship with the customers is considered as a supreme act of faith. It is believed that if customers are satisfied, they will continue to patronize the company which, in turn, will make it survive and grow.

The second objective of TQM is the continuous improvement of quality. The management should stimulate the employees in becoming increasingly competent and creative. They should keep doing better. As long as things are not perfect, there is room for improvement : new products can get to market faster, new adjustments in processes can cut down on time and cost, and the environment for work can be made more satisfying.

Thirdly, TQM aims at developing the relationship of openness and trust among the employees at all levels in the organization.

#### **12.5.10 Components of Total Quality Management**

There are three elements of TQM which are discussed below:

**Customer Orientation.** Under TQM, the term ‘customer’ means every user of a product or service and not only the end-user. This is a very broad meaning of ‘customer’. For example, a product that passes through a number of stages, every next stage is a customer for the preceding stage.

TQM aims at satisfying the customer’s requirements which never remain constant, but keep on changing with the change in time, environments, circumstances, needs, fashion, etc. Thus, meeting the changed requirements of customers is a continuous goal of the producer.

**Continuous Improvement.** The change in customers’ requirement may be in terms of desire for better quality product/services, bigger size, reduced cost, etc; So a producer has to cope up with the new requirements. A new process may have to be developed, or it may require a new product design.

The production process has thus to be attuned and accelerated to meet these changing requirements.

The management has also to take care of competition in the market so that customers do not shift to other producers. For instance introduction of 300 ml. cold drink bottles by one producer led other producers to shift to bottling of 300 ml. of their brands.

The advancement in technology is another important factor in improving quality. The innovations in a particular field may cause some of the existing technologies to become obsolete and as a result, the survival of the producer not adopting technological advancements would become very difficult. For example, Photocopier was a big machine with a manual process when it was introduced in India for the first time. The process was time-consuming and even quality was not upto the mark. Thereafter, new photocopiers (Xerox machines) were introduced and slowly old machines disappeared for the simple reason that customers’ need underwent a sea change. Ever since then, the Xerox Corporation has introduced several models of Xerox machines which speaks volumes of their endeavour for continuous improvement.

**Employees’ Involvement.** As said above, TQM requires a continuous improvement in quality of products. This calls for improvement in the quality of work of employees through training and development. The enhancement of skills of employees will not only improve quality, but also bring down the cost of products through efficient use of machines and materials and reduction of wastages. The employees must also be conscious about the need for improvement in the quality of work. Quality circle is an outstanding example in this regard. It is because of employees’ involvement in improvement of quality that TQM is referred to as people’s process.

TQM should be the concern of all managers and workers in the organization if it is to serve its purpose fully. No doubt TQM is planned by the top managers, the people at the middle and lower levels must be taken into confidence before launching the TQM. Thus, each and every employee must be encouraged to become involved in implementing the TQM programme. Moreover, to ensure that TQM is smoothly implemented, necessary skills and resources must be invested in the organization.

TQM is a philosophy that calls for development of a company-wide culture for quality. TQM typically involves an increased awareness through training and motivation. It requires every member of the organization to accept quality as his major area of responsibility. TQM signifies an understanding and performance of role by each and every individual in the pursuit of quality improvement. A positive attitude towards customer and constant enhancement of quality must be ingrained in the minds of the employees.

#### **12.5.11 Evolution of Total Quality Management**

The emergence of the TQM process is not just sudden. It developed in four stages beginning from 1910. These stages are as follows:

**Detection and Rectification of Defects.** The first stage was initiated because of the need for detection of defectives. The quality control responsibility was identified with quality and inspection function. The emphasis here was on detection and correction of defects in the product during course of its process.

**Prevention of Defects.** During 1930s, the emphasis of quality management in U.S.A. shifted to prevention of defectives. It was realised that detection of defects and correction leaves a lot of scope for wastage. Prevention of defects was sought to be achieved by method of process control by, analysing the process and finding out reasons of occurrence of defects and then taking adequate steps so that the recurrence does not take place.

**Product Design Improvement.** Process control could not be used to remove those defects which were inherent in product design and engineering. That is why Japanese organizations started concentration on product improvement in the 1960s and later talked of 'total quality management'. Product improvement, product design, and product planning were emphasized to meet the changing requirements of customers. All these can be achieved with the involvement of employees.

**Creativity and Innovation.** The decade 1980 paved the way for creativity and innovation in technology and management practices. Quality circles were encouraged to enlist the active support of workers in quality improvement. Total Quality Management became the catch word not only in Japan, but also in other countries of the world.

#### **12.5.12 TQM and Human Resource Development**

Total Quality Management is a dynamic concept and so is Human Resource Development. TQM aims at continuous improvement in quality of products which calls for the improvement in the quality of work of employees through training and development. The enhancement of skills of employees will not only improve quality, but also bring down the cost of production through efficient use of machines and materials and reductions of wastages. The employees will actively participate in TQM if they are conscious about the need for improvement in the quality of work. Quality circle is an outstanding example in this regard. It is because of employees' involvement in improvement of quality that TQM is referred to as people's process.

Total Quality Management can succeed only if it has the support of total quality people (TQP). TQM without TQP does not work as processes do work unless people work. Thus, the essence of TQM is the creation of an organizational system that fosters cooperation between management and workers and facilitates learning to implement 'total quality'. This, in turn would lead to continuous improvement of processes, products and services and to employee fulfillment, both of which are critical to customer satisfaction and ultimately, survival and growth of the firm.

#### **12.5.13 Need and Significance of Total Quality Management**

Total Quality Management is the need of all modern organizations. This realisation first came in Japan where it was felt that quality cannot be ensured by inspection and test alone ; every department and the individual had a role to play in the achievement of quality. Thus 'Quality Control' which was basically restricted to testing and inspection of the end-product gave way to 'Quality Assurance'. In addition to inspection of the product, quality assurance also involved the inspection of the production process equipment.

Total Quality Management goes a step further as its aim is to actively involve all the employees in the pursuit of quality and to infuse in them the spirit of continuous improvement to satisfy the ever changing needs of the customers. It intends to achieve desired quality rather than control and prevent defects in the goods produced. TQM is the sum total of the quality of various aspects of the business system, namely, product design and development, production, purchase, marketing, financing, etc. It also involves all technical and administrative systems and procedures which can ensure the desired quality on a consistent basis. This is why organizations all over the world have become conscious of the need of total quality management.

The importance of TQM lies in the fact that it encourages innovation, make the organization adaptable to change, motivates people for better quality, integrates the business (arising out of a common purpose) and all these provide the organization with a valuable and distinctive competitive edge.

#### **12.5.14 Benefits of Total Quality Management**

The following benefits can be derived from a sound TQM programme:

Total Quality Management brings quality consciousness in the enterprise which encourages production of quality products.

TQM helps in providing greater satisfaction to the customers by meeting their requirements.

If the customers are satisfied, the sales are increased.



It creates a good public image of the enterprise by helping it to provide goods and services of higher quality to the society.

There is better utilization of materials, machines, capital, human resources, etc.

Wastages are reduced to the minimum. As a result, cost of production is reduced and profitability is increased. Even the customers could be provided goods at lower prices. The competitive position of the firm in the market is improved.

The employees are committed to higher quality and feel highly motivated. Their morale is also higher because of the public image of the firm and its goodwill in the market.

#### **12.5.15 Implementation of Total Quality Management**

W.E. Deming, an internationally renowned quality expert, known as father of TQM has suggested Plan-Do-Check Act Cycle for the implementation of TQM in any organization. The steps in PDCA cycle as follows :

- Lay down policies and objectives of TQM. Determine what the customer is supposed to receive and what they are actually receiving.
- Chalk out the methods to achieve TQM objectives.
- (iii) Educate and train workers and managers to understand and meet the requirements of TQM.
- Start the operation of TQM by introducing new product, machines' procedures etc.
- Observe results of operations and find out the causes of non-conformance quality standards.
- Analyse results and determine the consequences of non-conformance and place the report before the top management.
- Prevent undesired effects in Quality improvement. Establish personal relationships with employees so that they can voice their concerns and ideas.
- Suggest measures for improvement of methods and design in future.

#### **12.5.16 Requirements of Success in TQM**

For the successful implementation of TQM, the following guideline should be followed:

The objectives and policies of the firm must reflect its commitment to quality as a philosophy of customer satisfaction.

The TQM philosophy must be effectively communicated to each and every employee and department so that it is clearly understood throughout the organization.

The TQM programme should be properly designed to meet the requirements of the customers.

The participation of all the employees should be encouraged so that innovative ideas are put forward by the employees. TQM should not be imposed upon the employees. The management should make TQM an employees' programme through proper education of workers.

Workers and managers should be given the necessary training for the effective implementation of TQM.

TQM must involve product design and improvement, adoption of new technology, systems and procedures.

TQM should be considered a continuous programme as the requirements of customers keep on changing. TQM should also try to integrate the operations of various departments.

#### **12.5.17 TQM in India**

India awakened to the adoption of the concept of TQM in the late 1980s though 'quality control' has been emphasized since the adoption of the industrial Policy Resolution, 1956. The quality control efforts did not prove to be adequate to raise the quality of Indian products and to increase their exports. But this scenario changed with the announcement of Industrial, Policy 1991 which talked of integration of Indian economy with the world economy. The introduction of liberalization measures such as delicensing of industries and removal of restrictions on the entry of foreign capital and technology into the country had the immediate effect of opening up Indian industry to international competition as also increased competition from within. In an extremely competitive environment, only the fittest can survive and for survival, every organization has to embark upon a workable quality improvement process. This illustrates the significance of continuous quality improvement by the Indian industry.

Many of the organizations in India have started augmenting ways and means of creating quality consciousness and involving employees at all levels in quality improvement process. This will help them to meet competition from the foreign multi-nationals, increase exports, and also provide greater satisfaction to their customers. Several companies in India have even acquired the ISO-9000 certification, the European Standard of Quality for product and process.

It is sometimes believed that higher quality causes lower production which is a reflection on the production unit. That is why, production people tend to increase productivity without caring for quality. The misconception of reverse relationship between quality and quantity has to be removed. In fact, a well planned TQM programme generally results in increased production due to reduced wastage, rework, breakdown, etc.

## 12.6 SUMMARY

A popular technique of appraisal of managerial performance is MBO. The basic elements in an effective MBO programme include: Nature of Objectives, Essential Requirements of Effective Objectives, MBO Philosophy, Benefits of MBO. The Process of MBO :- (i) Setting of objectives, (ii) Revision of organization structure, (iii) Establishing check-points, (iv) Appraisal of performance. Limitations of MBO :-

Poor planning, (ii) Lack of training, (iii) Lack of Follow-up, (iv) Inflexibility. Making MBO Effective :- (i) Top management support, (ii) Education and MBO, (iii) Active Participation in goal setting, (iv) Decentralization of authority, (v) Orientation of executives (vi) Integration of MBO programme.

The modern view of quality is that the product should satisfy the customer needs and expectations in a continuous basis. TQM is planned to ensure maximum effectiveness and efficiency within a business and secures commercial leadership by putting in place process and systems which will promote excellence and prevent errors. TQM is not just products, processes and customer and employees but it is the entire gamut of organizational activities. TQM requires organizations to be consumer focused rather than being product focused.

## 12.7 REFERENCES

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## 12.8 SUGGESTED READINGS

Principal & Practice of Management: L.M. Parsad, (*Sultan Chand and Sons*)

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Human Resource Management: Shashi K. Gupta, Joshi R. (*Kalyani Publishers*)

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## 12.9 TERMINAL AND MODEL QUESTIONS

What is the significance of objectives in a modern organization? Discuss the nature of objectives.

Write a note on multiplicity of objectives of modern organizations.

What do you understand by 'management by objectives'? Discuss its various phases.

Discuss the technique of 'Management by Objectives' and briefly discuss its benefits and limitations.

What is meant by Total Quality Management? Explain the elements of Total Quality Management.

Write an explanatory note on Total Quality Management (TQM). How far do you agree with the view that 'quality is the concern of each employee'?

'TQM is the need of modern industrial organizations.' Examine this statement.

Activity 1

Define the Nature and Objective of MBO.

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Activity 2

Explain total quality management.

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