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MANAGEMENT PRINCIPLES AND APPLICATIONS

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Management Principles and Applications



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Management Principles and Applications



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LESSON 1

MANAGEMENT: AN INTRODUCTION

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1.1 LEARNING OBJECTIVES

After studying this chapter students will be able to understand: -



- The meaning of term management
- Nature/characteristics of management
- Functions of management
- Role, importance and levels of management in an organisation

1.2 INTRODUCTION

In very simple terms, Management means “To manage”. We use this term on an everyday basis while dealing with household chores or office work. When we use this term with reference to an organisation, here is when it becomes comprehensive.

In the context of a business or an organisation, in the most simplistic way Management can be defined as

“Art of Getting things done from others”

However, this definition, along with being overly simplistic, is also incomplete and underestimates the scope and nature of Management as a discipline.

The very first thing about management is that it is not only an art but also a science. It involves designing principles as well as their subjective and creative application in various situations. We will study about the nature of management both as science as well as an art in later sections of this chapter in detail.

Secondly, Management is not a term describing a single activity rather it is a process consisting of various activities such as planning, organising, staffing, directing and controlling. These activities are also called as functions of management and together they constitute as interrelated and important elements of management.

Thirdly, the above definition makes management a directionless and blind activity done with no goal and purpose. That is why it is incomplete because setting up goals and objectives and achieving them is what management is all about. The beginning and the continuity of management lies in establishing and achieving these goals. Goals and objectives are set up for different situations, projects and departments differently but the two goals that every management activity strives to achieve are the goals of efficiency and effectiveness.

Efficiency can be defined as Utilisation of resources in the best possible manner or to put it precisely it is utilisation of resources in such a manner that either the output per unit of input is maximised or either the cost per unit of input is minimised. However, efficiency achieved beyond a time limit is of no use. For example, if you are working on a project to be completed in one year time frame and you are just focusing on efficiency (i.e. you are trying



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to do work slowly yet with no wastage), you may run the risk of running out of time and hence efficiency so achieved will be of no use to anyone. Therefore, there has to be timeliness in your working. We can say that efficiency achieved in a time bound manner is what effectiveness is all about. The second goal of management which goes hand in hand with efficiency is **Effectiveness which is** about achieving organisational goals within the constraint of time. The goal of management in 'General' is to achieve efficiency and Effectiveness in working.

Fourthly, this definition points towards an autocratic management ideology which greatly underestimates the journey and evolution of management thought process. Management is done not only through people but also with people. The evolution of management has brought it to a point where human resources are the biggest asset and capital of an organisation. Today organisations are surviving in a globalised and competitive environment. They are not only competing for a large customer base but also for a strong employee base. Therefore, the principles of democratic and participatory work environments have become pillars of a successful organisation.

After analysing all the points, a complete and comprehensive definition of management is

It is an art/ science of getting things done with and through others with an overall purpose of achieving efficiency and effectiveness.

1.3 NATURE OF MANAGEMENT

The various points on the nature of management can be identified from the definition given above. These are as follows: -

- **Both science as well as an art:** Management is a discipline which makes the best of two worlds i.e. world of science and world of art.

World of Science is based on experimentation, facts and figures. The goal of science is to achieve perfection. The outcomes of science are so perfect that they are universally applicable and acceptable. For example: If both you and your friend add number two with five, both of you will always and again and again get the results as seven only. Your formula and approach can be different but the results will be standard.

On the other hand, is the World of Art which is completely opposite to science. Here, there is no place for rigidity and experimentation. It is all about creativity, thinking and imagination. Art does not define and neither accepts a perfect outcome. Its application is subjective in nature and hence the possibility of two different human beings giving the same outcome becomes null. Both the worlds being opposite to each other have their own set of advantages



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and disadvantages. They cannot be mixed but they co-exist because both have their own unique contributions. On one hand, art promotes creativity and breaks rigidity, on the other hand science promotes reliability and perfection.

Management as a discipline derives its principles in a scientific manner but applies them in an artistic manner i.e. depending upon the situation and circumstances. Therefore, Management tries to create a balance between creativity and perfection.

- Process:** As already described management involves a series of activities (Planning, Organising, directing and controlling) done one after another in a systematic manner. **Planning** is all about looking into the future, deciding the long- and short-term goals and laying down the best possible course of action to achieve them. Once the plans are laid, the next thing is to get into action and it starts with **Organising**. It refers to collecting all the resources (Men, material, money) and arranging them in a systematic manner for systematic functioning. Next is **Directing** which ensures that plans are being adhered to i.e. it refers to keeping a track on activities and ensuring that they are done as per the course of action laid down under planning and continuously motivating employees in the direction of organisational goals. Last comes the **Controlling** which is about measuring the actual performance. Controlling is actually directly related with planning. It tells the deviations and lags in the actual performance that organisation can improve upon in the next cycle of management.
- Multidimensional:** Management has a journey of evolution. As the organisations grew larger and larger in size and scale, the need for management was realised more and more. The need for management gave rise to studies in the areas of management to understand its true nature and for its wise application. Hence, during its journey management derived and borrowed its principles from various other established disciplines such as science, sociology, economics, and political science. It studies individual and social behaviour through behavioural sciences; its studies group behaviour through social sciences; studies organisation structures and authority games through political science; studies problem of decision making and optimisation through economics and so on. Therefore, Management is called multi-dimensional i.e. it looks at managerial problems from various angles and that's what makes it a rich subject.
- Dynamic:** Management is ever changing. This is because management needs to adjust itself in accordance with changing situations. A successful management style is dynamic, adaptive and flexible. This is because an organisation is a part of a dynamic system. It operates in a business environment which keeps on changing and presents a bundle of opportunities and threats to it. This environment needs to be scanned and



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monitored on a continuous basis. By analysing its environment carefully, an organisation can grab on opportunities and fight its threat at the right time. Therefore, management is dynamic.

- **Continuous:** The functions of management can be depicted in a cyclical manner which further indicates continuity. As soon as one function of management ends it kick-starts the next function. Hence the functions of management completes a circle with no end. As long as the organisation survives, the circle of management keeps on revolving.
- **Pervasive:** Management is present and needed everywhere-starting from an individual, to a group, to a community, to organisation to a nation and world. In an organisation, management is present at all levels of management and in every department.
- **Goal-oriented:** the very first step that puts the management into place is setting up of goals and objectives. Management has no existence without goals and objectives. Efficiency and effectiveness are two general goals of management.
- **Coordination:** As we studied, that management consists of various activities. All these activities are interrelated and interdependent on each other. However, the cycle of management can work only on the pillar of coordination. The entire process may fail if the activities are not coordinated with each other. It is very important to ensure coordination between various departments and resources in order to ensure coordinated working of an organisation.

Have you ever wondered, why all the definitions in commerce (Economics, Accounts, Management) begins with “it is an art or science of....”????

Is it important to determine the nature of commerce as a subject in terms of art or science?

1.4 MANAGEMENT AS A PROFESSION

The idea of management as a profession was first launched in the United States about 100 years ago. The growth in the size of corporations, emergence of public corporations leading to the separation of ownership and control made it necessary to have a group of people responsible for directing these huge new entities- “*professionally qualified managers*”. As a result of such developments, management is considered as a distinct profession. However, to claim that management is actually a profession, it is imperative to understand the meaning of the term profession and the characteristics of a profession. According to Cambridge Dictionary defines a profession is “*any type of work that needs a special training or a particular skill, often one that is respected because it involves a high level of education.*”



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Based on this, a profession may be defined as an occupation that requires- attainment of specialized knowledge (principles, tools, techniques) and skills related to a field of study; development of understanding related to the practical implementation of the attained theoretical knowledge; a proper code of conduct, and a representative body that establishes, monitors, and enforces such code of conduct.

Hence, to be classified as a profession, management should possess the following characteristics:

- **Specialized Body of Knowledge:** A profession is backed by an organised and a systematic body of knowledge consisting of principles, tools and techniques that should be the ultimate guide for the members of the profession. A professional should be well versed with the respective body of knowledge. He or she must be able to apply theoretical knowledge to real-life situations, for instance, real life business challenges or problems in this case.
- **Specialized Educational Institutions:** There should be specialized educational institutions that engage in curriculum development and delivery of the specialized body of knowledge. Formal education and training are imperative for a person to become a member of the profession. There are a number of public as well as private management schools in India such as Indian Institutes of Management, Faculty of Management Studies, University of Delhi etc., that are engaged in imparting formal education and training to the managers of tomorrow.
- **Code of Conduct:** A profession is backed by a code of conduct that acts as a guiding framework for the members. The code of conduct lists out the rules and regulations that the members of the profession have to abide to, norms of professional integrity, honesty and ethical behaviour. It is established, monitored, upgraded and enforced by the respective representative body and all the members of the profession are bound by it. If any member violates the code of conduct, he or she can lose the membership or face sanctions. For example- ICAI, the Institute of Chartered Accountants of India lays down code of conduct, professional ethics for chartered accountants.
- **Representative Body:** A representative body or association is a must for regulating the profession. It lays down the minimum eligibility requirements for a person to become a member of the profession and obtain the license to practice. The formal education and training programmes are also approved by the representative bodies. For example- Medical Council of India lays down all requirements a person must meet to practice medicine in India. The association also ensures that the code of conduct is followed by all the members and in case of any violation, an appropriate action is taken. It also ensures that the body of knowledge backing the profession is in line with the changes in the environment.



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While management fulfils some of the criterion as discussed above, it doesn't satisfy all of them to be recognized as a full-fledged profession-

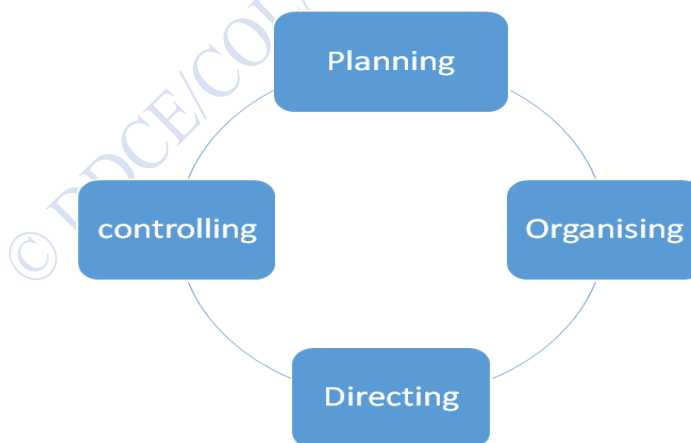
- Unlike chartered accountants, doctors or lawyers, formal education is not mandatory for a person to become a manager. Mere presence of specialized educational institutions doesn't make management a profession.
- Managers do not need a license to start practicing management.
- There is no universal and enforceable code of conduct that managers across the country have to adhere to. The code of conduct is established by individual companies and consequently they vary from one corporation to another.
- There is no representative body that has the power to monitor the implementation of code of conduct and hold managers for ethical and moral misconduct.

For all these reasons, it cannot be said that management is a full-fledged profession. It just has some elements of it.

1.5 FUNCTIONS OF MANAGEMENT

As already described, management is a process which involves five main functions- Planning, Organising, Staffing, Directing and Controlling: -

Figure: Functions of Management



Source: Businessjargons.com

- **Planning:** Planning is the first and primary function of management. It involves setting up long term and short term goals of organisation and deciding the best possible course of action to achieve them. By laying down the future course of action,



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the planning tries to reduce the uncertainties of future and gives direction to the functioning or organisation. A sound plan is one which is laid down in clearly, its reasonable, flexible and time bound. As it is the primary function of management, the rest of the functions and their efficiency depends upon the planning itself. Hence, planning is the most important function of management.

- **Organising:** it is the second function of management. It is the function which brings plans into action. The objective is to arrange and organise all the resources required for fulfilment of plan. At this stage, the tasks are identified and resources are allocated to each task. The roles and responsibilities with appropriate authority distribution is also done under organising. It is at this stage, an organisation is given a structure. The balance between the authority and responsibility and clarity of roles marks the efficiency of organising function.
- **Staffing:** It is the third function of management which can also be called as extension of organising function. This is because staffing is also about organising resources. However the only difference is that it deals specifically with human resources only. Staffing is all about understanding the needs of human resources of an organisation and making them available for it. Human resources today are considered to be assets of an organisation and hence staffing emerged as one of the key functions of management. The objective of this function is to place the right people at the right job and at the right time. The major activities involved in staffing are recruitment, selection, placement, training and development of human resources.
- **Directing:** Once the plans are put into action, it is important to follow up and keep a track so that organisation does not lose its direction and this is the objective of the directing function of management. Directing is all about keeping the human resources of organisation motivated in the direction of achievement of goals. It requires constant supervision and a strong leadership at each level of organisation. Along with that, directing also analyse the human resources, their needs, motives that can drive them towards goals. Hence, it involves leadership, motivation, incentives plans and so on.
- **Controlling:** This is the last function of management. This function completes one cycle of management process. It is the stage where actual performance for a time period is accessed and compared with standards laid down under plans. The objective is to calculate the deviations from the plan laid down. If deviations are in positive direction they are rewarded and if the deviations are in negative direction, they are controlled. Planning and controlling are interrelated and interdependent on each other. This is controlling in one cycle provides the base for planning in the next cycle.



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Each function of management in itself is complex and is a process in itself. These functions are interrelated and interdependent as one function leads to another. The efficacy to which one function can be performed is dependent on the other functions as well. The control function of management cannot outperform the quality of planning and directing function as they all are interdependent. However a typical hierarchy between them do not exist in practical world as all these functions take place simultaneously and pervasively at all levels in an organization. The relationship between them can be depicted in the form of a cycle diagram which is an indication of non-stop continuity of these functions whereby one leads to another and so on.

ACTIVITY

Discuss in the class about the Need and Importance of Management and prepare an assignment on the same topic and submit it to the class teacher.

IN-TEXT QUESTIONS

1. Which of the following statements about management principles is correct?
 - a) Management principles are in a constant state of evolution.
 - b) Management principles have evolved.
 - c) Management principles have not evolved.
 - d) None of the preceding
2. Which of the following best describes Management Principles?
 - a) They assist managers in making decisions while performing managerial duties.
 - b) They represent a cause-and-effect relationship.
 - c) They serve as guidelines for future management functions.
 - d) All of the preceding



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3. The main reason why management principles do not provide ready-made solutions to all management problems is that _____.
 - a) They serve as broad guidelines for business-related issues.
 - b) The actual business issues are quite complex.
 - c) The actual business issues are extremely dynamic.
 - d) All of the preceding
4. The Principles of Management are useful in understanding the relationship between human and material resources in achieving organisational goals. Which of the following Management Principles is described in the preceding statement?
 - a) Behavioural
 - b) Relationships between causes and effects
 - c) Administration and resource utilisation
 - d) None
5. The Management Principles emphasise logical decision making and the avoidance of bias or prejudice at all costs. The preceding statement indicates that knowledge of these principles aids in .
 - a) Making scientific decisions
 - b) Providing useful information to managers
 - c) Meet the ever-changing needs of a business environment
 - d) All of the preceding

1.6 LEVELS OF MANAGEMENT

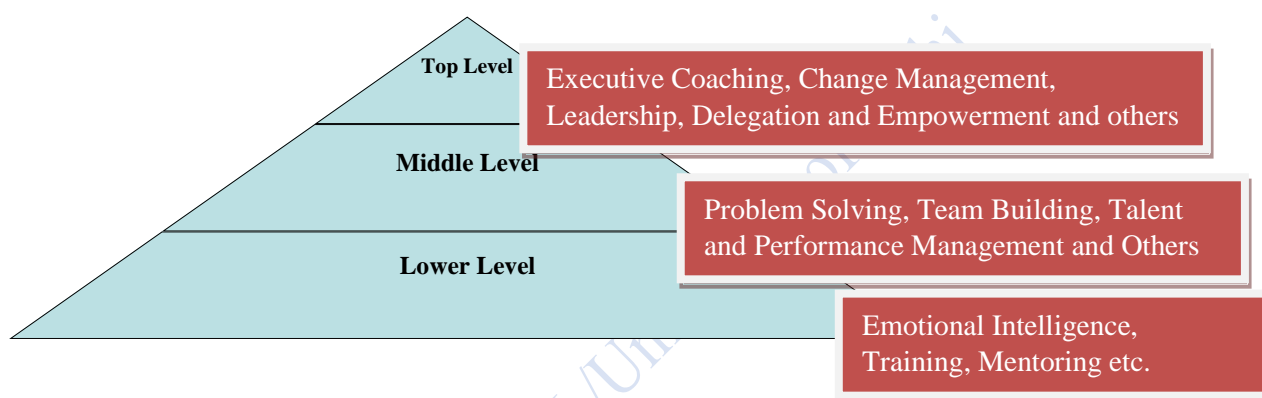
Management is pervasive. It exists in the whole organisation but operates at different levels. As studied, that there are various functions of management. These functions are done at various levels in varying degrees and are generally divided in various departments. The purpose is to divide these functions in a manner that best possible use of organisation's resources can be made. There are basically three levels of management and these levels are arranged in a hierarchy. At each level, there are managers carrying out various tasks of management. These are called Top, Middle and Lower levels of Management. These levels



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can be defined as lines of authority and responsibilities between various positions in an organisation. However, their work is not separate from each other. Despite being a demarcation, their functions are interrelated and interdependent on each other. There is no specific rule also of having three levels of management only. In large organisations, there can be more levels of management too. The only problem is that too many levels of management makes the working of an organisation complex. The different levels of the management are as under: -

Figure: Levels of Management



Source: Prepared by Content Writer

1.6.1 Top Level of Management:

This level of management consists of the owner (in case of sole proprietor) or partners (in case of partnership firm) or board of directors (in case of a company) of an organisation. This is the level of management with the maximum level of authority and power. They primarily are in-charge of defining the long-term goals and strategies of an organisation. The functions of top level of management are as follows:

- This level of management basically answers the questions related to existence and purpose of organisation.
- Their work mostly consists of planning and supervising. They design and set up the goals for the middle and lower level of management.
- Top Level managers are responsible for growth and survival of the business.
- They give structure to an organisation by dividing the authority and responsibility at various levels of management.
- An organisation's culture is defined and associated with ideologies and thought processes of top management.



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- They are in-charge of distributing the profits and remuneration to people of organisation and they are also the bearer of loss.
- Top level of management constitutes the face of an organisation. Dealing with the legal system, society, and the public at large is done by top level managers.
- They provide overall leadership to the organisation. Their dedication and commitment towards goals set examples of organisation as a whole.

1.6.2 Middle Level of Management:

This level consists of heads of various functional departments such as human resource manager, marketing manager etc. These managers act as mediators between the top and lower levels of management. Their function are as follows:

- They communicate the goals designed by top management to lower level management.
- They design the sub goals to be for lower level management.
- They supervise the working of lower level managers, guide them and provide directions to them.
- They are answerable to top management for their work as well as for the work of lower level managers.
- Their efficiency lies in how well they establish the coordination between the top and lower level management.
- They act as representatives of lower level management and workers for complaints and grievances in front of top management.

1.6.3 Lower Level of Management:

This level of management consists of managers, foremen and supervisors on factory level. These managers are in direct contact with factory workers or on the floor workers. They keep checks of time, speed, cost, wastage and regulate the working of workers. Their functions are as follows:

- They plan the daily and routine work to be done by workers and make sure that they are in line with the overall goal laid down by top management.
- They organise all the resources make necessary purchases and keep a count of the stock on daily basis.
- They handle and resolve the day to day conflict of workers and maintain discipline on the floor.
- They advise and assist workers during the work. They provide on the job training to the new workers.



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Thus, in an organisation there are three levels of management, whose functions are same i.e. to plan, organise, direct and control but are operative at varying intensities. For example: at top management, planning is done, mission and vision of organisation is set, plans for next 10 years are laid down and strategies are decided where as at lower level of management organising and use of resources is more emphasized. This hierarchy is necessary for role clarity and specialised functioning in an organisation.

1.7 IMPORTANCE OF MANAGEMENT

Management is an indispensable element of an organisation that sets out its goals, establishes the ways and means of achieving them, and undertakes planning, coordination and control. An organisation is a lost ship without a proper and effective management. Through its various activities, management facilitates the achievement of individuals, groups, organisation's objectives.

Some of the most successful companies such as Tata Consultancy Services Limited, Reliance Industries limited, Suzlon Wind Power Limited, Infosys Limited, Mahindra and Mahindra Limited, HCL Technologies Limited (just to name a few), across various sectors of the Indian economy owe their success to the effective management.

It is rightly said that it is the successful management that leads to a successful organisation and its sustained existence.

In this background, the importance of management in an organisation is discussed below:

- **Setting the objectives, mission and vision of the organisation-**The management of the organisation plays a key role in setting its mission and vision. In line with the mission, the management also chalks out the long-term and short-term objectives. Everyone in the organisation strives towards the achievement of those objectives.
- **Planning and control-** The management not only establishes the objectives of the organisation but also develops plans in order to achieve organisational success. Without proper management, the organisation cannot achieve its objectives. The decisions relating to what is to be done, how it will be done, who will do it are taken by the top management in consultation with the middle-level management. Proper planning, coordination and control are essential ingredients for the success of the organisation.
- **Efficient utilisation of resources-**Successful organisations are not those that have maximum amount of resources but those that are able to exploit the available



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resources or put them to use most effectively and efficiently. It is important that resources are allocated to their most productive use. Management plays a quintessential role in directing the resources- human resources, financial resources and physical resources to the most productive activity or business. Proper allocation of resources is imperative for earning a greater rate of return.

- Stability and Growth of the organisation-** The management is responsible for ensuring the stability and growth of the organisation. This is accomplished through proper coordination of various resources, effective allocation of them to profitable business opportunities. A vigilant and proactive top management is agile in identification of opportunities and threats in the external environment and taking appropriate steps to exploit the opportunities and minimize the threats. This is important for ensuring stability and growth of the organisation.
- Development of Individuals-** Management not only helps in achieving the organisational goals and objectives, but also makes an extremely important contribution towards the development of employees. Through leadership and motivation techniques, management helps individuals set career goals, develop required attributes- knowledge, skills and attitude to achieve them and thereby experience the fulfilment of personal goals. These days, successful organisations such as Microsoft, Google etc., encourage their employees to share and develop their business ideas and use organisations resources to commercialize their ideas- the concept of “*intrapreneurship*”.
- Contribution to Society-** The responsibility of the companies now extends beyond the maximisation of bottom line (profits), to triple bottom line, i.e., profits, people and planet. A good management understands its responsibility towards the society and engages in various developmental programmes. For example- Infosys Limited undertakes various social development projects through its “corporate social responsibility” trust called Infosys Foundation which was established in 1996. Some of the initiatives taken by the foundation includes restoration of water bodies in Karnataka, enabling the pursuit of access and excellence in sports through the GoSports Foundation, and disaster relief efforts in Tamil Nadu, Karnataka and Kerala. Another example is that of Mahindra and Mahindra Ltd. The company under the aegis of its project named “NanhiKalhi” provides educational support to underprivileged girls in India through an afterschool support programme.



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1.8 COORDINATION AS ESSENCE OF MANAGEMENT

Coordination is one of the important functions of the management that ensures that various people and groups in the organisation work in synchronization with each other. *Mooney and Reelay defined coordination as “the orderly arrangement of group efforts to provide unity of action in the pursuit of common goals”*. This function is important as when numerous individuals work in the organisation, they have different goals and objectives. In the absence of a unifying force, they would be working in their own directions and their effort may not culminate into the achievement of organisation’s objectives.

The management function of coordination, therefore, involves harmonization of various activities that are performed by various people and groups in an organisation in order to facilitate its working and success.

By unifying the activities of groups and individuals, coordination eliminates the duplication of effort, thereby eliminating wastages and facilitates saving of time, effort and cost.

The function of coordination is pervasive across the organisation. Every department has to organise the activities of its employees, coordinate with other departments of the organisation in order to achieve overall goals and objectives of the organisation. For instance, the production department has to coordinate various stages in the production process, and in doing so also has to coordinate with the purchase department, finance department, sales and marketing department etc.

1.8.1 Is Coordination the Essence of Management?

From the meaning and characteristics of coordination as discussed above, it is clear that the success of management lies in coordinating the efforts of individuals towards the achievement of organisational goals.

Through coordination, management strives to attain the benefits of synergy which suggests that the collective effort of a group is greater than the sum of its individual parts. A successful management attempts to coordinate activities involved in all the functions such as planning, organising, directing and staffing.

- **Role of coordination in planning:** As we know planning is an essential function of the management. A full proof plan is possible only when there is coordination and clear communication between different departments of the organisation. For instance, a plan to introduce a new product in the market requires the performance of various activities by different departments of the organisation such as research and development, finance, production, purchase, human resource, sales and marketing. In



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the absence of the proper coordination and communication between these departments, the plan is unlikely to be successful.

- **Coordination and organising:** In the simplest form, organising involves defining the role of each individual towards the achievement of organisational objectives and goals. Coordination lies at the centre of the organising function of the management. The role, duties of various individuals, groups and departments of the organisation needs to be coordinated with each other and proper authority- responsibility relationships are to be created between them.
- **Coordination and staffing:** The term staffing involves various activities related to acquisition, retaining and development of human resources in the organisation. Such activities are recruitment, selection, placement, training, development, promotion, compensation etc. The ultimate aim of all these activities is to have the right number and kind of people working on the right job at the right time. This requires seamless coordination between various activities involved in staffing. Without the proper coordination of staffing functions, it would not be possible for the organisation to achieve its objectives as human resources are the most important ingredient for organisation's success.
- **Coordination and directing:** Directing as a managerial function involve issuance of orders and instructions by the management to the employees. Through directing, a team leader or a departmental manager coordinates the tasks of their immediate subordinates. Hence, coordination is the essence of directing.

From the above discussion, it is clear that coordination lies at the centre of the various functions of the management. It enables the development of sound plans, carrying on effective organising, staffing and directing. Hence, it is right to say that ***“coordination is the essence of management”***.

ACTIVITY

Plan a class visit to the industrial area of your state and analyse the levels of management in the industries visited by you. Note down all the important points and draw the hierarchical structure of all the organisation. Prepare an assignment on it and submit it to the coordinator.



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IN-TEXT QUESTIONS

6. Management is critical for organisations that are growing.
 - a) Non-profit organisations
 - b) Organizations that provide services
 - c) Social organisations
 - d) All of the Above
7. Management consists of a number of interconnected functions, which include
 - a) Preparation b) Planning
 - c) Direction d) All of the Above
8. Management success ensures that
 - a) Objectives are met at the lowest possible cost.
 - b) Goals are met on time.
 - c) Both a and b are correct
 - d) Both a and c are incorrect
9. If management is deemed inadequate,
 - a) Effective but inefficient b) Efficient but ineffective
 - c) Both ineffective and inefficient d) All of the Above
10. Management translates the tasks to be completed into goals to be achieved and assigns the means to accomplish them. This statement is about
 - a) Work management b) People management
 - c) Operations management d) None of the Above

1.9 SUMMARY

Art is a wise combination of science and art; it proves the principles, but how these principles are applied is a matter of art. The way someone manages their team or entire workforce has a direct impact on the organization's growth and profitability. Understanding management's



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evolution can assist you in determining which management practices are best for your team and organisation. The management function of coordination involves harmonisation of various activities that are performed by various people and groups in an organisation. Coordination eliminates the duplication of effort, thereby eliminating wastages and facilitates saving of time, effort and cost. Every department has to organise the activities of its employees, coordinate with other departments of the organisation.

1.10 GLOSSARY

- **Controlling:** It is the process of comparing actual performance to the standards established by the company to ensure that all activities are carried out as planned, and if any deviations are discovered, corrective action must be taken. the social and informal sources of influence that you use to motivate others to take action Managers who are effective leaders will inspire their subordinates to work hard to achieve organisational goals.
- **Coordination:** Coordination is a management function that ensures that different departments and groups work in unison. As a result, employees, groups, and departments act in concert. It also promotes harmony in carrying out various tasks and activities in order to efficiently achieve the organization's goals.
- **Directing:** A method or technique of instructing, guiding, inspiring, counselling, supervising, and leading people to achieve organisational goals. It is a continuous managerial process that occurs throughout the organization's lifespan.
- **Management:** It is the act of accomplishing things through others and having them do so willingly.
- **Manager:** A manager is someone who is in charge of supervising and motivating employees as well as directing an organization's progress. A manager is someone who is in charge of customer service, handles customer complaints, and oversees and supervises customer service representatives.
- **Leading:** Leading entails using social and informal sources of influence to motivate others to take action. Managers who are effective leaders will inspire their subordinates to work hard to achieve organisational goals.
- **Planning:** What steps you need to take to achieve the goal, what changes and obstacles to expect, and how to use human resources and opportunities to achieve the desired outcome.
- **Staffing:** The ongoing process of locating, selecting, evaluating, and developing working relationships with current or prospective employees



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1.11 ANSWER TO IN-TEXT QUESTIONS

1. (a), Management principles are in a continuous state of evolution	6. (d), All of the above
2. (d), All of the Preceding	7. (d), All of the above
3. (d), All of the Preceding	8. (c), Both a & b are correct
4. (a), Behavioural	9. (c), Both ineffective and inefficient
5. (a), Making Scientific decisions	10. (a), Work Management

1.12 SELF-ASSESSMENT QUESTIONS

1. What do you understand by management? Discuss the evolution process of management theories.
2. Define the term management and explain its role in an organisation.
3. "Management is both art and science." Explain the nature of management in the light of the above statement. Also analyse the management as a profession.
4. Explain the various levels of management and their role in an organisation.
5. Explain the various functions of management. How they all are inter-related to each other.
6. "Co-ordination is the essence of management". Explain the meaning of the term coordination and explain why is it called as the essence of management?

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LESSON 2

MANAGEMENT: CLASSICAL SCHOOL OF THOUGHT

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STRUCTURE

- 2.1 Learning Objectives
- 2.2 Introduction
- 2.3 Classical Approach
- 2.4 Scientific Management Approach
 - 2.4.1 Strengths of Taylor's Scientific Approach to Management
 - 2.4.2 Demerits of Taylor's Scientific Approach to Management
- 2.5 Principles of Management
 - 2.5.1 Merits of Fayol's Principles of Management
 - 2.5.2 De-Merits of Fayol's Principles of Management
- 2.6 Taylor Vs Fayol
- 2.7 Max Weber's Bureaucracy Theory
 - 2.7.1 Principles of Max Weber's Bureaucracy Theory
 - 2.7.2 Advantages of Max Weber's Bureaucracy Theory
 - 2.7.3 Criticism of Max Weber's Bureaucracy Theory
 - 2.7.4 Suitability of Weber's Approach to Management
- 2.8 Analysis of Classical School of Thought
- 2.9 Summary
- 2.10 Glossary
- 2.11 Answers to In-Text Questions
- 2.12 Self-Assessment Questions



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2.13 References

2.14 Suggested Readings

2.1 LEARNING OBJECTIVES

After studying this chapter students will be able to understand: -

- Concept of the evolution of management
- Different schools of management
- Classical school of thought in management
- Taylor's principles of scientific management-its merits and demerits
- Fayol's principles of management-its merits and demerits
- The difference between Taylor and Fayol's theories of management
- Weber's bureaucracy theory-its merits and demerits
- A critical analysis of the classical school of thought in management

2.2 INTRODUCTION

There are three phases in which the journey of management is classified. They are also called as schools of management or approaches to management. They are different yet related to each other as they all try to define and interpret their meaning in their way. Each school of management derive its meaning based on situations prevalent at that time. They all have contributed to the vast subject matter of management. They are till date applicable making management a comprehensive and dynamic discipline. The three schools of thought are:

- Classical Approach
- Neo-classical/ human relations approach
- Modern approaches to management

Here, we are going to discuss the first school of thought i.e. classical approach to management.

2.3 CLASSICAL APPROACH

It is the first school of thought in management that emerged at the time of the industrial revolution. It is also known as traditional or conservative school of thought in management. The approach is characterised by formal organisations, structured relationships, authority and



power dominance, closed organisation systems, hierarchy, scientific principles and mechanistic style of working and so on. The classical thinkers include work of F.W. Taylor, Henry Fayol, Max Weber, Luther Gullick, Lyndall Urwick, James D. Mooney and others. The three most important contributors in this school of thought are:

- F.W. Taylor
- Henry Fayol and
- Max Weber

2.4 SCIENTIFIC MANAGEMENT APPROACH

FW Taylor is considered as the father of scientific management. He published a book in 1911 with the name “The Principles of Scientific Management” and explained how work, if managed scientifically can lead to improved productivity. Observing the inefficiencies while working in steel industry, he stated that by simplifying the task and doing them in a scientific and systematic way, the inefficiencies can be removed. In order to bring drastic improvements in productivity he stated the following principles and techniques of management:

- a) Science not rule of thumb
 - b) Differential Piece wage system
 - c) Division of labour-functional foremanship
 - d) Standardisation and simplification
 - e) Mental revolution
- a) **Science not rule of thumb:** Taylor stated that, half of the time in an organisation gets wasted in deciding the course of action and that course of action is decided on the basis of intuitions and feelings of managers which leads to completion of work but in a non-optimal way. He said that this rule of thumb needs to be replaced through scientific thinking and doing. He further stated that there are many ways to achieve a goal but there is only one “best” way of doing it and in order to explore that best way, an organisation need experimentation. Through continuous trial and errors, it can find out the best way and hence the best way will ultimately lead to most efficient results. For conducting experiments, an organisation need data collection, analysis and investigation. On the basis of this principle, Taylor conducted various studies as part of the experiments which are also popularly known as “Techniques of Scientific Management”. These are explained as follows:



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- **Method study:** This experiment involved listing down different methods through which a task can be accomplished and identifying the best method to do it. The best method is one with the least cost and maximum output. The method so identified goes into charts and techniques of production.
 - **Motion Study:** under this experiment, motions of machine and workers are noted. Once all motions are listed down, they are categorised into productive and unproductive motions. The objective is to eliminate the time and energy wasted in unproductive motions. For example: if printing machine is located on the second floor and typist need to go again and again from the first floor to the second floor to get the printouts, than this unwanted expense of time and energy can be eliminated by relocating the typist to the second floor.
 - **Time study:** Under this experiment, the idea is to decide the standard time of completion for all activities. The standard time is decided on the basis of the average time taken by workers for the same task in repeated experiments. The objective of the study is to optimise the usage of available work hours.
 - **Fatigue Study:** under this study, the duration and frequency of worker's rest intervals are decided. The objective is to maintain the efficiency pace of workers by giving them breaks and pauses during the work. The idea here is to identify the right balance between the number of breaks and the efficiency of workers. As too many breaks may break the continuity and rhythm of work and too less number of breaks may make the workers fatigue and inefficient.
- b) **Differential Piece Wage System:** Taylor emphasized the technique of paying different wage rates to efficient and inefficient workers. According to him, the standard output for a day should be set and the worker who produces more than the standard output should be given a higher rate per piece and the worker who has produced less than the standard output should be given a lower rate per piece. It can be understood with the help of a simple example:
- Let's say the standard output for a day is 100 units. Worker 'A' produced an output of 80 units and workers 'B' produced 150 units. So according to Taylor, worker 'A' is an inefficient worker and worker 'B' is an efficient worker. Therefore, Worker 'A' will be paid @20 per piece whereas worker 'B' will be paid @30 per piece.
- This method of paying different rates to workers based on their efficiency level will motivate them to produce more and hence work efficiently. Hence, it is one of the popular scientific management technique.
- c) **Division of work amongst managers and workers:** Second important principles of scientific management is division of labour. Taylor stated that, if we assign the completion of work to a single person, it will be complex for him and may take long



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hours to complete but in case the work is divided into smaller tasks and each task is assigned to a worker who is good at doing that-it will lead to quick and efficient completion of work. He stated that there should be a clear distinction between the work of top management and lower-level workers. Top management should be the one to lay down plans, objectives and instructions whereas the lower level workers should be in the execution only. He proposed the technique of Functional foremanship in which work is divided into eight workers out of which four are engaged in planning and the rest of the four are engaged in the execution of work.

So as can be seen in the diagram above, there are eight bosses to give orders and instructions to factory level workers. However, the bosses under the planning department are the one to lay down short-term plans, rules, and procedures whereas production officers are immediate supervisors.

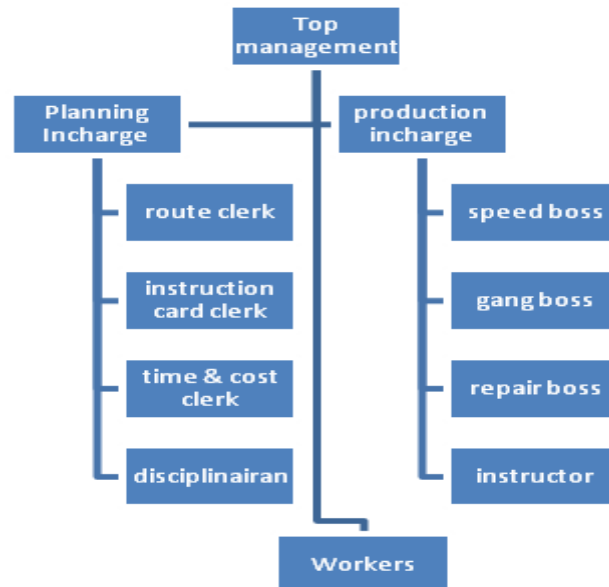
The work of each of them is described as follows:

- **Route Clerk:** He specifies the course of action to production i.e. the route towards the production. He clearly lays down activities to be undertaken and the sequence in which they will be performed.
- **Instruction Card Clerk:** He is the one who lays down rules and policies to be followed while working. He provides a set of instructions to be followed for smooth operations.
- **Time and Cost Clerk:** As the name clearly indicates, they are the one in charge of specifying the standards for time (starting and completing time) and cost (minimum and maximum cost) for each job.
- **Disciplinarian:** He is the one to ensure that work is being done in a sincere and disciplined way. He is responsible for ensuring coordination in activities.
- **Speed boss:** He is the one to ensure that work is done as per the schedule.
- **Gang Boss:** He is the one who keeps tools and machines ready for use for workers.
- **Repair Boss:** He ensures that machines are working fine and corrects any breakage or defects that may arise.
- **Inspector:** He checks the quality of the finished goods so produced.

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Figure: Division of Work Amongst Managers and Workers



Source: Businessjargons.com

- d) **Standardisation and Simplification:** In order to improve productivity, Taylor emphasized standardisation and simplification of work. Standardisation is about designing standards for each and every task. The standards can be decided on the basis of various experiments and studies. These standards work as a benchmark against which the actual performance is measured. At the same time, Taylor emphasis upon the simplification of work i.e. dividing the complex task into a simpler set of activities for which an individual can be trained on the job itself. Simplification of task automatically leads to improvement in productivity.
- e) **Mental Revolution:** In this principle, Taylor emphasis upon a change in the outlook of top management and lower-level workers towards each other. The conflict between top management and workers is usually because of the preconceived notions they have for each other. Top-level management being in charge of planning assumes that lower-level workers do not want to work, are lazy, and will do wastage in absence of constant supervision whereas factory workers assume that top management has exploitative nature. They want to pay the minimum and get maximum out of workers. This mental outlook towards each other leads to conflict between top-level management and workers which in extreme situations may also lead to deadlock and breakdown of work. Taylor suggested that there should be harmonious relationships amongst people working in the organisation. As strikes are situations of loss for both sides. In order to maintain harmonious relations, both the sides need to change their



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outlook towards each other. Both sides should have one goal in mind and that is organisational goals of productivity. Therefore, a change in attitude and thinking towards each other will lead to an overall positive environment at the workplace and hence fewer conflicts and more productivity.

2.4.1 Strengths of Taylor's Scientific Approach to Management:

The strengths of scientific approach of management are as under: -

- Taylor suggested experimentation and studies as the basis of all decision making in management. A scientific approach to management makes it universal in acceptability and objective in its results thereby avoiding the scope of human biases and prejudices.
- Taylor studied all the underlying causes of inefficiencies such as complex work, overburdening a person with a lot of work and so on. Taylor's principles such as division of work and labour, simplification and standardization helped in improving the productivity of the organisation.
- Workers could have earned more wages due to the piecemeal wage system introduced by Taylor. As he linked production directly with the wages so it served the personal and organisational goals.
- Taylor approach to management improves the environment in an organisation as it leads to the creation of a harmonious relationship between top management and lower-level workers.

2.4.2 Demerits of Taylor's Scientific Approach to Management:

The demerits of scientific approach of management are as follows: -

- Taylor replaced the rule of thumb with scientific thinking but it made the working of organisation very complex. Lots of time and energy used to get wasted in doing experiments and conducting studies.
- The Taylor's approach promoted rigidity in working of organisation as too much emphasis is given on procedure and process already laid down.
- It treated the organisation as a closed system as it did not take into account the impact of external factors such as political and economic factors on the working of the organisation.
- Taylor completely ignored the importance of human resources in the organisation. He treated them as machines and ignored the human factors such as emotions, friendships and ambitions. These factors affect the productivity of human resources but they were completely ignored by Taylor's approach.
- Taylor approach to management is not applicable in the contemporary world of globalisation and competition.



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2.5 PRINCIPLES OF MANAGEMENT

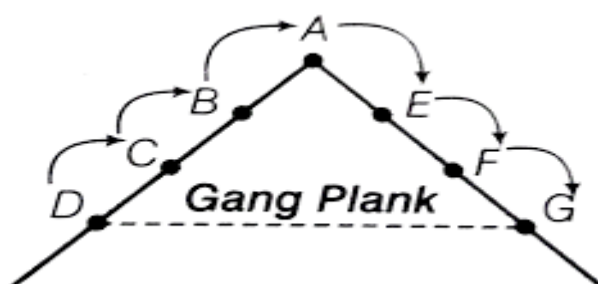
Henry Fayol, the father of modern scientific management theory, a French coal mine engineer gave the fourteen principles of management and also defined management in terms of various functions (managerial and technical functions). These fourteen principles proposed by him went on to become the most fundamental truth of management. They brought a revolution in the industrial working and till date considered to be the most comprehensive principles of management. These principles are defined as follows:

- **Division of Work:** Under this principle, Fayol suggested that the work should be segregated or divided amongst all the workers. Proper division of work goes a long way in improving the productivity, efficiency, and quality of work. It leads to improvement in the employees' skills and has a positive impact on the speed and accuracy of their work.
- **Authority and Responsibility:** Authority and responsibility are the two core essences of management that are related to each other. Authority means having the power to give orders or take decisions required for the performance of the job, while responsibility implies accountability. Under this principle, Fayol suggested that proper authority should be given to the management to get the work done from their subordinates, and making them accountable for such work done under their supervision or direction. In other words, an individual who has been given the authority to carry out a job and takes all decisions related to it should also be held responsible for its performance and quality.
- **Discipline:** Discipline is the core principle for successful accomplishment of any project and achievement of personal and group goals. All the members of a group or an organisation should be well-disciplined. Management should strive to establish a sense of discipline and obedience amongst all the employees. This helps in the smooth conduct of the daily business operation.
- **Unity of Command:** The principle of unity of command suggests that an employee should have only one boss who he takes direction (or orders) from and who he is supposed to report to in the organisation. There should be no ambiguity with respect to the superior-subordinate relationship. Ambiguity creates confusion in the minds of employees, creates chaos and impedes the flow of work.
- **Unity of Direction:** The principle of unity of direction suggests that all employees working in an organisation should have one common goal and motive towards which



they should direct their efforts. It is an important prerequisite for the achievement of a company's objectives.

- **Subordination of Individual Interest to General Interest:** Under this principle, Fayol suggested that the interest of the group should always supersede that of an individual. In other words, personal interests should be subordinate to that of the group that an individual is associated with. In scenarios, where the personal and group goals differ, it is the responsibility of the management to reconcile them.
- **Remuneration:** Remuneration plays an extremely pertinent role in motivating the employees. Remuneration should be fair and in proportion to the efforts involved in the performance of the job.
- **Centralization:** Centralization refers to the extent to which the authority and decision-making power are dispersed or concentrated in the organisation. Under this principle, Henri Fayol suggested that management should strive to maintain a balance between the division of power and hierarchy. Further, the extent of dispersion or concentration depends on the type of organisation and also on the type of decision under consideration.
- **Scalar Chain:** The principle of scalar chain suggests a clear chain of communication between employees and their superiors such that every employee is clear about his or her immediate senior. It is suggested that the chain of command should always be followed except in case of exceptional circumstances where the chain may be bypassed, with the consent of all the parties. In this situation, Fayol stated the arrangement of Gang plank. Gang plank means to bridge the gap between two levels through direct communication. Fayol stated that in case of emergencies where quick decision making is required, two subordinates at the same level can directly communicate with each other without following the scalar chain.



For example: In general, If D wants to communicate to G, he has to follow the scalar chain principle i.e. the communication chain will be D to C to B to A to E to F to G. However, in



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case of emergency, the Gang Plank can be followed and direct communication between D to G is allowed as an exception.

- **Order:** This relates to maintaining a proper and well-defined work-order in the organisation. A well-defined work order implies the systematic arrangement of things and people in the organisation.
- **Equity:** The principle of equity establishes the equality of treatment of all the employees working at all the levels in the organisation. The management should create a non-discriminatory workplace for all the employees.
- **Stability:** Under this principle, it is suggested that employees are able to perform at their best potential when they have job security in mind. Low rate of labour turnover is also beneficial for the company. It results in experienced workforce and savings in time and cost involved in hiring and training new employees.
- **Initiative:** The management should encourage their staff to take initiatives in the organisation. This increases their interest in their work thereby resulting in better job performance.
- **Esprit de Corps:** Esprit de Corps means “unity is strength”. This principle emphasizes the importance of teamwork. It is the responsibility of the management to create a work environment where individuals work together and support each other.

The above discussed 14 principles of management are applied in managing an organisation. They are extremely useful in carrying out the functions of the management such as planning, organising, control, coordination, decision making etc.

Equity vs Equality?

Understanding the difference

Let's say if you are an MBA receiving a salary of Rs. 50,000 per month with an experience of two years on the job and on the other hand is your friend who has just completed his graduation and drawing the same salary as you are in the same organisation. In this case the organisation is following the principle of Equality but violating the principles of Equity which lead to demotivation in you.



2.5.1 Merits of Fayol's Principles of Management:

The following are the merits of Fayol's principles: -

- Fayol explained the general guidelines of management in the form of principles. Unlike Taylor's experiments and studies, his principles were not rigid in their application.
- Fayol principles are universally applicable. They can be easily adopted by all types of organisations in whichever form or size they are.
- In his principles, Fayol emphasized the role of unity of command to avoid the situation of conflict and chaos which lead to clear superior-subordinate relationships in the organisation.
- Fayol emphasized the importance of harmonious relationships in an organisation through the principle of team spirit.
- Fayol's principles of stability of tenure gives a sense of security in the employees and give them a sense of belongingness.

2.5.2 De-merits of Fayol's Principles of Management:

- Fayol's principles are not empirically tested. They are not perfect as the principles of science are. They are mere guidelines and do not guarantee any sort of success. Therefore, their applicability demands managerial experience and judgement.
- Fayol's principles are applicable to top management rather than factory level workers. Therefore, they are not applicable to a factory set up.
- Fayol emphasis upon the centralization of authority which may lead to overburdening of top management and hence lack of efficiency. It may give rise to an autocratic style of management in an organisation.
- Just like Taylor, Fayol principles of management also treat organisation as a closed system focusing only on internal management. They treat management as a static concept.
- Fayol also focused on the financial needs of workers and it also ignored the personal growth and development factors of an individual as a motivator. Therefore, in his principles, he also treats human beings as machines.

2.6 TAYLOR Vs FAYOL

Both Taylor and Fayol emphasized upon scientific approach to management. They both believed in the principles of division of labour, cordial relation amongst top management and lower level workers, priority to organisation's interest, hierarchy and mechanistic style of

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working. However, there were certain key places where they both differed from each other. These points are discussed as follows:

- **Unity of Command vs. Functional Foremanship:** The first area is related to the number of supervisors over a subordinate. Taylor said that there should be eight bosses (four from the planning department and four from the production department) to give direction and instruction to a worker. On the other hand, Fayol suggested that there should be only one boss over the head of a subordinate in order to avoid the situation of conflict and chaos.
- **Differential Piece Wage System vs. Principle of Equity:** Second is, Taylor emphasized upon differentiating and acknowledging the efficient workers from inefficient one through differential piece wage system i.e. by paying more to efficient workers. Fayol, on the other hand, emphasized an equitable distribution of remuneration i.e. pay as per the position and skills rather than based on efficiency.
- **Experimentation vs Experience:** Taylor's proposed techniques of scientific management on the basis of results of various studies. He suggested that before taking any decision, there should be an experiment to decide the best way of doing that, leaving no scope of intuition and personal biases. On the other hand, all the fourteen principles of management as proposed by Fayol are based on his experiences.
- **Techniques vs. Principles:** Along with proposing the principles of management, Taylor specified various techniques such as functional foremanship, simplification and standardization, differential piece wage system but Fayol gave only the principles which are mere guidelines of conduct for a manager.
- **Factory level vs Top Management:** Taylor's Principles and techniques are designed keeping in mind the factory level workers. They are suitable for organisations composed of unskilled workers. On the other hand, Fayol's principles are administrative in nature. They specify guidelines for the conduct of top management. So, they are more suitable for organisations with a majority of skilled workers.
- **Incentives:** Both Taylor and Fayol emphasised upon the importance of motivation for workers but they stressed upon different financial motivators. Taylor considered the opportunity of earning more based on performance as a motivator of workers whereas Fayol considered the stability of tenure as a motivator of workers.



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ACTIVITY

Discuss in the class about the contribution of Taylor and Fayol in management.

IN-TEXT QUESTIONS

1. Henry Fayol and F. W. Taylor belongs to _____ school of management.
2. While following management principles, one cannot neglect _____ because business have social and ethical accountability towards community.
3. _____ was the first to identify four management principles.
4. The management principles helps manager to take accurate decisions while undertaking functions of management (True/False).
5. In the words of Taylor “_____” means knowing exactly what manager want workers to perform and looking that they complete it in an effective and economic manner.

2.7 MAX WEBER’S BUREAUCRACY THEORY

Max Weber (1864-1920), was a German Sociologist, who proposed the theory of bureaucracy to the field of management. A bureaucratic organisation is described as being highly structured, impersonal, formalized, having a clear line of authority and strict rules, procedures, and regulations for controlling each business activity. Max Weber believed that such a structure was the most rational, effective and efficient way of managing an organisation and achieve its ultimate objectives. The principles of bureaucracy theory of management leave no scope for biasedness, favouritism, and randomness in any activity of the organisation and have been widely used in managing government and military organisations.

2.7.1 Principles of Max Weber’s Bureaucracy Theory

The six principles of the bureaucracy theory of management are discussed below:



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- **Task specialization (division of labour):** Weber suggested that the work in the organisation should be divided according to the specialization. This principle implies that the division and allocation of the work should be made according to the skills and competences of employees. According to this theory of management, an ideal organisation would be the one where every employee is performing a task that he or she is skilled at or is most competent to perform. There should be a clear delineation of tasks amongst the workers and departments such that every employee knows what are his or her roles and responsibilities in the organisation. When the tasks are divided according to the specialization, the quality of the output and productivity of workers increases.
- **Formal Hierarchy Structure:** A formal hierarchy structure is the trademark of a bureaucratic organisation. Under this principle, Weber suggested that managers should be organised into layers (or levels) such that the top-most layer has the greatest power and decision-making authority and the lowest layer has the minimum power. Each layer of the management is responsible for its own performance, has to perform the supervisory role to the layer immediately below it, and it controlled and directed by the layer above it. Such a formal hierarchy structure provides clarity in the minds of employees with respect to who he or she has to receive the order from and report to. A formal hierarchical structure is the basis of centralized organisations- where planning and decision-making authority is vested in only a few people who comprise the topmost layer.
- **Formal Selection:** Under this principle, Weber suggested that the process of recruitment and selection should be based on considerations of “merit”. Employees should be selected and promoted on the basis of their knowledge, technical skills and competencies which they acquire through formal education, training and experience. It was also suggested that the compensation should be linked to the position of the employee and the employment contract should be drawn strictly in accordance with the organisation’s rules and regulations. This results in a competent and motivated workforce and an increase in the organisation’s productivity.
- **Impersonal Relationships:** This principle suggests that the relationship between employees should be strictly professional in nature. The existence of formal professional relationships facilitates rational and logical decision-making. It discourages the incidences of biasedness, favouritism or nepotism that could hinder the achievement of the organisation’s goals and bear negatively on the motivation and incentive of the employees.



- **Rules and Requirements:** Weber advocated the existence of formal rules and regulations, and their enforcement mechanism in an ideal organisation. It is the responsibility of the management to introduce and enforce rules and regulations for every business activity and ensure the communication of the same throughout the organisation through official documents. A formal set of written rules and requirements is vital for ensuring uniformity of action. It provides a mechanism for the management to control and coordinate employees' activities. Rules and requirements also as a guide to the employees to adopt appropriate work behaviour and modify it in case of deviance.
- **Advancements based on achievement:** This principle implies that the managerial decisions relating to promotion should be based purely on the performance of the employees. This motivates employees to give their best to the organisation. Through recognizing good work performance, an ideal organisation also encourages its employees to become career-oriented.

2.7.2 Advantages of Max Weber's Bureaucracy Theory:

Weber's Bureaucracy Theory of Management gained widespread acceptance in various large business entities, government organisations and political associations during the 1900s. The advantages of the application of Weber's principles are discussed below:

- The division of work on the basis of employees' technical skills, knowledge and expertise results into job specialization in the organisation. The benefits of job specialization are seen in the form of increased efficiency and productivity.
- Weber advocated that recruitment decisions should be made by matching the job requirements with the jobholder's competences. This approach is beneficial as it ensures that the right person is placed on the right job in the organisation.
- The presence of a formal set of rules and regulations and a formal hierarchy structure promotes an environment of predictability and stability in the organisation.
- Since every business activity is guided by a defined set of rules and requirements, less time is wasted on deliberations.
- The application of Weber's principles removes any role ambiguity as the roles and responsibilities of every employee and department are clearly laid out.

2.7.3 Criticism of Max Weber's Bureaucracy Theory:

However, despite its advantages, the bureaucracy theory of management is criticized on the following ground:



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- The biggest criticism of the bureaucracy theory of management is that the formal hierarchy and the excessive centralization of decision-making power with the top management result into excessive delays and make the organisation rigid.
- The approach supports only one-way communication from the top to lower levels. While this might be suitable for important managerial decisions, some operational level decisions can be improved by taking inputs from the operational staff (lower-level employees).
- Excessive emphasis on rules and requirements leaves no room for creativity and employees initiative.
- This approach does not recognize the existence of informal groups and relationships. Informal groups play an extremely important role in modern business enterprises.

2.7.4 Suitability of Weber's Approach to Management:

Given its nature, Weber's approach to management is relevant for government organisations. Since most business enterprises today exist in a highly dynamic business environment, the application of these principles would hinder the flexibility and quick decision making required for survival and growth.

2.8 ANALYSIS OF CLASSICAL SCHOOL OF THOUGHT

As can be seen from the discussion above, the three theories are pioneer work in the area of management. These theories mark the beginning of a scientific thought process in management. However, along with being scientific, these theories are quite rigid and mechanistic in their approach. They completely ignored the key resource of the organisation that is human resources. They narrowed down the needs of a human being to financial needs only. They ignore the informal relations that emerge in an organisation. Most importantly they failed to throw light on the effect of the external environment of an organisation such as its customers, economic conditions, government, laws, and competition and so on. Due to these reasons, these theories failed to find their place in the current globalised world. They fail to address issues such as workforce diversity, strategic planning, and international pressure. These shortcomings in the classical school of thought lead to the emergence of neo-classical and contemporary thinkers. However, the scientific approach to management still has limited applicability. They are the most suitable style of management for certain types of businesses such as factories set up with unskilled workers, contractual workers, and so on.



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IMPORTANT NOTE

Do you know that all the schools of management one assumption in common!

They all assume organisations to be of rich scale and large size producing multiple products and having wide area of operations. Can you apply these theories on a small retailing shop nearby your house?

ACTIVITY

Ask your teacher to organise a special lecture on the topic, “Contribution of Weber in management” and “Importance of Principles of Management for Managerial Personnel.”

IN-TEXT QUESTIONS

6. The general theory of administration is given by Max Weber. (True/False)
7. Principles of management are formed by _____ and experimentation.
8. The theory of bureaucracy is propounded by _____.
9. _____, Hierarchy and _____ are the major characteristics of the ideal-type bureaucracy as given by Max Weber.
10. _____ is a writer who is mainly associated with classical management theory.

2.9 SUMMARY

The management journey is divided into three stages. They are distinct yet related in that they all attempt to define and interpret their meaning in their own unique way. The three schools of thought are as follows: classical approach, neoclassical/human relations approach and



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modern management approaches. The three theories of management are pioneer work in the area of management. These theories mark the beginning of a scientific thought process in management. They are suitable for certain types of businesses such as factories set up with unskilled workers. However, they fail to address issues such as workforce diversity, strategic planning, and international pressure.

2.10 GLOSSARY

- **Classical Management Theory:** It is a management style that emphasises hierarchy, specialised roles, and single leadership for maximum workplace efficiency.
- **Human Behaviour Approach:** It is the result of ideas developed by behavioural scientists who view organisations as a collection of people working toward specific goals. Because management entails getting things done through people, management studies must centre on human behaviour.
- **Management:** Management is the administration of an organisation, whether a business, a non-profit, or a government body. It is the art and science of managing a company's resources.
- **Manager:** A manager is someone who is in charge of supervising and motivating employees as well as directing an organization's progress. A manager is someone who is in charge of customer service, handles customer complaints, and oversees and supervises customer service representatives.
- **Modern Management Approach:** According to modern management theory, employees work for a variety of reasons, including achieving satisfaction, happiness, and desired lifestyles. Managers can use this theory to understand their employees' behaviours and needs so that they can implement strategies to meet those needs and support their skill development over time.
- **Neo-classical Theory:** It is a broader version of the classical theory that incorporates behavioural science in business management. According to this theory, the organisation is a social system whose performance is influenced by human efforts.
- **Piece Wage System:** Piece rate pay occurs when employees are paid by the unit performed (e.g., the number of chairs or bulbs produced) rather than the time spent on the job.
- **Principles of Management:** Management principles are broad and general guidelines for decision making and behaviour. For instance, honesty, sincerity, work division, discipline, and so on.



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- **Scientific Management:** Frederick W. Taylor advocated scientific management, also known as Taylorism, as a management theory. It employs scientific methods to determine the most efficient manufacturing process in order to boost productivity.

2.11 ANSWER TO IN-TEXT QUESTIONS

1. Classical School	6. False, it is the expression of Henry Fayol
2. Values	7. Observation
3. Henry Fayol	8. Max Weber
4. True	9. Specialisation and Impersonality
5. Scientific Management	10. Henry Fayol

2.12 SELF-ASSESSMENT QUESTIONS

1. What is the classical school of thought in management? Discuss the work of one classical thinker that impressed you the most.
2. Describe the concept of functional Foremanship? How does this technique help in improving the productivity of workers?
3. Critically analyse the theory of scientific management as proposed by Taylor. Explain its application and relevance in today's business environment.
4. Explain in detail the fourteen principles of management.
5. Write short notes on:
 - Differential Piece wage system
 - Espirit de corps
 - Principle of Division of labour
 - Simplification and standardisation
 - Scalar chain and Gang plank
6. Explain the weber's theory of Bureaucracy. Explain its merits and demerits in detail.
7. Make a comparison between Fayol and Taylor's principles of management. List down in detail the similarities and differences between them.



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LESSON 3

MANAGEMENT: NEO-CLASSICAL AND MODERN SCHOOL OF THOUGHT

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STRUCTURE

- 3.1 Learning Objectives
- 3.2 Introduction
- 3.3 Classical Approach
- 3.4 Scientific Management Approach
 - 3.4.1 Strengths of Taylor's Scientific Approach to Management
 - 3.4.2 Demerits of Taylor's Scientific Approach to Management
- 3.5 Principles of Management
 - 3.5.1 Merits of Fayol's Principles of Management
 - 3.5.2 De-Merits of Fayol's Principles of Management
- 3.6 Taylor Vs Fayol
- 3.7 Max Weber's Bureaucracy Theory
 - 3.7.1 Principles of Max Weber's Bureaucracy Theory
 - 3.7.2 Advantages of Max Weber's Bureaucracy Theory
 - 3.7.3 Criticism of Max Weber's Bureaucracy Theory
 - 3.7.4 Suitability of Weber's Approach to Management
- 3.8 Analysis of Classical School of Thought
- 3.9 Summary
- 3.10 Glossary
- 3.11 Answers to In-Text Questions
- 3.12 Self-Assessment Questions
- 3.13 References



3.14 Suggested Readings

3.1 LEARNING OBJECTIVES

After studying this chapter students will be able to understand: -

- Modern schools of management
- System theory of management, its merits and demerits
- Contingency theory of management, its merits and demerits
- A comparison between the three schools of management

3.2 BEHAVIOURAL AND HUMAN RELATIONS APPROACH IN MANAGEMENT

The criticisms of the classical school of thought on management gave rise to the behavioural and human relations approach to management. The principles of management and the scientific management approach propounded by two classical management thinkers- Henry Fayol and F.W. Taylor respectively- are severely criticized by various behavioural scientists for being insensitive to the human side of the organization. The classical school of thought considered an organisation as a techno-economic system and adopted a mechanistic view of the workers. It is based on the assumptions that workers are just economic beings who are devoid of any feelings, emotions, and other social-psychological needs.

In contrast to such a mechanistic approach, the behavioural and human relations approach to management is based on the recognition that organisations have a human side too, i.e., a business organisation is a psycho-social system. The workers are not just economic beings who are motivated by economic incentives only, but they are social beings having diverse socio-psychological needs, such as recognition, respect, sense of belongingness, importance, freedom to communicate and take decisions etc., which they seek to fulfil.

This school of thought draws contributions from various sociologists and psychologists such as Abraham Maslow, Chester Barnard, Renesis Likert, Douglas McGregor, Frederick Herzberg, George Elton Mayo, to name a few. These contributions were subdivided by some writers into the “Human Relations” approach and the “Human Behaviour” approach.

The most important contribution to the Human Relations approach to management was made by George Elton Mayo (known as ‘Father of Human Relations Movement’) and his associates from Harvard Business School, through the results of the experiments they conducted on the workers of the Hawthorne plant of the Western General Electric Company, Chicago, USA. The core idea underlying the human relations approach to management is that



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workers do not only have economic needs but social and psychological needs also that needs to be satisfied to motivate them. The experiments, popularly known as Hawthorne Experiments, are discussed in detail in the next section.

The “Human Behaviour” approach to management is popularized in the works of Douglas McGregor, Chester Barnard, Kurt Lewin and others. These scholars modified the human relations approach as propounded by Elton Mayo. They argued that the human side of the organisation is an interactive subsystem of the total organisational system. The “Human Behavioural” approach to management emphasizes the synchronisation of group goals within the broader framework of management.

3.3 THE HUMAN RELATIONS APPROACH : HAWTHORNE EXPERIMENTS

The human relations approach to management was propounded by an Australian psychologist and organizational theorist, George Elton Mayo (1880-1949) in the 1920s. This approach, in contrast to Taylor’s Scientific Management approach that considered workers as a machine and merely a tool to get work done, recognized the social and psychological needs of the workers. The human relations approach establishes that management is the study of behaviour of people at the workplace.

The approach has its origin in the series of experiments (Hawthorne experiments) conducted by Professor Elton Mayo and his associate Fritz Roethlisberger of Harvard Business School in the 1920s and 1930s. The subject of their experiments were the workers at the Hawthorne Plant of Western Electric Company in Chicago, USA.

They conducted a number of experiments in over different time phases to understand the workplace factors that led to an improvement in workers productivity and efficiency. Some of the major phases of Hawthorne experiments are elaborated below-

3.3.1 Illumination Experiments:

Illumination experiments, undertaken during 1924-1927, were the first phase in the series of Hawthorne experiments. They were conducted to determine the effect of varying level of illumination, i.e., the amount of lighting, on the productivity of the workers. It was assumed that there is a positive relationship between the amount of lighting and workers’ productivity, i.e., when the amount of lighting increase, the productivity will increase.

To conduct this experiment, workers were divided into two groups. The group which was exposed to varying levels of illumination (or lighting) was called experimental group and the



second group which continued to work under the same level of illumination (or light) was called the control group.

The level of illumination was changed (increased and decreased) in the experimental group to observe if this leads to a change in productivity as compared to the control group. It was found that when the lighting was increased in the experimental group, the productivity of both groups was increasing. When the lighting was reduced in the experimental group, the productivity of both the groups continued to increase. It was only when the lighting was reduced to below the moonlight level which was much below the normal level that the productivity of the experimental group decreased as compared to the control group. It was therefore concluded that the intensity of illumination or the amount of light at the workplace does not affect the workers' productivity. This suggested that there was something else, other than the physical factors at the workplace that influenced the productivity of workers.

3.3.2 Relay Assembly Test Room Experiment:

This was the second phase of Hawthorne experiments conducted during 1927-1928. Under this, a homogeneous group of workers was created and several changes were introduced in the work environment such as-

- Shorter working hours- reducing an hour of work on a weekday; working 5 days a week rather than 6 days;
- Proper rest periods- two 10 minutes rest periods during the day;
- Improved physical conditions;
- Friendly supervision- non-directive supervision; encouraging workers to share their concerns or feedback with their supervisors
- Free social interaction among the group members; discussing the changes with the workers before implementing them

As these changes were introduced, positive changes were seen in workers' productivity and morale. The rate of absenteeism came down and there was less need for supervision. The increase in productivity and morale was maintained even the improvement in working conditions were withdrawn. Hence, it was the socio-psychological factors such as giving flexibility, feeling of being important, informal workgroup and friendly supervision that were responsible for the boost in the productivity of workers.

3.3.3 Mass Interviewing Programme:

This was the third phase of Hawthorne experiments which involved interviewing around 20,000 employees between 1928 and 1930. The workers were asked questions to determine their attitude towards their workplace, employer, direct supervisor, working conditions etc.



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The objective was to discover the factors that influence the productivity of workers on the job. The results of this programme revealed and further confirmed the importance of socio-psychological factors such as informal relations, relationship with supervisor, opportunity to talk freely about things etc., in influencing the productivity and morale of the workers.

3.3.4 Bank Wiring Observation Room Experiment:

This part of the Hawthorne experiments was conducted during 1931-1932. In this, a group of 14 male workers was formed to assemble the terminal banks for use in telephone exchanges. The pay of each worker was linked to the performance of other workers in the group such that the hourly wage rate was fixed based on the average output of each group member. The bonus was also linked to the group performance. It was expected that the efficient members of the group will create pressure on inefficient members to increase the volume of production and increase the total earnings. However, the results were different from the expectations. It was found that informal relations and group norms guided the rate of production. Workers established their production norms which were aggressively enforced via the mechanism of social pressure. This was driven by various causes such as the desire to protect the slow workers, fear of losing the employment etc. Hence, it was concluded that informal group norms, informal relationships are important and management should try to understand group behavior to enhance productivity and morale.

The Hawthorne experiments clearly demonstrated that physical factors, machinist approach, economic incentives are not sufficient to improve an organization's productivity and performance. It identified the importance of informal norms and relationships which classical approach to management ignored. The human relations approach to management suggests that the management should recognize that economic incentives are not enough to motivate employees and improve their productivity. The satisfaction of socio-psychological needs is equally, if not more important. This approach called for a shift in management's perspective on treating employees as machines and mere economic beings to treating them as social beings.

3.3.5 Contributions of Hawthorne Experiments:

The Hawthorne experiments brought about a turning point in the evolution of management thought. Some of the contributions are discussed below-

- The Hawthorne experiments brought to the forefront socio-psychological side of an organization.
- They revealed that human beings are not only enticed or motivated by economic incentives, but they are social beings and have various social and psychological needs that they seek to fulfil.



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- The physical factors at the workplace, for instance- the amount of lighting etc. are necessary but not sufficient conditions to improve workers productivity and performance.
- Individuals tend to form informal groups in the organisation. The norms and values of the informal groups have a great influence on the performance and behaviour of individuals.
- Informal leaders play an influential role in developing and enforcing group norms.
- The experiments also revealed the importance of two-way communication between the superiors and subordinates.

3.3.6 Criticism of Hawthorne Experiments:

Despite its various contributions, the Hawthorne experiments were criticized for lacking scientific analysis and research. The results of the experiments are criticized for being-

- Influenced by the preconceived notions of the researchers and;
- Drawn from a small sample of respondents, thereby lacking generalizability.

3.3.7 Criticism of Human Relations Approach:

- It focused too much on the needs and goals of employees thereby completely ignoring the organizational goals. It fails to give a balanced perspective.
- This theory is too humanistic in approach. It fails to describe the solution to situations where workers are unproductive and lack skills for doing work on their own.
- Although it talks about human relations, it fails to address the situation of conflicts of interest between organization and individual; individual to individual and group to group.
- Again, just like classical theorist, neo-classical addressed the internal management of an organization. It did not consider the external environment and treated organization as a closed system.

ACTIVITY

Discuss in the class on the topic, “Importance of Human Relations Approach in Modern Era” and prepare an assignment on the same topic and submit it to subject teacher.



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IN-TEXT QUESTIONS

1. The Hawthorne Experiment is associated with
 - a) Theoretical systems
 - b) Traditional theory
 - c) Theory of human relations
 - d) Theory of scientific management
2. The Western Electric Company in America discovered that the Bank Wiring Room Experiment, part of the Hawthorne Experiments, discovered that
 - a) The most effective supervisors were those who were formally appointed.
 - b) The most effective leaders were those who were formally appointed.
 - c) Natural leaders who emerged with the members' consent were the most effective.
 - d) Natural leaders who emerged without the members' consent were the most effective.
3. Being a member of a group gives an individual a sense of_____ .
4. Groups are formed for a variety of reasons, including:
 - a) The accomplishment of certain tasks that can only be accomplished through the combined efforts of individuals working together.
 - b) The provision of membership protection.
 - c) The provision of general guidelines for acceptable behaviour.
 - d) All of the preceding
5. Groups that are cohesive:
 - a) improbable to succeed
 - b) will always yield a higher level of output
 - c) will conform to a group-determined acceptable level of output
 - d) will never be able to produce more output.



3.4 MODERN SCHOOLS OF THOUGHTS IN MANAGEMENT

All the earlier schools of thought in management treated an organisation as a closed system and hence recommended principles and techniques for internal management of an organisation. However, the modern theories of management criticized this assumption of previous schools of thought. They stated that organisation is an open system which takes input from the external environment, process it and delivers it back to the environment. It is a dynamic process and hence an organisation cannot be seen in isolation. Therefore, a management school of thought should be designed keeping in mind the environment in which an organisation operates. The two modern theories that were laid down treating the organisation as an open system are: -

3.4.1 System Theory of Management

3.4.2 Contingency Theory of Management

3.4.1 System Theory of Management:

This theory of management states that an organisation is a system consisting of various sub-parts operating together to achieve common goals. A very easy way of Understanding the system approach to Management. You must have heard that your body is a system, now try to understand how it works:

- Your body is one system with various sub-systems such as reproductive system, digestive system, respiratory system and so on.
- All the sub-systems have their own working different from other sub-systems yet these systems are dependent on each other. If one system fails the other starts to show problems as well.
- The working of all the sub-systems is controlled by one organ hat is brain.
- As a system, your body has two sides-Internal and external. It can effect and can get affected by factors in external environment.
- It contributes towards the entire ecological system in way or the other through its output.
- If the body is internally weak, it gets more exposed to external threats such as flu.
- The body system is adaptive. According to each weather, the body adapts itself such as in winter body gains an extra layer of skin to keep itself warm naturally.

Based on this analogy, you can draw conclusions about the system approach to management as well. System approach says that an organisation is: -

- An open system i.e. it has two faces. One is internal and second is external. It can affect and gets affected by the various factors present in the external environment. Internal environment includes employees, Firm's policy, its structure, research etc.



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External environment of an organisation has multiple layers. These layers are called Macro, Meso and microenvironment. Microenvironment includes all those external factors that have immediate relation with organisation such as suppliers and customers. Meso environment includes industry-related factors such as level of competition, substitutes, industrial policy etc., and Macro environment includes general factors such as economic condition, political factors, laws etc. The unique part about the external environment is that these factors are out of control of an organisation whereas the internal factors are within the control of an organisation.

- Just like a body, an organisation is one system with various sub-systems. These sub-systems include its various departments (Marketing, Finance), process (Weaving, Dyeing, Supply chain), and markets (North division, South division). All these sub-systems are divided for the sake of specialisation but their working is coordinated with each other. Each system has its own set of operations the quality of which depends upon the efficiency of the other sub-system. If one system fails or works inefficiently, the other system can provide support.
- The working of all the sub-systems is coordinated and controlled at one place i.e. the source of origin of authority. In certain organisations, these points of control are evenly distributed at various levels in the organisation called decentralised organisations, whereas in certain cases the authority is kept at one central point only called as centralised organisations. Nowadays organisations generally operate with decentralised structured to motivate employees.
- Operating in a dynamic environment, an organisation needs to be adaptive. It needs to respond to the changes taking place in the external environment. The external environment brings both opportunities and threat to an organisation. If an organisation is ignorant about these changes, it may lead to its failure. For example- NOKIA was ruling the Indian mobile phone market for a decade but it failed to acknowledge and update its technology. The result was losing out the market to smartphone technology such as Apple and Samsung. Therefore, as a system, an organisation need to be flexible in its approach. The threats presented by the external environment can be fought if the organisation is internally strong. The internal strength of the organisation lies in its structure, its commitment towards its goals, its adaptability, human resources, its goodwill, experience etc.
- An organisation as a system in itself is a part of a bigger system. This includes nation, world, a region or industry. It contributes positively and negatively towards the bigger system. In a positive way, an organisation can contribute towards the development of



society and nation. Sometimes it may also impose burdens on society by acting irresponsibly towards the environment and resources.

3.4.1.1 Merits of System Approach Theory to Management:

The following are the merits of system approach theory to management:

- It is a modern approach to management which tries to unify the earlier schools of thought in management.
- It considers the organisation as an open system which earlier theories failed to address.
- It is practical in its approach and application. It defined the nature and characteristics of an organisation just like they exist in the real world.
- It is the most suitable theory to explain the working of large and complex organisations with multiple divisions and areas of operations.
- In a globalised world, this theory teaches an organisation to be aware and responsive to environmental threats and opportunities.

3.4.1.2 Demerits of System approach to Management

The demerits are given as follows:

- This approach to management is descriptive in nature. It does not state any specific tool or technique for improvement in the working of the organisation.
- It focuses on the business environment but fails to explain the tools and techniques required to understand it.
- It is not suitable for small organisations with a limited area of operations.
- This theory is more about organisations and their characteristics than about the art of management.

3.4.2 Contingency Theory of Management:

This is the second latest approach to management. This approach states that there is no best style of management. Every style has its own suitability and set of applications. They cannot compete with each other but rather they can be mixed and match as per the situations and circumstances. The responsibility of choosing the style of management depends purely on the skills of the manager. The success of an organisation will be determined by how perfectly they match and fit is found between the style of management and situations. Therefore, an



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“If-Then” approach needs to be followed in management where ‘If’ represents situations, opportunities, threats, internal variables and factors and ‘then’ represents management variables. For example: To begin with, sole ownership of a firm with centralised authority is a suitable form of business but as the business grows in size, departmentation and delegation becomes inevitable as one person cannot handle the work of the entire organisation. We can list down the important points from the contingency approach to management as follows:

- It is a pragmatic approach to management. It directly links the theory of management with problems of real life. Unlike previous theories in management, this approach to management is an application-based rather than theory.
- It is an approach which gives more importance to the skills of a manager than management. It clearly states that the success of an organisation is in the hands of a manager. It is up to discretion and analysis of a manager that how he wants to handle a situation. A manager with good analytics, experience and problem-solving skills can help an organisation in achieving its goals.
- Contingency theory to management treats the organisation as an open system. It defines a situation as the sum total of internal and external environment variables that affect the working of an organisation directly or indirectly. It emphasizes upon management being the function of situations. Hence, just like the system theory of management it also treats the organisation as an open system.
- Contingency theory of management shifted the focus of management from experimentation to research and development. A manager has to be vigilant enough to manage situations. For this, he needs information and regular update on the surroundings. An organisation cannot be successful in the absence of a good information system.
- Contingency approach can be thought of as a blend of all earlier schools of thought in management. It does not criticise the previous schools of thoughts rather it acknowledges all of them and emphasis upon their careful application.
- Contingency approach promotes creativity and flexibility. With no specification on a particular style of management, it opens up the door for new permutations and combinations in styles of management that a manager can use.

3.4.3 Critical analysis of Contingency Approach to Management

The critical analysis of contingency approach to management is given as under: -



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- It is a complex theory of management. It is easier said than done. Analysing the situation and then fitting the right approach on it requires a lot of time, energy and efforts.
- Contingency theory is vague. It does not have a fixed set of principles and techniques. It is a mere prescription which leaves everything on managers. It does not define the suitability of theories under different circumstances. Neither does it specifies the tools and techniques to analyse the situational variables.
- It is reactive in its approach i.e. it specifies the management to get into action once the situation is in the front. In this case, management may fail due to lack of preparation and shortage of time. A manager needs to predict and prepare for the worst scenarios in advance so as to defend itself at the right time.

3.5 COMPARISON AMONG ALL SCHOOLS OF THOUGHTS IN MANAGEMENT

Basis	Classical school	Neo-classical school	Modern schools
Theorists	F.W. Taylor, Henry Fayol, Max Weber	Elton Mayo, McGregor	Fred Fiedler, Edward Peter senge, Peter Drucker
Focus	Addressed the productivity challenges and issues in the organisation.	Addressed the human needs and urge for informal relations and bonds in the organisation.	Addressed the role of external factors and situational variables.
Origin	Emerg ed at the time of industrial revolution where mass production and quality at low cost were the main concern.	Emerg ed as a result of the exploitation of workers and to overcome the shortcomings in the classical school of thought.	Emerg ed in the wake of increased globalisation, competition, technology and dynamic environment conditions.
Suitability/ Applicability	Applicable in organisations with a clear line of	Applicable where the majority of workers are highly	Applicable organisation is dealing in



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	distinction between top management and factory workers and where workers are unskilled such as construction work.	skilled and the job requires creativity.	technology products and has multiple areas of operations.
Organisation structure	Centralised organisation structure	Decentralised structure	Open organisations linked with networks
Key strength	Leads to high productivity.	Leads to highly motivated employees.	Promotes innovation and creativity.

ACTIVITY

Organise a class seminar on the topic, “Critical analysis of Classical and Modern Schools of Management and Their contribution in the managing business organisations.”

IN-TEXT QUESTIONS

6. Scientific management deals with the problems at the _____ level.
7. _____ is known as the father of modern management theory.
8. The Book, “Functions of Executive” was written by _____.
9. _____ school of thought has developed on the idea that there is no single best method to find solutions to management problems.
10. according to Fayol, the principles of management are _____.

3.6 SUMMARY

The management journey is divided into three stages. They are distinct yet related in that they all attempt to define and interpret their meaning in their own unique way. The three schools of thought are as follows: classical approach, neoclassical/human relations approach and modern management approaches. The three theories of management are pioneer work in the



area of management. These theories mark the beginning of a scientific thought process in management. They are suitable for certain types of businesses such as factories set up with unskilled workers. However, they fail to address issues such as workforce diversity, strategic planning, and international pressure.

3.7 GLOSSARY

- **Behavioural Theory:** Individual behaviour, motivations, and social interactions are central to the Behavioral Theory of Management, also known as Neo-Classical Management Theory. It entails the study of human behaviour through psychology, sociology, and anthropology.
- **Hawthorne Experiments:** When subjects in an experimental study attempt to change or improve their behaviour simply because it is being evaluated or studied, this is known as the Hawthorne Effect. The term was coined during experiments at Western Electric's factory in the Chicago suburb of Hawthorne in the late 1920s and early 1930s.
- **Human Relations Approach:** Human relations theory is a school of thought that focuses on employee satisfaction, informal workplace organisations, and influencing employee productivity. Human relations theory, unlike scientism, does not regard workers as interchangeable parts.
- **Management:** Management is the administration of an organisation, whether a business, a non-profit, or a government body. It is the art and science of managing a company's resources.
- **Manager:** A manager is someone who is in charge of supervising and motivating employees as well as directing an organization's progress. A manager is someone who is in charge of customer service, handles customer complaints, and oversees and supervises customer service representatives.
- **Modern Schools of Thoughts:** This school of thought is primarily concerned with the growth of each factor of both workers and the organisation. It examines the interdependence of workers and management from every angle. This school of thought has two approaches: the System Approach and the Contingency Approach.
- **Neo-Classical Approach:** The neoclassical approach emphasises the physiological and social aspects of workers as individuals, as well as their relationships within and among organisational groups.



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3.8 ANSWERS TO IN-TEXT QUESTIONS

1. (c) Theory of Human Relations	6. Operating Level
2. (c), Natural leaders who emerged with the members' consent were the most effective	7. Henry Fayol
3. Belonging	8. Chester Barnard
4. (d), All of the preceding	9. Contingency School
5. (c), will conform to group-determined acceptable level of output	10. Flexible

3.9 SELF-ASSESSMENT QUESTIONS

1. What is Human relations approach to management? How is it different from classical schools of thoughts?
2. What are Hawthorne Experiments? How these experiments contributed to management schools of thought?
3. What is system theory of management? Explain its features in detail with the help of an example.
4. "Contingency theory unifies all the earlier schools of thought into one theory yet it is different". In the light of this statement, explain the features contingency theory.

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LESSON 4

MANAGEMENT: THE CONTEMPORARY THEORIESWritten by : **Dr. Vipin Aggarwal**Revised by : **Dr. Virender Kaushal****STRUCTURE**

- 4.1 Learning Objectives
- 4.2 Introduction: Management By Objectives
 - 4.2.1 Merits of Management By Objectives
 - 4.2.2 Demerits of Management By Objectives
- 4.3 Business Process Reengineering
 - 4.3.1 Steps in Technique of Business Process Reengineering
 - 4.3.2 Merits of Business Process Reengineering
 - 4.3.3 Demerits of Business Process Reengineering
- 4.4 Porter's Five Forces Framework
- 4.5 Bottom of Pyramid Theory
 - 4.5.1 Merits of Theory
 - 4.5.2 Demerits of Theory
- 4.6 Learning Organisation
 - 4.6.1 Dimensions of Learning Organisations
- 4.7 Emerging Issues in Management
 - 4.7.1 Globalization
 - 4.7.2 Workforce Diversity
 - 4.7.3 Environmental Concerns
 - 4.7.4 Technological Advancements
 - 4.7.5 Ethics and Corporate Social Responsibility
- 4.8 Summary



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- 4.9 Glossary
- 4.10 Answers to In-Text Questions
- 4.11 Self-Assessment Questions
- 4.12 References
- 4.13 Suggested Readings

4.1 LEARNING OBJECTIVES

After studying this chapter students will be able to understand: -

- Management by Objectives, its merits and demerits
- Concept of Bottom of Pyramid and its relevance today
- Concept of Knowledge Management and Learning Organisation
- Concept of Business Process Reengineering
- Porter's Five Forces Framework
- Emerging opportunities and challenges in management

4.2 INTRODUCTION : MANAGEMENT BY OBJECTIVES

It is a technique of management given by management expert Peter Drucker. It was commonly used in the 1960s but it is popular till date. The essence of this technique can be assessed from its name itself. It suggests that management is all about setting up objectives and fulfilling them through efficiency. Everything in organisation from structure to control revolves around these objectives. Every activity, function and division are guided by the objectives. This approach to management lays down a complete process and set of activities for management. These are explained as follows:

- a) **Collectively Fixing the Objectives:** The very first step involves setting up objectives. The objectives are set up for the entire organisation as well for individual departments and for varying time periods. The strength of MBO lies in the fact that it involves collective efforts i.e. unlike earlier approaches where setting up of objectives involves only top management, this approach emphasis upon participation of all levels of managers in the process of setting up of objectives. The objectives are set up not only for organisation but for individuals as well. It also takes into account the personal goals of employees. It further states that objectives should be set up very carefully. For examples: if an organisation says that its objective is to increase the sales in



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coming years. Such a statement is vague and will not help in management. Therefore, MBO states that objectives so set up should be 'SMART' i.e. specific, measurable, achievable, and relevant and time bound.

- **S (Specific)** i.e. they should be clearly defined for each area and individual.
- **M (Measurable)** i.e. they should be set in quantitative terms as much as possible so as to be used as standards of control later on.
- **A (Achievable)** i.e. they should be capable of being fulfilled within the reasonable capacity of organisation.
- **R (Relevant)** i.e. they should be related with key areas in organisation.
- **T (Time bound)** i.e. there should be a time frame for an objective.

Therefore, the statement given in example above can be reframed in light of above characteristics as, "*The objective of the organisation is to increase its annual sales of division A by 10%, Division B by 20 %.*"

- Designing the Plan:** Once the objectives are laid down, an appropriate course of action is decided to fulfil those objectives. The most optimal path in the direction of goals is chosen as an appropriate course of action.
- Implementing the Plan:** Once the course is laid down, they are put into action.
- Monitoring the Performance:** This is the next key step under management by objectives. It involves continuous monitoring of the plans put into action. It involves regularly matching the performance with the established objectives and correcting for deviations. It also involves regularly updating the objectives in the light of scenarios and circumstances. However, this approach does not allow for regular revisions once the objectives are set up except in case of extreme circumstances. Along with monitoring the plans, it evaluates the performances of the employees as well as the organisation on the basis of standards so set. Once the deviations are known, the feedback is provided for the next cycle of setting up of objectives.

4.2.1 Merits of Management by Objectives:

The merits of management by objectives are as under:

- It is a systematic approach to management. It lays down all the steps for management of an organisation.
- As it makes objectives the centre point of an organisation, it builds a sense of commitment towards achieving them.
- Sticking to the plans laid down leads to better productivity.



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- It ensures a participatory and democratic work environment as objectives are laid down in consensus with everyone.
- It motivates employees both financially and mentally. It links performances of employees with appraisals thereby giving a financial motivation to them. As it also caters to their personal goals, it takes care of their personal growth as well.
- It breeds the executives for tomorrow as their training and development happens in the process of setting up objectives and their achievement.
- It improvises the overall environment of an organisation as top management and lower level workers work together in the direction of organisational goals.
- As the authority and responsibility is systematically divided at various levels in the organisation, it leads to balanced working.

4.2.2 Demerits of Management by Objectives:

The demerits are as follows:

- It involves a lot of time, energy and cost in setting up objectives.
- It is too focused on setting up objectives and fulfilling them. It promotes resistance to change in organisation.
- It is focused on internal management of the company only. It does not take into account the external environment of an organisation.
- The entire exercise of management will fail in case of turbulent environment conditions.
- It is a mechanistic technique of management as once the plans are laid down, everyone is required to adhere to it.
- The standards so laid down become the yardsticks of performance evaluation of employees and hence this approach ignores the human variables in management.

Keeping in mind the merits and demerits of this approach, it can be said that Management by Objectives (MBO) is a comprehensive tool but its application requires skilled application. Once the objectives are laid down, they need to be revised regularly in the light of changes taking place in the external environment. Along with this, organisations have to be very careful in making the investment in this technique.



4.3 BUSINESS PROCESS REENGINEERING

Michael Hammer came up with the concept of Business process reengineering in the 1980s which was further strongly supported by James Champy. As the name suggests, it is a technique related to redesigning and restructuring of an organisation. The focus is on the key process of organisation and bringing improvements in them in such a way that there are permanent improvements in speed and quality and permanent reduction in costs and efforts. The main features of this technique of management are as follows:

- **Focus on Key Processes:** Division of labour is one of the popular principles in management, however it is focused upon the individual task and activities. Business process reengineering takes into consideration the key process of the organisation. A process refers to the set of activities to be done in a systematic way for creation of valuable output. The key processes are those around which the existence of an organisation is based. For example: for an online website customer order processing; managing goods in warehouses is the key process, whereas for a manufacturing firm, the key process will be manufacturing and inbound logistics.
- **Fundamental Rethinking:** Business process reengineering requires application of creative thinking into the technique of process. It is about raising the question- why are we doing it the way we are doing it right now? Once you answer this question, try to analyse the know-how of a process in the light of cost and output. If a technique is driving the costs of an organisation up and slowing its working down, it means a fundamental rethinking is required.
- **Dramatic Improvement:** Business process reengineering is about breakthrough innovations in production technique. It is about taking a long leap rather than small steps of improvements. It can be understood with the help of an example. Let's say in 2020, due to recession in the oil industry, if your production costs go down by 2% for the year, then it is a bonus for you. Business process reengineering does not consider such improvements because the credit here goes to external factors at play rather than internal efforts. Second is, the reduction in cost is not permanent and third is the percentage of fall in cost is too small to be acknowledged as improvement. Therefore, business process reengineering is about permanent reduction in considerable amount of costs related to key processes in the organisation.
- **Radical Redesign:** Business process reengineering is about bringing the changes through improvement in process. It is based on the assumption that once the root



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cause of deficiency is corrected, the problem automatically gets solved. Once the process gets improved it automatically results in quality output at lesser cost. All we need to do is to abandon the old ways of doing things and adapting to the new one. It emphasizes upon creating innovative and flexible organisation structures.

4.3.1 Steps in Technique of Business Process Reengineering:

The technique of Business Process Reengineering involves following steps:

- Understand the current working of the organisation and identify the key process of it.
- Identify the problem areas i.e. the process which requires reengineering.
- Look for the changes and improvised ways of working. Take reference from other organisations or set a precedent yourself.
- Incorporate the changes, arrange for resources required to implement those changes.
- Note down the small improvements on an everyday basis and wait for final results at the end of the process cycle.
- Continue to work towards improvement and begin to work upon further improvisation related to other processes.

4.3.2 Merits of Business Process Reengineering:

The merits of business process reengineering are as follows:

- Comprehensive technique of management.
- Directly targets upon improvisation in productivity.
- Unlike classical theorists, BPR focuses upon productivity but with flexible and innovative work environments.
- Business Process Reengineering is a strategic technique. By promoting an innovative way of thinking, it gives a competitive edge to the organisation.

4.3.3 Demerits of Business Process Reengineering:

The demerits are as under:

- It is a complex technique.
- It does not consider and acknowledge the small improvements in working of the organisation.
- It lacks the humane approach as it is focused on the process. Sometimes the improvement in process comes at the cost of human resources employed in the organisation.



ACTIVITY

Organise a class seminar on the topic, “Importance of Business Process Reengineering” and prepare an assignment on the same topic and submit it to the subject teacher.

IN-TEXT QUESTIONS

1. What do you call incremental changes to processes in an organisation that use information technology?
 - a) Enhancement of Business Processes
 - b) Reengineering of Business Processes
 - c) Modification of Business Processes
 - d) Business Process Improvement
2. Which of the following best describes business process reengineering?
 - a) Redesigning a company's organisational structure
 - b) Workflow redesign
 - c) Product redesign
 - d) Business process transformation for more effective achievement of business objectives
3. Business process reengineering is also referred to as
 - a) Business process change management
 - b) Redevelopment of a business
 - c) Business planning
 - d) Enhancement of the business
4. The INSPIRE framework for BPR is a seven-step process developed by_____.
5. The source of the Kodak BPR methodology is a _____.



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4.4 PORTER'S FIVE FORCES FRAMEWORK

Michael Porter developed five forces framework to help a firm identify its industry structure. It helps an organisation to identify its position in an industry. For this, a firm needs to understand the environment of the industry to which it belongs. Michael Porter suggest that industry's environment is shaped by five forces-

- a. Rivalry and intensity of rivalry between the firms in an industry,
- b. Threat of Entry,
- c. Threat of Substitutes,
- d. Bargaining Power of Buyers and,
- e. Bargaining Power of Suppliers.

a. Rivalry and intensity of rivalry between the firms in an industry:

At the first place a firm should identify its competitors and analyse the intensity of competition. According to Porter, rivalry can be said to be existing when two firms deal in similar goods and services and target the same set of customers. *For example- Pepsi and Coca-cola, Dominoz-Pizza hut, Starbucks-Café coffee day and so on.* The intensity of competition increases further when:

- Firms are of roughly equal size;
- They are aggressive in seeking leadership;
- They belong to high fixed costs industries (e.g. industries requiring high capital equipment costs like the steel industry);
- There is a low level of differentiation between products and in cases where the product is perishable.

In case of a large number of competitors and in situations where intensity of competition is very high, a firm needs to be very active in its marketing strategies. The more the firm invests in creating a differentiated brand, more it will be able to win over the competition.

b) Threat of Entry (or Barriers of Entry):

At the second place, a firm should analyse the threat of potential competition i.e. threat of new entrants. In cases of natural monopoly and in case of industries with huge market potential-outside firms may find it attractive to enter the industry and acquire market share of the existing firm.

This threat of entry is less when there are barriers on entry of new firms. Barriers to entry can be defined as factors that need to be overcome by new entrants if they want to compete with established firms in an industry. These factors include economies of



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scale, non-scale-based advantages (for example patents), difficult to imitate know-how, superior information about customers, experience and learning, inaccessible supply and distribution channels; high differentiation and market penetration costs, cartelisation between existing firms and so on.

A firm with high threat of potential entrants and low barriers to entry need to adopt a defensive strategy. It needs to be very strong with its market research, product development. It should endeavour towards creating a loyal customer base. *The firm that has successfully fought the threat of new entrants is Maggie. No matter how many noodles are introduced, Maggie has a unique product and a loyal customer base which defends it.*

c) Threat of Substitutes:

Substitutes are products or services that offer a similar benefit and target the same customer group but through different products all together such as tea and coffee. Availability of substitute products has the ability to give potential threat to firm's profitability especially in cases where price/performance ratio of substitute is better than the other one. Laptops replacing computers, smartphones replacing cameras and calculators, happened because of better price/ performance ratio. *In India Tata's 'one lakh' car may become a substitute for motorcycles and rickshaws.*

Substitutes can be considered as indirect competitors or second layer of competitors for a firm in the industry. The only strategy to help a firm in case of substitutes is investment in betterment of existing products and continuous innovation.

d) Bargaining Power of Buyers

Buyers are the organisation's immediate customers, although not necessarily the ultimate consumers. If buyers are powerful, then they can demand huge discounts or product/service improvements at the same price thereby putting downward pressure on the firm's profitability. Therefore, higher the bargaining power of buyers, more is the threat to a firm. Bargaining power of buyers is likely to be high when-

- Buyers have many options/choices available in the market;
- A few buyers account for the majority of sales of a firm;
- Buyers are capable of backward vertical integration.

In these cases, a firm can adopt the mantra that "Customer is the King". A satisfied buyer may help a firm in maintaining its profitability.



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e) Bargaining Power of Suppliers

Lastly, a firm should analyse bargaining power of suppliers. Suppliers are those who supply what organisations need in order to produce the final output. Powerful suppliers can eat into an organisation's profits. Bargaining power of suppliers is likely to be high-

- Suppliers are few in numbers;
- They provide a specialist or rare input;
- There are too many firms buying from them and hence a single firm represents only a small part of sales by the supplier;
- Switching costs (i.e. shifting from one supplier to another) are high and it is disruptive or expensive to change;
- Suppliers can integrate forwards.

Higher the bargaining power of suppliers, more is the threat to the firm. The only strategy a firm can survive in this situation is partner relationship management.

Porter suggested that a firm should classify each factor on a continuum ranging from high to low. This analysis helps a firm in analysing the threats and opportunities and also helps in deciding tactical strategies.

4.5 BOTTOM OF PYRAMID THEORY

It is a theory proposed by C.K. Prahalad. It is basically addressed to the organisations working internationally aspiring for growth and profitability. It targets their way of thinking and raises questions on their working. This theory states that for a globalised organisation, the world market is not round but it is in the shape of a pyramid.

Now try to imagine what a pyramid looks like? It is wider from the bottom and narrow from the top.

He said that this pyramid is divided into three sections based on the income distribution. The top section represents the rich section of the society owning the maximum wealth and resources of the world but this section is small in terms of the number of (or proportion of) people holding that wealth. On the other hand is the section constituting the maximum number (or proportion) of people but owning very little of the total share of world's resources. This is the bottom section or 'bottom of pyramid'. The top companies of the world which expand globally to increase their profitability concentrate upon the top section of the



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pyramid because they have better paying capacity and provide huge margins to companies (marginal profitability). The ignored section is bottom of the pyramid because people in that section do not have paying capacity and buy too little for a company to earn profit. However, what most companies ignore is the width of the bottom of pyramid. Top section has rich people but they are too few in the world. These markets reach saturation early. The market share in fact gets more divided with more competitors in the top section. In order for a marketer to survive in this section it has to be innovative with comfortable funding to continuously invest in research and development. For example: Apple is a company whose target section is top of pyramid, it has to continuously innovate its product with better and advanced features to maintain its position.

Bottom of Pyramid, on the other hand, is a section having space for a large number of marketers. It does not have capacity to offer huge margins but it has capacity of absorbing mass selling and distribution. With just one product, a marketer can earn profit for years and years because the market is too wide. However, it is completely wrong to think that companies targeting this section do not need to innovate. This is a section requiring different sorts of innovativeness altogether. The challenge here for marketers is to make things available to a customer at cheapest rates possible. Bringing down the cost with compromising the quality requires innovative ideas.

A company which has successfully targeted the bottom section of the world market and ruled it for almost a decade is NOKIA. Nokia brought revolution in mobile phone markets with its cheap and yet quality products in the market. It flooded the Indian market with its phone series starting from Rs. 500. Not only this, it did its research in the market very well. It created phones with key pads in the local language because it knew that its customers are not educated enough to understand English. It created phones with tough structure because it knew that the bottom section will use it as a device of use rather than show off. It gave hue battery backups due to obvious problems of electricity in remote areas of India. Thus, bottom of pyramid is not just about giving cheaper products, it is much more challenging than that.

Therefore, through this theory C.K. Prahalad targeted the short sightedness of many global companies and shifted the focus of marketer to the bottom section of the society.

4.5.1 Merits of Theory:

The merits of the bottom of pyramid are as under:

- It is a theory proposing a win-win situation to both marketer and customer.
- It promotes creativity and innovation.
- It enhances healthy competition in the market.
- It corrects the basic thinking and philosophy of global companies.
- It is a modern theory of management applicable in today's global world.



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- It treats organisation as an open system.
- It addresses the most prominent question concerning an organisation i.e. enhancing profitability.

4.5.2 Demerits of Theory:

The demerits of the theory are as follows:

- This theory is very specific to a firm in the international market.
- The classification of sections in the pyramid is not clear.

4.6 LEARNING ORGANISATION

The term "learning organisation" was coined and popularized by Peter Senge. He defined a learning organisation as the one- where people continually expand their capacity to create the results that they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning to see the whole (reality) together.". Senge's definition of a learning organisation includes places where people "expand their capacity to create," but also organizations "where new and expansive patterns of thinking are nurtured [and]...collective aspiration is set free," and "where people are continually learning to see the whole together." So Senge's definition involves the learning by people, the conditions at the organization in which people learn, and a hint at learning that allows everyone at work to see a "whole together."

Learning lies at the centre of what a modern business organisation needs to do to hold its ground in the highly competitive markets- whether it is identification of implied (or hidden) needs, introducing a new product, adopting a new business model, or reengineering a process. In the absence of learning, companies and individuals simply repeat old practices, change remains cosmetic and improvements are either fortuitous or short-lived .

In other words, a learning organisation is the one where-

- Continuous learning opportunities are provided;
- Employees use learning to achieve the goals;
- Individual performance is linked to organisational performance;
- Creative tension is embraced as a source of energy;
- Employees at all levels are aware of and continually interact with the environment.

In present time, it is imperative for modern business organisations to support learning. The extent of competition in the market has made learning an important competitive tool without



which even most successful companies of today risk losing their market share and even going out of the business.

While all or most organizations try to learn and use the results of that learning to adapt, some organizations do this better than others. Those at the “good” end of the spectrum, who use learning well, may be known as learning organizations.

4.6.1 Dimensions of Learning Organisation:

Peter Senge conceptualized five dimensions of a learning organisation. According to him, a learning organisation is dependent upon the mastery of five dimensions:

- a) **Personal Mastery:** Senge described personal mastery as the process where individuals are in a constant state of learning to enhance their capabilities and improve their work performance. A learning organisation has to devise the mechanisms of transferring the individual learning into organisational learning.
- b) **Team Learning:** Learning organisations have structures that facilitate team learning which is described as the accumulation of individual learning. Such an organisation promotes collective thinking by individual team members in achieving the common goals.
- c) **Building Shared Vision:** A vision when shared across employees working at all levels in the organisation is a powerful motivating tool. It serves as a common goal which an organisation strives to achieve. The development of shared vision motivates the employees to continually learn, it also creates a suitable environment for the building of trust through collaboration and communication within the organisation.
- d) **Mental Models:** Assumptions held by individuals and organisations are called mental models. Personal mental models describe what people can or cannot detect. Due to selective observation, mental models might limit peoples’ observations. A learning organisation recognizes and challenges the mental models so as to allow for new ideas and changes.
- e) **Systems Thinking:** Systems thinking is the notion of treating the organisation as a complex system composed of smaller systems. Learning organizations use this method of thinking when assessing their company and have information systems that measure the performance of the organization as a whole and of its various components. Systems thinking states that all the characteristics must be apparent at once in an organization for it to be a learning organization. If some of these characteristics are missing then the organization will fall short of its goal.



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4.7 EMERGING ISSUES IN MANAGEMENT

A business enterprise operates in a multi-dimensional and dynamic environment which continues to present it with numerous opportunities and challenges. A successful management is the one that stays abreast with the emerging challenges and take appropriate actions to tackle them. Some of the emerging issues that management faces in the present times are discussed below:

4.7.1 Globalization:

Globalization is the process of integration of people, companies and government around the world. Since the 18th century, globalization has seen an increasing trend as more countries pull down the barriers to free movement of people, goods, services, companies and finance. The advent of internet technologies and cheaper transportation has fuelled this process. For a business enterprise, while globalization offers an opportunity of increased market size it also poses a challenge by increasing the level of competition in the domestic market. The increasing competition keeps management on its toes to provide high quality, innovative goods and services to its customers. The management has to work hard to defend the organisation's market share against the increasing number of global rivals in its domestic market.

4.7.2 Workforce Diversity:

Workforce diversity refers to people belonging to diverse backgrounds such as cultures, races, religions, nationalities, etc. working together in an organisation. The workforce diversity can be classified across primary and secondary dimensions. The primary dimensions of the workforce diversity encompass factors that are inherent by birth in an individual and cannot be changed, such as religion, race, gender, sexual orientation. Secondary dimensions, on the other hand, include characteristics that an individual acquires over a period of time and are changeable, such as education, work experiences, marital status, beliefs etc. A diverse workforce brings the advantage of creativity and innovation but poses a great challenge for the management. A straightforward implication of a diverse workforce is that it marks the end of “one size fits all” philosophy underlying any managerial policy. A diverse workforce also indicates diverse viewpoints which could result in greater conflicts, issues relating to discrimination, exploitation of minorities etc. It is the duty of the management to design appropriate policies that takes into consideration the interests of all, prevents any biases towards any group and cultivates a working environment where every individual irrespective of his or her background feels welcome. Recognizing the potential positive effect of workforce diversity, many Indian companies are taking steps to reap advantages by hiring



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people from different backgrounds. A case in point is the 'Project Rainbow' launched by Godrej in 2019- a focused hiring platform for LGBTQ candidates who want to apply for internships or full-time employment positions at the company.

4.7.3 Environmental Concerns:

Environmental issues are one of the most concerning issues for management in the present times. Some of such issues are deteriorating quality of air and water, depleting ozone layer, global climate change, deforestation, release of toxic waste, depleting water levels etc. There is an increasing pressure from the environmentalist groups and civil society that is pushing companies to reconsider their business practices and align them with the environmental concerns. The responsibility of the business enterprises has extended from just earning profits (single bottom line) to earning profits in a sustainable manner while protecting people and planet (triple bottom line- profits, people and planet). Hence, the managers today have to devise creative ways of satisfying diverse stakeholders by making profit without harming the environment in the process. Samsung's Eco-Design Process is an appropriate instance of how environmental concerns are shaping business activities.

From the company's website: The Eco-design Process is an environmentally-friendly evaluation method used during the product planning phase. We [SAMSUNG] look thoroughly into a product's environmental impact at each step -- from product design to logistics, distribution and take-back. Through this process, we [SAMSUNG] identify a product's particular features aligning with Environmentally Conscious practices like using a minimum of resources in manufacturing, eliminating unnecessary packaging, distributing efficiently, and recycling products effectively at end-of-life

4.7.4 Technological Advancements:

Technological advancements are the defining feature of the business environment in the 21st century. The lightning pace at which technological developments are taking place pose a serious challenge to the management as they grapple to stay up to date with such changes. A management that is unable to forecast such trends and catch with technological changes will find it difficult to satisfy the changing customer needs and preferences. Nokia, a Finnish multinational company, was a market leader in the mobile phone market for a long time. However, the failure of its top management in keeping up to date with technological changes resulted in Nokia losing out to other companies such as Lenovo, Apple etc.



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4.7.5 Ethics and Corporate Social Responsibility:

An increasing number of corporate frauds and scams due to unethical management, such as Satyam Computer Services (2009), Kingfisher Scam, and many others in the last decade, has resulted in erosion people's trust in the corporations. This poses a great challenge to the management as they have to achieve business objectives while staying under constant scrutiny. There is an increasing pressure on business leaders to inculcate ethical and moral considerations (considerations of people's rights and duties and that of what is right and wrong) in their decision making and business activities. The concept of corporate social responsibility has also gathered momentum. Since businesses take from the society, it is its responsibility to contribute to its progress and development. To provide good quality products at a reasonable price, provide employment opportunities, provide better standard of living through proper sanitation, hygiene and education, upliftment of the poor, needy and vulnerable are some of the social responsibilities of businesses. For example, Infosys Limited undertakes various social development projects through its "corporate social responsibility" trust called Infosys Foundation which was established in 1996. Some of the initiatives taken by the foundation includes restoration of water bodies in Karnataka, enabling the pursuit of access and excellence in sports through the GoSports Foundation, and disaster relief efforts in Tamil Nadu, Karnataka and Kerala.

ACTIVITY

Discuss in the class about, "Importance of Learning Organisations in the present scenario."

IN-TEXT QUESTIONS

6. Which of the following has had its living structure improved as a result of globalisation?
- a) The entire population
 - b) Residents living of developing countries
 - c) Residents of developed countries
 - d) None of the preceding



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7. Which Indian industries have suffered as a result of globalisation?
a) Cement b) Jute c) Toy production
d) Information and communication technology (IT)
8. According to Michael Porter, the most important determinant of a firm's profitability is/are:
a) The situation in the home diamond
b) Attractiveness of the industry
c) Scale economies
d) Purchasing power
9. Which of the following is NOT an example of an entry barrier?
a) Buyer switching costs b) Scale economies
c) Product distinction d) Anticipated retaliation
10. Which multinational corporation was the first to use scenarios?
a) Shell b) British Airways
c) Hewlett Packard d) Sony

4.8 SUMMARY

MBO is a technique of management given by management expert Peter Drucker. It was commonly used in the 1960s but it is popular till date. MBO states that objectives so set up should be 'SMART' i.e. specific, measurable, achievable, and relevant. Business process reengineering is about bringing the changes through improvement in process. Michael Porter developed five forces framework to help a firm identify its industry structure. Analysis of threats and opportunities in a globalised world has been proposed by C.K. Prahalad. Learning lies at the centre of what a modern business organisation needs to do to hold its ground in highly competitive markets. A diverse workforce brings the advantage of creativity and innovation but poses a great challenge for the management. Environmental issues are one of the most concerning issues for management in the present times. Learning lies at the centre of what a modern business organisation needs to do to hold its ground in highly competitive markets. A diverse workforce brings the advantage of creativity and innovation but poses a great challenge for the management. Environmental issues are one of the most concerning



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issues for management in the present times. Godrej's 'Project Rainbow' is a focused hiring platform for LGBTQ candidates. Infosys Limited undertakes various social development projects through its "corporate social responsibility" trust. Samsung's Eco-Design Process is an appropriate instance of how environmental concerns are shaping business activities.

4.9 GLOSSARY

- **Bottom of Pyramid:** Bottom of the pyramid (BOP), also known as base of the pyramid, is an economic term that refers to the poorest two-thirds of the economic human pyramid, a group of over four billion people who live in abject poverty.
- **Business:** A business or organisation that engages in commercial, industrial, or professional activities. Businesses can be either for-profit or non-profit organisations. Limited liability companies, sole proprietorships, corporations, and partnerships are all examples of business structures.
- **Business Process Reengineering:** A radical reengineering of core business processes to achieve dramatic increases in productivity, cycle times, and quality. Businesses begin with a blank sheet of paper and rethink existing processes in order to provide more value to the customer.
- **Corporate Social Responsibility:** The notion that a company should play a positive role in the community and take into account the environmental and social impact of business decisions.
- **Globalization:** It is the increase in the flow of goods, services, capital, people, and ideas across international boundaries.
- **Learning Organisation:** An organisation capable of creating, acquiring, and transferring knowledge, as well as changing its behaviour to reflect new knowledge and insights.
- **Management by Objectives (MBO):** It is a process in which a manager and an employee agree on specific performance objectives and then devise a strategy to achieve them. It is intended to align organisational objectives and increase employee participation and commitment.
- **Management:** It is the act of accomplishing things through others and having them do so willingly.
- **Manager:** A manager is someone who is in charge of supervising and motivating employees as well as directing an organization's progress. A manager is someone who is in charge of customer service, handles customer complaints, and oversees and supervises customer service representatives.



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4.10 ANSWERS TO IN-TEXT QUESTIONS

1. (d), Business Process Improvement	6. (b), Residents living of developing countries
2. (d), Business process transformation for more effective achievement of business objective.	7. (c), Toy Production
3. (a), Business Process Change Management	8. (b), Attractiveness of industry
4. Bhudeb Chakravarti	9. (a), Buyer switching costs
5. Vsens	10. (a), Shell

4.11 SELF-ASSESSMENT QUESTIONS

1. What are contemporary theories of management? Which one of them appeals to you the most in terms of relevance?
2. What do you mean by the approach of Management by Objectives? Discuss its advantages and disadvantages.
3. Explain the concept of Bottom of Pyramid. Discuss its relevance in the light of current scenario.
4. What are learning Organisations? How are they different from traditional organisation of management?
5. What is business process reengineering? Discuss its merits and demerits.
6. Discuss in detail the emerging issues and challenges in management.

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UNIT II

LESSON 5
PLANNING

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STRUCTURE

- 5.1 Learning Objectives
- 5.2 Introduction
- 5.3 Characteristics of Planning
- 5.4 Process of Planning
- 5.5 Merits of Planning
- 5.6 Demerits of Planning
- 5.7 Elements of Planning
 - 5.7.1 Objectives
 - 5.7.2 Rules
 - 5.7.3 Policy
 - 5.7.4 Procedures
 - 5.7.5 Programmes
 - 5.7.6 Strategy
 - 5.7.7 Budgets
- 5.8 Types of Plan
- 5.9 Essentials of a Sound Plan
- 5.10 Summary
- 5.11 Glossary
- 5.12 Answers to In-Text Questions
- 5.13 Self-Assessment Questions



5.14 References

5.15 Suggested Readings

5.1 LEARNING OBJECTIVES

After reading this chapter, the students will be able to understand: -

- Concept and nature of planning
- Importance of planning in an organisation
- Challenges in planning
- Process of planning
- Various elements of planning

5.2 INTRODUCTION

The list of management functions starts with planning. It is the primary function of management. In simple words, planning refers deciding future course of action in advance. It basically address three questions for future situations i.e. what to do? How to do? When to do? It bridges the gap between present and future position of the organisation. The planning can be defined as, “Deciding in advance what is to be done. When a manager plans, he projects a course of action for the future, attempting to achieve a consistent, coordinated structure of operations aimed at the desired results.” – Theo Haimann.

5.3 CHARACTERISTICS OF PLANNING

As a function of management, planning has following characteristics:

- **Future orientation:** Planning is a function of management which looks into the future of the organisation. Future is uncertain and full of risks. Planning forecasts the future situation and based on premises decide upon the course of action to be taken. . .
- **Intellectual activity:** Planning involves predicting the future and deciding the future course of action in advance. In order to do that a manager needs to be far sighted and rational. The success of planning depends upon how accurately the predictions have been made related to future. An experienced manager with critical thinking ability can only make planning successful.
- **Setting up of goals and objectives:** Main elements of planning activity are goals and objectives of the organisation. These are the end results that an organisation aspire to achieve. Planning is a positive activity as it assumes the organisation to be a going



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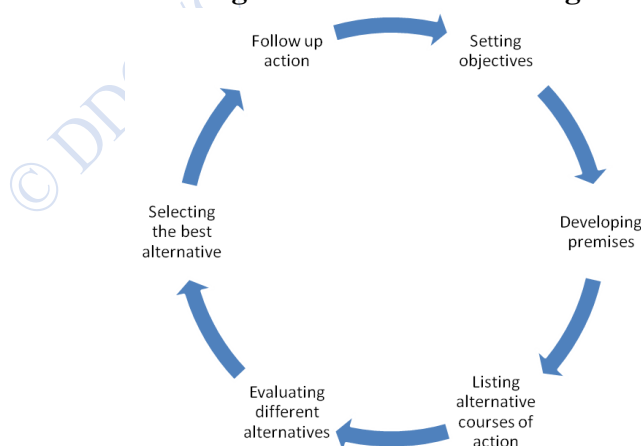
concern and prepares it for growth and prosperity and hence all the goals and objectives are directed towards that.

- **Based on data and information:** Research and analysis are at the heart of planning function. Planning requires data and sufficient amount of information to lay down an accurate course of action for organisation.
- **Pervasive:** Planning is an activity which is done at all levels of management and in all departments of organisation. Although most of the time, this activity of planning is associated with top management of the organisation, but top management lays down only the broad goals of organisation whereas managers at all levels make plans for their respective departments.
- **Continuous:** Planning is a never ending activity. Plans are laid down for different time periods-long term and short term. Apart from that, plans are made on everyday basis and as soon as one is achieved, the plans for next cycles are set. Therefore, planning is a never ending activity.
- **Primary function:** Planning is the first function of management. It lays down the basis for all the other functions of management. The other functions of management are performed keeping in mind the objectives and goals set up under planning.

5.4 PROCESS OF PLANNING

The process of planning includes the following:

Figure: Process of Planning



Source: businessjargons.com

Step-1-Setting up of objectives: The very first step in planning is to set up objectives and goals for organisation. These are statement defining the end results an organisation wants to



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achieve. The objectives are set up for different time periods- short term and long term; set for all levels of management and for every department. The objectives should be defined in a clear and precise language so as to avoid confusion. They should be published and well communicated to all the employees of organisation. The commitment of top management towards the objectives is very important otherwise they are mere statements. **A textile company aims to increase the sales of khadi clothes by 20 percent in the next two years.** The above statement clearly and precisely answers the question about what is expected and from whom.

Step-2-Developing premises: An organisation operates in a dynamic environment which brings opportunities and challenges for it. In planning, an organisation tries to anticipate future events and tries to control the journey of organisation in its own way. In order for an organisation to plan and decide on a course of action, it has to work on various assumptions. These assumptions are called premises. For example: Taking the case of textile company as stated above is based on the premises such as Government policies with respect to khadi products remain favourable; No change in the paying capacity of population; and Positive shift of demand to khadi products. These premises should be made very carefully as entire planning process is based on them. The more accurate these assumptions are the better it is for the organisation. Managers designing the premises need to do best of the research and analysis to make these assumptions.

Step-3-Identifying alternative courses of action: once objectives and goals have been laid down, it is required to decide upon an appropriate course of action that lead towards the achievements of goals. In this step managers tries to identify and brainstorm all the possible alternatives. The wider the choice, the better it is for the manager. Therefore, the list so made should be exhaustive. Taking the above example, the various possible alternatives for increasing the sales of khadi clothes could be as increased investment in promotion of khadi products through advertisements, brochures etc.; hiring sales representatives for khadi department; offering discount of lump-sum or first time purchase of khadi products; Linking the bonus and incentives with increased sales of khadi products; and going for wider distribution of product.

Step-4-Evaluating different courses of action: Once all the choices are clear in front of manager, the challenging task is to narrow them down. It is a very critical step of planning process as all the future actions depends upon it. In order to narrow down the alternatives, managers need to decide upon appropriate criteria formulating the basis of judgement. These may involve budget, objective, number of employees, government policies etc. A rational manager tries to optimise the path leading towards objectives i.e. he tries to choose the best possible alternative. The simplest way to do this is to list down all the pros and cons of alternatives available and choose the one with maximum benefits. For example: Increased



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investment in promotion of khadi products will increase the awareness in customers but at the same time requires an organisation to spend money on that. Linking the bonus with sales may work for unskilled workers but skilled workers may get demotivated with increase pressure. Therefore all the alternatives available should be evaluated from every possible angle.

Step-5-Selecting the best alternative: This step calls for decision making. There are various techniques of decision making available to manager from different fields of management such as accounts, finance, research etc. Now-a-days lots of software's are also available to help managers in this task, however the final judgement lies on the manager himself. As already stated, a manager should be intellectual and capable enough to take the right decision. He should be far-sighted and should be capable of taking reasonable amount of risk. An optimal decision is one which takes every department and employee of organisation into account, is consistent with policies and ideologies of organisation and which makes the best possible use of available resources.

Step-6-Implementing the plan: In this steps, plans are put into action. Once the course of action is decided, organisation starts the management arrange for necessary resources required to implement the plan. Designing of plans are easy but implementing them requires lot of commitment. The entire planning activity may go futile if plans are not taken seriously by employees of organisation. Therefore, implementation of plan requires the commitment of top management towards plans; proper and clear communication of goals and objectives to each and every employee of organisation; availability of appropriate resources whenever needed; balance of authority and responsibility; constant supervision and motivation; and final is control. In the absence of these, planning may fail.

Step-7-Follow up action: This is the stage of learning. Once the plans are implementing, they should be regularly monitored. Managers takes feedback and evaluate the short term objectives. In case of deviations, immediate actions should be taken to correct them. This stage could also call for revision of plans or designing of supporting plans. There is a possibility of unexpected situations and circumstances which may require revisions in plans. Through appropriate feedback mechanisms, manager can learn about what to do and what not to do in future planning cycle.

5.5 MERITS OF PLANNING

The following are the key advantages of planning:

- **Promotes systematic working:** Planning promotes systematic working in the organisation. As the path to achievement of goals is clearly laid down well in advance, it provides clarity of thought and hence everyone in organisation knows what is expected of them.



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- **Defines the success of an organisation:** A successful organisation is characterised by successful planning. Successful organisations plan everything well in advance. They do not let the environment lead them rather they are trend setters in the industry. Big companies have plans laid down for next 25 years. They are ambitious and positive entities who along with themselves make the growth and development of its employees and nations possible
- **Key function:** Planning is key area of management. It involves strategy formulation, decision making, budgeting which are all key activities for any organisation.
- **Base function:** It formulates the basis for rest of the functions of management. The quality of other functions depends majorly on quality of plans laid down under planning. In the absence of planning, there is no existence of other functions of management.
- **Offset risks and uncertainties:** Planning anticipates the future threats, contingencies and challenges. Once anticipated, it prepares an organisation to fight with them. Hence planning is a hedging activity for an organisation.
- **Efficient working:** Planning increase the efficiency in working of an organisation as objectives, goals are set in the direction of growth and prosperity of organisation. If plans are followed appropriately and with commitment, they lead to efficiency in working.

5.6 DEMERITS OF PLANNING

The demerits of the planning are as under:

- **Expensive activity:** Planning is a time consuming activity. It involves research, analysis, anticipation and decision making. All of these activities require lot of time, resources and mental energy. In case of emergencies, planning may not be of much help.
- **Personal judgements and biases:** The quality of planning depends upon the quality of information at the disposal of managers. It is presumed that managers are rational and they have perfect information but in reality managers may also take help of their personal judgements and biases while making a decision. These biases and judgements leads to failure of planning.
- **Promotes rigidity:** Strictly following up with plans is needed in order for planning to be successful but sometimes the top management gets obsessed with plans laid down and kills the scope for creativity. It leads to rigidity in working of organisation.



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- **Uncertainties and contingencies:** Planning fails in case of turbulent environments. In case of businesses operating in case of changing environment, planning activity may fail and hence it may lead to wastage of time, money and energy spent on it.

ACTIVITY

Discuss in the class, “Need and Importance of Planning for the success of an Organisation.”

IN-TEXT QUESTIONS

1. Name the management function that entails setting objectives and developing appropriate plans of action to achieve these objectives.
 - a) Direction
 - (b) Planning
 - (c) Preparation
 - d) Personnel
2. Which of the following is not a planning benefit?
 - (a) Planning eliminates duplication and wasteful activities.
 - (b) Planning is a mental workout.
 - (c) Planning provides guidance.
 - (d) Planning reduces the risks associated with uncertainty.
3. Which of the following is a planning advantage?
 - (a) Aids in the avoidance of confusion and misunderstanding.
 - (b) Maintains clarity of thought and action.
 - (c) Ineffective and redundant activities are reduced or eliminated.
 - (d) All of the preceding.
4. Which of the following is not a planning feature?
 - (a) Planning is forward-thinking.
 - (b) Planning is all-encompassing.
 - (c) Planning establishes control standards.



5. It is not always true that if a plan has previously worked, it will work again. Determine the related planning constraint.
- (a) Planning results in rigidity.
 - (b) Planning inhibits creativity.
 - (c) Planning may not be effective in a dynamic environment.
 - (d) Planning does not ensure success.

5.7 ELEMENTS OF PLANNING

As we already studied, planning is a pervasive activity i.e. it exist at all levels. There are different types of plans for each level of management and there are certain plans which are equally applicable for everyone irrespective of their authority. These can also be called as various components or elements of an effective plan. There are different terminologies used for each element of planning. They may sound similar as they all come under umbrella of planning yet they are different from each other. These are as follows:

5.7.1 Objectives:

Planning starts with setting up of objectives. Objectives can be defined as the end results towards which activities of organisation are directed. These are known by many names such as goals, standards, mission, aim etc. They also act as yardsticks for performance evaluation of an organisation. Objectives are set up at all levels of organisation and for each and every department. They can be set up for short term or long term. Setting up of objectives is a continuous activity. Based on the achievement of previous period objectives, organisation can set up future objectives. While designing the objectives the following points should be taken care of:

- Objectives should be laid down in clear and precise manner.
- Objectives should be set for a specific period of time. They should be time bound.
- They should be set in participation and consultation of employees of the organisation. When objectives are set in a democratic manner, it leads to enhanced cooperation and motivation in employees for their achievements.
- Objectives should be measurable. As far as possible they should be set in quantitative terms as it allows for ease of comparison.



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- Objectives should be capable of being revised in the light of changing business environment.
- They should be achievable. If they are set too high, it leads to demotivation in employees and if they are set too low, it makes employees lethargic. So a balanced and pragmatic approach should be taken while setting up objectives.

5.7.2 Rules:

It is a very important component of planning. Rules are specific guidelines which clearly defines the action and non-action in an organisation. They are very strictly implemented and their violation may call for severe consequences. Rules are very necessary for controlled and systematic working of an organisation. Plans once designed needs commitment and rules are statements which keeps a check on actions of every member in organisation. Rules are defined for all levels in the organisation as well as with respect to external stakeholders. For example: “No Smoking” is a rule for internal organisational members whereas terms and conditions attached to sales and purchase contract are directed towards external parties. Rules therefore are not a type of plan but they formulate an essential component of all plans. However, rules should be reasonable and should be designed in a manner that they complement each other. Sometimes, one rule is in conflict with other which may lead to chaos and confusion in organisation.

5.7.3 Policy:

Unlike rules, Policies are general guidelines for day today working of an organisation. They are derived from philosophies and ideologies that top management of an organisation cherish. They are laid down by the top management. Their violation do not result in any severe consequences but still they are followed with commitment to ensure consistency and coordination in working. For example: if an organisation has “no credit policy”, no employee can exercise a personal judgement while selling products. Hence, Policies should be clearly spelled out to all the members at all levels.

5.7.4 Procedures:

These are the plans which very specifically and clearly tells the sequence of activities for a particular end result. For example: Admission procedure in University of Delhi; Customer order processing in E-commerce. Each procedure is a comprehensive plan in itself. It has its own set of rules and policies. Each procedure has their own supervisors and a manual specifying the sequence of activities should be published for members in charge. Laying down procedures in advance leads to systematic working and clarity of thought. They remove the scope for subjective judgements and biases.

**B.Com. (Hons.)****5.7.5 Programmes:**

These are the plans laid down for a specific event. Designing a programme involves listing out the activities to be performed, deciding on the budget for each activity and making a schedule for their completion. For example: organising a one day workshop on digital literacy may involve deciding on key note speakers, chief guest, arrangement of food and refreshments etc. Programmes come to an end as soon as the event is completed. Each programme may have its own team. Creating a programme for a particular event is important so that event can take place smoothly.

5.7.6 Strategy:

The word 'strategy' has been most commonly used during the times of war. With globalising economies and increase in competition, businesses also adopted this term. Strategy is a plan laid down keeping competitors in mind with the idea of defeating them. Apart from intellectual exercise, strategic planning requires a clever mind set. A strategic thinker is required to anticipate competitor's actions and strategies in advance so as to design its own. Strategic planning has gained great importance now a days as business survival has become tough due to increased domestic and international competition. One more unique thing about strategic plans is that they are more related to external environment of an organisation. It takes into account external threats and opportunities to design appropriate strategies. The aim of strategic planning is to fight the threats and grab the opportunities to the best possible advantage of organisation. Therefore, a good environment analysis technique is key to strategic planning.

5.7.7 Budgets:

Budget is a statement of potential costs and revenue. It is a plan laid down completely in quantitative terms. Budget specifies the allocation of resources to different activities. It is prepared for different departments as well as for different activities. For example: for a manufacturing firm, different budgets will be prepared for sales, production, finished goods, work in progress etc. Budgets are an excellent measure of both planning and control. It keeps a quantitative check on working of organisation as well as can be used as measure of performance appraisal. However, budgets are difficult to work on as they require measurement and everything cannot be measured.



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ACTIVITY

Being student of University of Delhi, classify the following under various heads of elements of planning.

- a) Process of admission
- b) Anti-ragging
- c) Orientation of new students
- d) Reservation of seats for SC, ST, OBC, EWS, Ward of Ex-Serviceman and General category
- e) Funds for fresher's party

5.8 TYPES OF PLAN

Planning is a process where plans are the means to end results. Plans can be classified into various categories on the basis of different variables such as time, nature etc. The most common form of division is classifying the plans on the basis of time. On the basis of time plans can be classified as:

- a) **Long Term Plans:** Long term plans are basically addressed towards the existence of organisation from five to ten years from now. They endeavour towards making the permanent changes in the working of organisation. These are basically strived towards growth and expansion of an organisation. They are expressions of top management's idea of organisation and are known by different names such as vision, missions etc. They are laid down in generic manner for organisation as a whole. They are generally designed keeping in mind the industrial, national and international factors. They are more strategic in nature. For example: Company 'A' plans at expanding with minimum of 10 full owned subsidiaries at national and international level in the next five years.
- b) **Short Term Plans:** Short term plans are plans derived from long term plans of organisation. They are designed for day to day routine as well for near future of an organisation. Every supervisor and manager designed short term plans for their respective departments. Short term plans are very important as they keep the organisation on track, they formulate the basis of direction and control. The essential



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of short term plans is that they should be designed in a manner that they lead to achievement of long term organisational goals. It is important that every department have common interpretation and understanding of long term plans and goals so that they can coordinate their short term plans. Sometimes there may arise conflict between short term plans of different departments which may lead to hindrance in working of organisation. Unlike long term plans, short term plans should be laid down in very specific manner with clearly defined goals. for example: if company 'A' plans to expand with fully owned subsidiaries the short term plans can be made in the direction of increasing sales by 10 percent every year for next five years or to increase its work force by 10% every year.

- c) **Standing Plans:** These are stable and ever existing. They are referred again and again in working of organisation. These are designed with no intention of abandoning them. More than plans, they act as statements of guidelines or codes of conduct in managerial decisions and actions. These plans are very important as they coordinate the actions and mind set of different people in organisation. They create a link between the goals of all departments in organisation. These include rules, policies, long term objectives, mission, vision, procedures, and methods.
- d) **Single Use plans:** On the other hand are designed for one time use. They have different course of action depending upon the outcome so desired. These include programmes, budgets, and projects. They get obsolete as soon as the event is over. Single use plans are comprehensive in themselves. As they are for one-time events, they may have their own rules, procedures policies.

5.9 ESSENTIALS OF A SOUND PLAN

As already studied, plans are necessary for effective working of an organisation. However, plans are not a guarantee of success. In fact, they may lead to adverse consequences if not designed properly. Following are the essentials of a sound plan that every manager should keep in mind: -

- Plans should be laid down in clear and objective manner.
- They should be designed in a manner that they serve the interest of organisation as well as employees of organisation.
- They should be set up in a democratic and participatory work environment.
- Plans should be adaptive in nature. They should be flexible enough to incorporate for any environmental contingencies.



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- They should be designed after an intense research and analysis.
- Top management should be committed towards the plans so designed otherwise plans are mere statements.
- There should be proper communication with respect to plans so designed. Standing plans and long term plans should be published in premises of organisation.
- A balance need to be maintained between the resources spent on planning and the outcome to be derived.

ACTIVITY

Visit any manufacturing industry situated nearby your educational institution and discuss with the executive manager about the different types of plans they framed to run their organisation smoothly and note down all the plans discussed with the executive team and prepare an assignment on the same and submit it to the coordinator.

IN-TEXT QUESTIONS

6. Which stage of the planning process will select the best and most feasible plan for implementation?
 - a) Choosing an alternative
 - b) Considering alternative courses of action
 - c) Establishing objectives
 - d) Establishing Premises
7. The _____ is planning.
 - a) The manager's primary/first function
 - b) Both a) and d) are correct.
 - c) None of the alternatives are correct.
 - d) The manager's final function



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8. The composite plan that includes establishing a long-term goal, determining a course of action, and allocating resources is known as .
 - a) The programme
 - b) Plan of Action
 - c) Methodology
 - d) Regulation
9. The term ____ refers to an organization's unique way of dealing with problems or making decisions.
 - a) Finances
 - b) Subject
 - c) Rule
 - d) Policy
10. They represent the culmination of planning.
 - (a) Guidelines
 - b) Procedures
 - (c) Objectives
 - d) Procedures

5.10 SUMMARY

Planning is the primary function of management. It involves deciding the future course of action in advance. The success of planning depends upon how accurately the predictions have been made related to future. An experienced manager with critical thinking ability can only make planning successful. Planning assumes the organisation to be a going concern and prepares it for growth and prosperity. An optimal decision is one which takes every department and employee of organisation into account, is consistent with policies and ideologies of organisation and makes the best possible use of available resources. Now-a-days lots of software's are also available to help managers in this task, however the final judgement lies on the manager.

5.11 GLOSSARY

- **Budget:** A budget is a spending plan for your company that is based on its income and expenses. It determines your available capital, estimates your spending, and assists you in forecasting revenue. A budget can assist you in planning your business activities and serving as a yardstick for establishing financial goals.
- **Management:** Management is the administration of an organisation, whether a business, a non-profit, or a government body. It is the art and science of managing a company's resources.



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- **Manager:** A manager is someone who is in charge of supervising and motivating employees as well as directing an organization's progress. A manager is someone who is in charge of customer service, handles customer complaints, and oversees and supervises customer service representatives.
- **Objectives:** It is the management team's or system's primary goal. These objectives guide an organization's management's actions, decisions, and regulations. Managers frequently share goals with employees and executives in order to develop a unified purpose and strategy for the entire organisation.
- **Plan:** It is a formal planning tool used to design the facility's future operations. It is a written document that outlines the facility's goals and objectives — what are we attempting to accomplish? the strategies used to achieve the goals — how will we do it?
- **Planning:** It is a management function that entails setting objectives and determining a course of action to achieve those objectives. Planning necessitates managers being aware of current environmental conditions and forecasting future conditions.
- **Policy:** A policy is a set of rules or guidelines that your organisation and its employees must follow in order to accomplish a specific goal.
- **Procedure:** A procedure is a document that instructs employees on how to carry out one or more activities of a business process. It describes the sequence of steps and specifies what needs to be done at each step, often including when and by whom the procedure should be executed.
- **Programme:** Through change, a programme provides benefits to an organisation. Programme management provides a structured framework to co-ordinate, communicate, align, manage, and control the activities involved based on an agreed vision of how the organisation will look in the future.
- **Rule:** A rule defines or constrains a business aspect and always resolves to true or false. Business rules are intended to assert business structure or to control or influence business behaviour. Business rules describe an organization's operations, definitions, and constraints.
- **Strategy:** A strategy is an action taken by managers to achieve one or more of the organization's goals. Strategy is also defined as "a general direction established for the company and its various components in order to achieve a desired state in the future." The detailed strategic planning process yields strategy."



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5.12 ANSWERS TO IN-TEXT QUESTIONS

1. (b) Planning	6. (a), Choosing an alternative
2. (b) Planning is mental workout	7. (a), The manager's primary/first function
3. (d) All of the preceding	8. (b), Plan of action
4. (c), Planning establishes control standards	9. (d) Policy
5. (d), Planning does not ensure success.	10. (c) Objectives

5.13 SELF-ASSESSMENT QUESTIONS

1. What is planning? Explain the definition highlighting the main characteristics of planning?
2. What the role of planning in an organisation? Explain the challenges that an organisation have to face while designing and implementing the plans.
3. What are the different elements of planning and why are they necessary for smooth working of an organisation.
4. Explain the process of planning with the help of an example.
5. "Planning is thinking in advance." Discuss the statement with suitable example.

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LESSON 6

STRATEGIC PLANNING

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STRUCTURE

- 6.1 Learning Objectives
- 6.2 Introduction
- 6.3 Importance of Strategic Planning
- 6.4 Types of Strategies
- 6.5 Types of Growth Strategy
 - 6.5.1 Internal Growth Strategy
 - 6.5.1.1 Ansoff Matrix
 - 6.5.2 External Growth Strategy
 - 6.5.2.1 Types of External Growth Strategies
- 6.6 Difference between Merger, Acquisition and Joint Venture
- 6.7 Summary
- 6.8 Glossary
- 6.9 Answers to In-Text Questions
- 6.10 Self-Assessment Questions
- 6.11 References
- 6.12 Suggested Readings

6.1 LEARNING OBJECTIVES

After studying this chapter students will be able to understand: -

- Meaning of term strategic planning and its importance
- Different types of strategies-internal and external growth strategy
- Meaning of internal growth strategy and its advantages



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- Different types of internal growth strategies
- Ans-off matrix-Market penetration, Market development, Product development and diversification
- Meaning and advantages of external growth strategy
- Different types of external growth strategies-Mergers, acquisitions, join ventures, strategic alliance

6.2 INTRODUCTION

Strategic planning is a about designing the long term plans for an organisation aimed at its growth and expansion. Strategic plans give a competitive edge to an organisation. These plans are designed by top management and executives of company. In today's competitive world, strategic planning is key for every organisation playing at national and international level. Strategic planning answers four questions:-

- **Where are we now?:** This question can be answered through analysis of present situation. It requires an organisation to understand its immediate as well as overall environment in which it is operating. An understanding of this environment will help it in understanding its areas of strength and weaknesses. A constant vigil on external environment will help in grabbing the opportunities at right time and preparing a defence for threats. A number of analysis techniques as well as software's are available today to assist managers in this task. For example, Nokia ruled the Indian mobile phone market for over a decade. It flooded the market with cheap yet durable products but what it failed to understand was the strategy of emerging competitors, changing taste and preferences of population. As it failed to strategies and hence it failed to survive.
- **Where do we want to go?:** This question answers the basis of existence of an organisation i.e. its mission and vision. Mission of an organisation is at the core of an organisation. It is the goal that it will serve on everyday basis. it defines what an organisation is?, in which industry does it operate? Whom does it serve? And how it does that? On the other hand Vision is future or long term goal of organisation i.e. what does it want to become or where does it visualise itself after 20 years from today. Unlike objectives, both mission and vision statements are neither specific nor put in quantitative terms. They are statements that reminds an organisation about what it is and what it aspires to become. For example, Tesla's mission and vision statements are: Their mission statement defining their core goal: "To create the most compelling car



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company of the 21st century.” And They intend to accomplish this goal through their vision: “By driving the world’s transition to electric vehicles.”

- **How do we get there?:** This is about designing various strategies at all levels of organisation. Generally, strategies are designed at three levels. This includes corporate strategy, business strategy and tactics. Corporate strategy are designed for entire organisation. They address an organisation on overall basis whereas business strategy are designed separately for individual business unit of an organisation and finally functional strategies are designed for functional departments within each business unit. These three level of strategies are derived from each other and are coordinated in manner that organisation is able to achieve its goal.

6.3 IMPORTANCE OF STRATEGIC PLANNING

The importance of strategic planning in an organisation is because of following reasons: -

- **Analysis of Environment:** Strategic planning overcomes the limitations of traditional planning. Traditional planning was mostly about internal management of an organisation but strategic planning has focus on external environment. It considers external variables to be critical decision factors for internal functioning of an organisation. Thus, it corrects the approach of planning i.e. look outside and then plan inside.
- **Adaptive, innovative and creative:** Traditional planning was about following the plans blindly which lead to rigidity. Strategic planning is about making an organisation dynamic, adaptive and innovative. It emphasis upon changing the plans as and when the environment is changing. It believes in breakthrough and innovative ideas necessary to survive and grow in competitive world.
- **Scale of operations:** Today organisations are expanding nationally and internationally. With increasing scale of operations comes wider opportunities but at the same time it brings challenges of management and coordination. It is very important to coordinate multiple departments working in different corners of the world. Strategic planning binds the different operations together through common strategic goals.
- **Competition:** Strategic Planning target competitors. Its aim is to gain competitive edge over its competitors and to create barriers of entry for new competitors. For this an organisation need to work on its strengths such as brand name, goodwill, quality of production, skilled human resources and best technology. Strategic planning works



like a game of chess where moves of the competitors are predicted in advance and accordingly organisation design its own strategic path.

Hence, strategic planning is much more comprehensive than traditional concept of planning. It is a modern concept which address the contemporary issues faced by organisations today.

6.4 TYPES OF STRATEGIES

Strategies are classified on the basis of their aim related to the future of organisation. Every organisation aspire to expand and grow in future and hence design its strategies accordingly. There are other firms which aspire for survival and stability. Therefore Strategies can be classified into two broad categories-Growth strategy and Stability Strategy and given as under:

a) Growth Strategy: These are the strategies which aim at improvements from current position of the organisation in a positive direction. These aim at increasing the profitability. The profitability can be increased by any of the following ways:

- Increase in scale of operations
- Venturing into new markets
- Developing innovative products
- Adopting new technology
- Increase in market share
- Investing in brand name and so on.

An organisation can grow in two directions i.e. Vertical, and horizontal. These are called as horizontal integration and vertical integration. Horizontal integration is when a firm grows by expanding its current operations or we can say by acquiring a company in the same line of business as they are. Vertical integration on the other hand is when an organisation grows by moving backward or forward in their supply chain or we can say they acquire a company above or below them in terms of operations in supply chain. Vertical integration are of two types backward vertical integration and forward vertical integration. For example, if Starbucks expand its retail outlets at national and international level it is horizontal expansion. If Starbucks expand its scale of operation by buying coffee farms to create its own source supply of fine coffee beans it is vertical expansion (backward).

Growth strategies are long term strategies. In order for an organisation to grow there are various variables it need to study and analyse such as technology, customer, suppliers, demography, markets etc. A careful analysis of all these factors will help an organisation in



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designing the appropriate strategy. This is because as growth strategies are rewarding, they are equally risky. They involve huge funds, time and stakes of lot many people.

b) Stability Strategy: These are the strategies aimed at maintaining the current position of the organisation. Here the organisation does not make any new investments rather it tries to survive in the market. These organisations have smaller scale of operation and little changes are made to ensure the continuity of business. These strategies require little analysis. It is one the safest way to play in the market. An organisation adopts stability strategy when:

- It does not want to attract more competitors to market.
- The product it is selling is of social interest or belongs to a non-profitable sector.
- Perfect competition in market-too many buyers and sellers.
- Stable demand in markets or we can say mature markets.

ACTIVITY

Organise a class seminar on the topic, “Need and Importance of Strategic Planning.” And also discuss that can you beat the competitor by eframing such plans.

IN-TEXT QUESTIONS

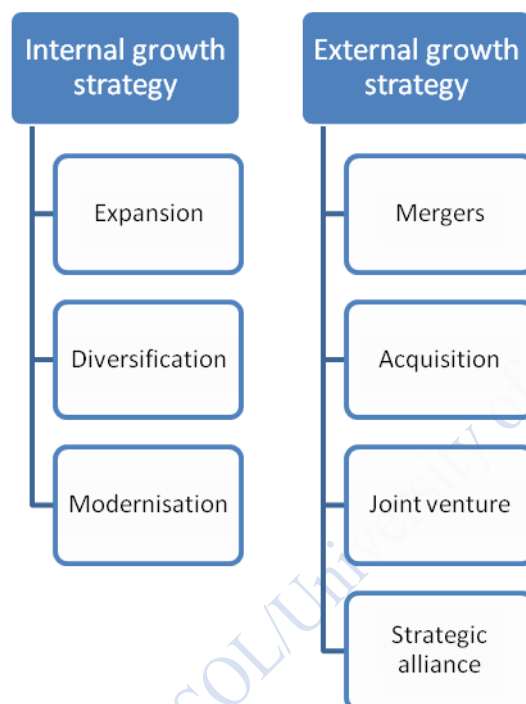
1. Strategic planning is known as _____.
2. _____ is more than a step-by-step exercise.
3. strategic planning is done at _____ of management.
4. strategic planning is formalization of planning where plans are made for _____ periods.
5. strategic planning is done by _____ managers.

6.5 TYPES OF GROWTH STRATEGY

An organisation can grow on its own or it can grow with the help of others. When an organisation expand its internal operation, resources, networks and markets, it is called as



internal growth strategy. When an organisation expand by combining itself with other firms by merging, amalgamation, takeovers, it is called as external growth strategy. Different types of internal and external growth strategies are described as follows:



6.5.1 Internal Growth Strategy

In internal growth strategies, a business can increase its revenue by designing new products, by increasing its market share or increasing its scale of operations or venturing into new markets. It is also called as Expansion. Growing internally brings lot of benefits for an organisation which are listed as follows:

- By increasing the scales of operations a business can gain benefits of economies of scale which comes in the form of lower cost and increased bargaining power.
- Through expansion a business can reduce its dependence on external parties such as suppliers for raw material. Suppliers can create disturbance in working of organisation by raising its prices or stopping the supply of products. An organisation can reduce this risk through backward vertical integration.
- Internal growth strategy generate knowledge set in the form of new experiences for an organisation. When an organisation expand internally, it gets experience of new products, new technology, and new markets and hence increase its skill set.



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- By expanding in the market, an organisation create barriers of entry for new competitors. It becomes difficult for new entrants to match up with the scale and brand name of big organisations.

6.5.1.1 Ansoff Matrix:

Ansoff matrix is a very popular strategic tool for internal growth of a firm. This matrix provides pathways for expansion of a firm. One axis of the matrix represents Product side of organisation and other axis represents the market side of organisation. These axis represents two extremes new and existing, thereby creating four quadrants as depicted in table below:



- a) **Market Penetration:** The first quadrant explain the first strategy i.e. Market penetration. As the two sides of quadrant states existing product in existing market, market penetration is about increasing the market share of a firm. Here the firm tries to increase its profitability through mass selling and distribution. For this, a firm make various strategies these are listed as follows:

- Spreading awareness about the product.
- Rewarding customer for loyalty towards the product
- Offering discounts or reducing the per unit price of the product.
- Capturing the market share of other firm either by defeating them or joining hands with them.

Market penetration is a suitable strategic tool when market is too wide to be saturated. A firm can rule the same market for decades with the same product. Examples are Maggie, Cadbury, Nestle coffee and so on. This strategy is cheaper in terms of investment in production and innovation but it is expensive in terms of promotion.



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b) **Market development:** This strategy is about venturing into new markets but with the existing product. Firm usually resort to this strategy when there is saturation in the existing market. However, today with globalisation and increase in scale of operations, firms deliberately operate in multiple markets. This strategy gives following set of advantages to a firm:

- Operating in multiple markets helps a firm in increasing profitability through wider customer base.
- Firm can hedge the losses in one market through profits in other markets.
- Firm can increase its popularity and strengthen its brand name.
- Sometimes in order to aggressively fight a competition, a firm operates in multiple markets. For example: with coca cola coming to India, Pepsi followed it so as to cut down its profits in the Indian market. This is also called as multi point competition.
- Market development becomes the obvious strategy when the existing markets reach maturity.
- Lastly, this strategy is low cost in terms of investment in production.

However, with market development comes lot of challenges as well. This strategy may require establishing another branch to exclusively deal with working of new markets. It may lead to problem of coordination and may also lead to conflict of interest in between departments. In order for this strategy to work best in interest of organisation, a firm need efficient infrastructure and technology that can help in establishing the coordination amongst various departments. There is also a possibility that a firm may not find its share in the new market. Therefore a firm should test the profitability and accessibility of new markets before venturing into them.

Example of Market development are brands like Nike, Adidas expanding globally to cater to markets of different countries.

c) **Product Development:** This strategy is about staying in the existing market but serving it with new products. With globalisation and increased competition, a firm can survive in market only when it keep itself and its product up to the demands of customers. There are certain industries such as food, fashion, mobile phone where needs of same group of customers changes quickly. In these cases, a firm does not have a choice but to innovate. If a firm does not innovate, it will not be able to survive in market. Product development is not about giving a new product but it can also be about improvements in existing product. These improvements can be in terms of new packaging, attributes, quality etc. for a firm to make these improvements, it is



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necessary to make continuous investment in innovation. This strategy is an expensive strategy as it requires lot of time, energy and investment in production and designing of new product, however it may fail if the existing market does not acknowledge this innovation. Therefore, a firm should study its market, their needs, trends and future scenarios. A firm should be farsighted and should anticipate the success rate of product in advance. The key to success with this strategy is brand name. If a firm has strong brand name and loyal customer base for existing product, it can leverage upon it for the promotion and sale of new product. It should gain the trust of the customers before introducing them with new products. In case, a firm does not have a good image for existing product, it can go for different brand name for the new product as well.

Example of Product development: Iphone5, Iphone6 and now Iphone10 are perfect examples of continuous product development by Apple. Each product is new in style and features thereby serving the same market with new and better products.

d) Diversification: This is the strategy where firm venture into the new market with new product. This is most risky strategy of all as firm is new with both the product and market. However, the irony is diversification strategy also lead to hedging or insurance against the risk. This is because if a firm has its portfolio of different products in different markets, the losses in one market can be covered through profits in other market. In order for diversification strategy to work as risk minimising tool, a firm has to be careful about the market and product portfolio. It should have a portfolio where one product respond differently to market variables in comparison to other. Many firms such as TATA have products like salt on one hand and automobiles on the other. Here one product comes in luxury and other comes in necessity hence these will respond differently to boom and recession cycles of economy. Diversification strategy is most challenging of all. These challenges are listed as follows:

- Require lot of investment in terms of time, money, energy.
- Different unrelated products can create confusion in mind of people.
- A firm may need to promote different products under different brand names which will require separate promotions.
- Diversification puts lot of burden on internal management of the organisation. In order to avoid conflicts, a firm need to be well coordinated with information systems.



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The Diversification can be of two types-

- **Related diversification:** Related diversification happens when a firm moves into a new industry but it shares one or other similarities with existing functioning of firm. For example: Samsung produces smart phones, televisions, laptops, refrigerator which are different from each other and cater to different market needs but they all come under the umbrella of electronics and technology. In case of related diversification, a common brand name can be used for all products rather than investing in separate brands. This sort of expansion strategy helps in creating a consistent brand image in the eyes of consumers.
- **Unrelated diversification:** In this strategy, a firm diversify into an industry which does not share any similarities with respect to production or designing with the existing functioning of the organisation. For example: Godrej has refrigerator or one hand and hair colours on the other hand. These are unrelated products. The purpose here is to diversify the risk but at the same time unrelated diversification complicated the internal management of the company. As each business unit has its own market, goals and departments. It leads to duplication of efforts and increase in cost.

CAN YOU THINK OF ANY COMPANY WHO HAS COVERED ALL THE QUADRANTS WITH ITS STRATEGY?

HINT: COCA-COLA

6.5.2 External Growth Strategy:

It is a strategy where an organisation expand its production and operations through other organisations in the industry. There are various ways to do this such as Mergers, joint ventures, take-overs, amalgamation. Different external growth strategies are suitable in different circumstances. One word that can very well describe this strategy is Collaboration. It is about working jointly for a common purpose or goal. A firm can opt for external growth strategy under following circumstances:

- **Insufficient internal resources:** These are the situations where a firm wants to expand its operations but it may not have enough funds to make that expansion. In this case a firm may look for raising the funds through market on interest or it can collaborate with the firm having enough resources but lacking ideas of expansions. In this case, external growth strategy is a win-win game for both the organisations.
- **Part of strategy to fight competition:** External growth strategy is not just about expansion. In order to fight competitors, a firm may collaborate with its suppliers,



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distributors or buyers in the form of alliances. These alliances help a firm in gaining competitive advantage in the market.

- **Cartelisation:** With an aim to increase market share, two or more firms competing with each other can join hands together and form a cartel. This arrangement can be official or it can be at the back end. These cartels help all the firms in bringing together the resources and attacking the market. These practices are generally restricted by Government as they can exploit buyers but sometimes such arrangement save money and energy which otherwise gets wasted only in dealing with competition. The resources so pooled together can also work in the interest of customer and economy.
- **Defensive strategy:** External growth strategy is also a mechanism of defence. When a firm's internal resources falls short to fight the threats of external environment, it can defend itself by joining a stronger firm. Dissolution of a firm harms the economy as well as the interest of lot of people associated with it. External collaboration may involve changes in working and authority of management but helps a firm in maintaining the continuity.

6.5.2.1 Types of External Growth Strategies:

The various types of external growth strategies are discussed as follows:

- **Merger:** A merger is combining of two or more firms to formulate a single firm by losing their individual identities. This is done to increase its scale of operations, reduce its cost and bring strengthen its existence in market. Merger is an amazing strategic decision when two firms have competitive edges in different areas or when one firm is weak in one area and instead the merging firm is stronger in that area. In merger, both the firms have equal standing. Both are strong and mutually decide to become one. The assets and liabilities of two firms are combined and new shares are issued for the new company created after the merger. **Example of Merger:** Merger of Facebook and Instagram in 2012
- **Acquisitions:** An acquisition is when company purchases the maximum stakes in other company. The firm whose shares has been purchases becomes the subsidiary of Purchaser Company. The subsidiary company's assets and liabilities comes under the holding company and hence subsidiary loose its legal identity. Acquisitions helps a company to diversify its business portfolio. Firms having good financial position may strategically acquire a company to add to its set of competitive advantages. Generally acquiring firm targets a company with strong brand name but weak financial position or with huge potential to earn profit.



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However, the acquisitions are not always smooth. There are two types of acquisitions- Friendly and hostile/take-overs. In case of friendly acquisition both the firms mutually decide and settle for a price at which acquiring firm is going to buy stakes in other firm. It happens under the knowledge and with the agreement of both firms but in case of hostile acquisitions, the acquiring firms take advantages of low market prices of shares of other company and buys maximum shares at that price. It is also called as take-over. Here the approach of acquiring company is aggressive. The other company is left with no choice but to do its operations under the other company. **Example of acquisition:** Amazon acquires whole foods; Sun pharmaceuticals acquires Ranbaxy.

- **Joint-ventures:** Joint Venture is an arrangement where two firms join hands together to meet each other's requirements and to achieve a common business goal. Here the firms work together with each other without losing their individual entities. They pool together their resources and work in partnership with each other. It can also be called as sort of agreement where parties decide to work together and share profits in specific ratio. Joint ventures are always formed for a specific goal and hence they are time bound. After the completion of objectives, both firms get back to their own working. Joint ventures can be created for different reasons such as venturing a new market, trade barriers in international market, barriers to entry, synergy benefits etc. **Examples of joint venture:** Maruti and Suzuki came together to manufacture automobiles under the brand name Marutisuzuki.
- **Strategic alliance:** These are non-equity based agreements between the two companies. Here just like joint venture, the two companies come together to work on core areas of working of firm such as designing, production, promotion, distribution, research and development etc. these are called non-equity based agreements because it is an agreement to work together without sharing any resources and without one company buying stakes in other company. Here the firms come together to form partnership with other big companies with strong brand name or having key technological know-how i.e. the purpose of collaboration is strategic in nature. **Example of strategic alliance:** Spotify and Uber have partnered to provide stereo control to Uber customers. Not every Spotify consumer uses Uber, nor does every Uber rider have a Spotify account. The strategic alliance allows each company to pursue prospects from the other's existing customer base, all while continuing to promote both products.



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6.6 DIFFERENCE BETWEEN MERGER, ACQUISITION AND JOINT VENTURE

The differentiation among these are as under: -

Basis	Merger	Acquisition	Joint Venture
Individual Identity	Here two firms merge to form a new firm. Both the firms lose their identities	Here one firm acquire another one, the firm which is acquired loses its identity.	Here two firms come together for a specific purpose for a certain period of time maintaining their individual identities as well.
Illustration	A and B merge together to create a firm named as C	A acquire B, and now only one company exist i.e. A	A and B come together for a project in the name of company AB.
Resources	Resources are pooled together under a common ownership	The assets and liabilities of acquired firm get transferred to parent firm.	Both the firms contribute towards resources in certain ratio.

ACTIVITY

Organise a class seminar on the topic, “Impact of Merger, Acquisition and Joint Venture on the Employment Generation and Economic Development.”

IN-TEXT QUESTIONS

6. Strategic planning is based on _____ environmental scanning.
7. Strategic planning is a _____ process.
8. The merger of J. P. Morgan and bank One is the example of _____.
9. America Online (AOLs) acquisition of Time Warner is an example of _____.
10. A strategic planning is _____ in nature.



6.7 SUMMARY

In today's competitive world, strategic planning is key for every organisation playing at national and international level. Analysis techniques as well as software's are available today to assist managers in this task. A constant vigil on external environment will help in grabbing opportunities at right time and preparing a defence for threats. Mission and vision are statements that remind an organisation about what it is and what it aspires to become. Unlike objectives, both mission and vision statements are neither specific nor put in quantitative terms. This is about designing various strategies at all levels of organisation for achieving goals.

6.8 GLOSSARY

- **Acquisition:** When one company buys most or all of the shares of another company, it gains control of that company. Buying more than 50% of a target company's stock and other assets gives the acquirer the authority to make decisions about the newly acquired assets without the approval of the company's other shareholders.
- **Joint Venture:** A joint venture is a partnership between two or more parties to develop a single enterprise or project for profit while sharing the risks associated with its development. The joint venture must have at least two natural persons or entities as partners.
- **Long-Term Planning:** It entails goals that take longer to achieve and require more steps; they typically take at least a year or two to complete. They intend to permanently resolve issues and achieve and sustain success over time.
- **Management:** Management is the administration of an organisation, whether a business, a non-profit, or a government body. It is the art and science of managing a company's resources.
- **Manager:** A manager is someone who is in charge of supervising and motivating employees as well as directing an organization's progress. A manager is someone who is in charge of customer service, handles customer complaints, and oversees and supervises customer service representatives.
- **Merger:** A merger is an agreement that combines two existing businesses into one new one. There are various types of mergers, as well as various reasons why companies complete mergers. Mergers and acquisitions (M&A) are frequently used to broaden a company's reach, expand into new markets, or increase market share.



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- **Short-Term Planning:** It is typically thought to take 12 months or less. Your daily, weekly, monthly, quarterly, and yearly goals can all be classified as "short-term goals." They are stepping stones that will assist you in reaching your ultimate goal (s).
- **Strategy:** A strategy is an action taken by managers to achieve one or more of the organization's goals.
- **Strategic Planning:** It is the process by which an organization's leaders define their vision for the future and identify the goals and objectives of their organisation. The process includes determining the order in which those objectives should be achieved so that the organisation can achieve its stated vision.

6.9 ANSWERS TO IN-TEXT QUESTIONS

1. Long-Term Planning	6. Extensive
2. Strategic Planning	7. Continuous
3. Top Level of Management	8. Horizontal Merger
4. Longer Periods	9. Vertical Merger
5. Managers	10. Analytical

6.10 SELF-ASSESSMENT QUESTIONS

1. What do you mean by term strategic planning and how is it different from traditional planning?
2. Explain the different types of strategies. Explain the difference between internal and external growth strategy.
3. Explain meaning of internal growth strategies. What are the various internal growth strategies a firm can use? Explain with the help of examples meaning of each and every strategy along with their advantages and disadvantages.
4. What are external growth strategies? Discuss the various types of external growth strategies in detail.
5. Write short notes on:
 - Difference between merger and acquisitions
 - Acquisitions, mergers and joint ventures
 - Horizontal and vertical integration



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- Related and unrelated diversification
- Synergy

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LESSON 7

BUSINESS ENVIRONMENT

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STRUCTURE

- 7.1 Learning Objectives
- 7.2 Introduction
- 7.3 Nature of Business Environment
- 7.4 Components of Business Environment
- 7.5 Environment Analysis and Diagnosis
- 7.6 Significance of Business Environment Analysis
- 7.7 Techniques of Environmental Analysis
 - 7.7.1 SWOT Analysis
 - 7.7.1.1 How to use SWOT Analysis?
 - 7.7.1.2 Strategizing with the help of SWOT
 - 7.7.1.3 Benefits of using SWOT Analysis
 - 7.7.2 TOWS Analysis
 - 7.7.3 PESTLE Analysis
 - 7.7.4 Industry Analysis
 - 7.7.4.1 BCG Matrix
 - 7.7.5 Porter's Five Forces Framework
- 7.8 Summary
- 7.9 Glossary
- 7.10 Answers to In-Text Questions
- 7.11 Self-Assessment Questions
- 7.12 References
- 7.13 Suggested Readings



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7.1 LEARNING OBJECTIVES

After studying this chapter students will be able to understand: -

- The meaning of term management
- Nature/characteristics of management
- Functions of management
- Role, importance and levels of management in an organisation

7.2 INTRODUCTION

Business environment refers to sum total of all the factors that directly or indirectly affect the operations and profitability of a business enterprise. It includes employees, customers, competitors, and political, social and economic factors, legal factors and so on. There are certain factors of this environment that a business can control but there are certain factors which are completely beyond the control of it but affect it adversely. The factors which a business can control directly or indirectly, they constitute as part of internal business environment and the factors it cannot control are usually called as external business environment.

7.3 NATURE OF BUSINESS ENVIRONMENT

The nature of business environment is given as under: -

- **Complex:** As already stated business environment is sum total of factors i.e. it consists of various factors all of which affects the working of different organisation differently. Sometimes a similar factor may be favourable for one organisation and the same may not be favourable for another. Therefore it is very important to understand these factors individually as well as a whole.
- **Dynamic:** The external business environment of an organisation changes continuously thereby bringing lots of challenges and opportunities for a business. It is important for an organisation to monitor and scan these factors and to be adaptive towards them.
- **Interrelated:** All the factors of business environment are interrelated and interdependent on each other. For example: Introduction of Goods and Service taxation system has brought changes in political and economic policies of India.



- **Unpredictable:** A business can only anticipate the working of these factors but it cannot predict them with accuracy. The dynamic nature of business environment makes it uncertain and risky. For example: No business in their worst nightmares anticipated a nation going into a lockdown due to a virus (COVID-19).

7.4 COMPONENTS OF BUSINESS ENVIRONMENT

Total business environment of an organisation can be studied into three parts-Micro, Meso and Macro environment. These three can be called as three layers surrounding a business organisation given as under:

- **Micro Environment:** It consist of all the factors that are directly related to the business organisation. They can also be called as stakeholders having direct interest in the working of an organisation. These include buyers, consumers, suppliers, distributors etc. Although they are external to an organisation but they play a great role in decision making and affecting the performance of a business. This is the first layer of external environment of a business.
- **Meso Environment:** The second layer is **Meso environment**. The line between the micro and meso environment is bleak. Meso environment include all the factors which do not affect the working of a particular organisation but affect all the organisations in a particular industry. They are industry specific rather than firm specific. These include substitutes, industrial laws, policies, Supply side of industry, barriers to entry etc. As these factors are industry specific, it is very difficult for an organisation to control them. However, if a firm has natural monopoly, strong brand name and wide market share it is capable of becoming a leader in controlling these factors.
- **Macro Environment:** The third layer is **macro environment**. It includes all the factors which do affect any individual organisation but affect all the business organisations of all industries. This affect can be favourable for some or can be unfavourable for others but duly affect all types of organisations. These factors are broad enough to be controlled by any particular industry or firm. These includes political, legal, international, socio-cultural factors and economic factors. As these are completely out of the control of an organisation, they need to be monitored and analysed carefully.



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7.5 ENVIRONEMENT ANALYSIS AND DIAGNOSIS

Environmental analysis is a process of identifying all the factors internal as well as external which affect or can potentially affect the working of organisation. Once the factors are identified, environmental diagnosis is done to understand how these factors affect the working. An understanding about their working help managers in designing strategies and taking key decisions.

Environment analysis need to be supplemented with information system that can keep continuously scan internal and external environment and provide up to date and accurate information.

7.6 SIGNIFICANCE OF BUSINESS ENVIRONMENT ANALYSIS

With reference to system theory of management, we can say that every business is a sub-system operating under the total system divided in three layers. This is called as business environment. As already stated that business environment is dynamic and complex. A business cannot operate and survive without taking into account these factors especially today when there are not only national but also international factors at play. Majority of the businesses and start-ups today are ambitious and aggressively approaching the market with new and innovative ideas. In such a scenario, a business need to scan and monitor its environment. The significance of studying business environment is explained below:

- **Knowledge of emerging opportunities:** The analysis of business environment helps an organisation in detecting the emerging opportunities in business world. An organisation, with the help of its internal factors can grab these opportunities and increase its profitability. In fact, it can maximise the benefits of these opportunities by becoming the first one to grab them. Environment scanning, monitoring, analysis and diagnosis
- **Knowledge of threats:** Awareness of business environment helps an organisation in identifying the potential threats. These are the factors that may negatively affect the working of an organisation. By anticipating such factors, a business can strategies it's working well in advance.
- **Prepare leaders for tomorrow:** Managers who study and analyse the environment involve themselves in a continuous learning process. They understand the changing environment and their possible repercussions on working of organisation. Undertaking the challenges of business environment makes them far-sighted and spontaneous for contingent situations.

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- **Flexibility in working:** Organisation which analyse their environment continuously understand the importance of change and hence they maintain flexibility in their working so that as and when need arises they adapt to the change.
- **Determines a business success:** A successful business organisation is one which studies its environment carefully. Sometimes, an organisation itself work as leader for bringing the change in society and this is where the success of a business is determined.

ACTIVITY

Discuss in the class about the need and importance of analysis of business environment.

IN-TEXT QUESTIONS

- Which of the following is not a characteristic of the business environment?

(a) Interconnected Elements	(b) The dynamics
(c) Complicatedness	(d) Constant
- One of the most important aspects of the business environment is the identification of opportunities to gain a competitive advantage.

(a) True	(b) False	(c) Unable to say
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- Which of the following statements does not accurately describe the impact of government policy changes on business and industry?

(a) Growing competition	(b) More discerning market clients
(c) Market inclinations	(d) Price changes in agriculture
- External factors that are likely to create obstacles for a company are referred to as .

(a) Possibilities	(b) Caution
(c) Dangers	(d) None of the above
- Which of the following are business environment dimensions:-

(a) Economic and Social	(b) Economic and technological
(c) Legal and Social	(d) All of the preceding

Management Principles and Applications**7.7 TECHNIQUES OF ENVIRONMENTAL ANALYSIS**

The following techniques have been used to analyse the business environment:

7.7.1 SWOT Analysis:

It is a technique of environment analysis acronym for Strength, Weaknesses opportunities and threats. It is simple yet powerful technique of environment analysis. It was designed by management consultant Albert Humphrey at the Stanford Research Institute in 1960s. It gained popularity due to its simplicity and applicability in all sorts of organisations and is popular till date. This analysis is done in the form of a matrix divided into four quadrants, one representing strength, second weaknesses, third opportunities and then last threat.

INTERNAL ENVIRONMENT	
STRENGTH (S)	WEAKNESSES (W)
OPPORTUNITIES (O)	THREATS (T)
EXTERNAL ENVIRONMENT	

- **Strength (S)** refers to all the factors which work in favour of organisation. These can be stated as set of advantages that gives organisation an edge to fight competitors, claim better prices for its products, and increase its bargaining power in front of suppliers. These factors can be tangible such as investment, scale of operations, assets, technology or they can be intangible such as goodwill, strong brand name, loyal customer base, skilled capital and so on.
- **Weaknesses (W)** refers to all the factors that work against the organisation. They hamper the working of organisation and if not corrected may also become the reason for downfall of the organisation. These are opposite of strengths. Examples of weakness can be- mismanagement in organisation, lack of loyal customer base, weak brand image, lack efficient and skilled workforce and so on.
- **Opportunities (O)** refers to all the factors which act as stimulator in growth of an organisation. They are the set of favourable policies, decisions, trends and changes in markets that if grabbed can multiply the profitability of an organisation.
- **Threats (T)** refers to all the factors which act as hindrances or blockages in the path of organisation. These can be changes in exchange rate, law suit against firm, political



disturbances and so on. These also include the contingencies of future which cannot be predicted as per normal human intellect like natural disasters such as earthquake, virus attack etc.

Strengths and Weaknesses are Internal to an organisation whereas opportunities and threats are part of external environment of an organisation.

7.7.1.1 How to use SWOT Analysis?:

An organisation can use SWOT analysis by listing down all the points of strength, weaknesses, opportunities and threat. It is not a onetime technique rather it should be used continuously. All the factors of firm's micro and macro environment should be classified in appropriate quadrant. It requires application of intellect by manager but now-a-days lot of software's are also available to assist manager in this task.

7.7.1.2 Strategizing with the help of SWOT:

Once the factors have been listed, the next step is to design strategies. The strategies should be designed in such a way that a firm is able to maximise the benefits from its opportunities, minimise the risk from threats, optimally use its strength and overcome its weaknesses. These strategies are discussed in detail in the next environment analysis technique.

7.7.1.3 Benefits of using SWOT Analysis:

The following are the benefits of using SWOT analysis: -

- It is a comprehensive tool which studies both internal as well as external factors of the organisation.
- It is applicable to all sorts of organisations irrespective of their size.
- It can be used both as a technique of analysis as well as for designing the strategy.

However, SWOT analysis is a tool in the hands of a manager. It is on the skills and intellect that he can classify different factors in different quadrants. For one manager, a factor can be strength and for other it can be weakness. It is based on subjective judgements of manager. Therefore, SWOT analysis should be supplemented with objective information, facts and figures to bring accuracy in its working.

7.7.2 TOWS Analysis:

TOWS analysis is extension of SWOT analysis. It is a framework which begins once the analysis of environment has been done as per SWOT. It is more of strategic tool than being a tool for analysis only. It focuses upon taking action, designing strategies and making key decisions. But why its name is TOWS? This is because it is SWOT analysis spelled



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backwards. SWOT analysis is not just an acronym but the name also indicates the direction of analysis i.e. first internal environment of an organisation is studied and then external environment is analysed but for designing strategies TOWS suggest that first external environment need to be studied and then internal environment is adapted. One of the shortcomings of SWOT analysis is that it does not match the four factors with each other. For example: once the weaknesses are listed it does not tell how to overcome them. These questions are answered by TOWS analysis. SWOT analysis matches internal factors with external factors and come up with four different broad strategies. These strategies are listed as follows:

- **THE SO STRATEGY:** The first quadrant is created by matching strength with opportunities. This is also known as Maxi –Maxi Strategy because here firm wants to maximise on both the variables i.e. strengths as well as opportunities. This is the quadrant with maximum benefit for the firm. The opportunity present in the market exactly matches to its strength and if grabbed nicely may lead to multiple benefits for organisation. An organisation need to approach it aggressively and design an appropriate course of action. *For example: PAYTM took immediate benefit when Demonetisation was introduced in India.*
- **THE WO STRATEGY:** The second quadrant is created once the weaknesses are matched with opportunities in market. Here the strategies should be designed in the direction of change, learning, improvement and breaking the status quo. An organisation who is not able to grab opportunities because of weakness may stand to lose in competition if it does not work in direction of change. For example: If a new technology is introduced in market for which an organisation need a skilled labour base than an organisation can start training its unskilled workers. It should convert its weakness in strength. This is also known as min-max strategy i.e. Improve internal weaknesses by using external opportunities. *For example: Us companies outsourcing accountancy and engineering work to India on account of cheap labour available. They are reducing their costs as their internal labour is expensive for such works.*
- **THE ST STRATEGY:** Third quadrant is when threats in external environment are matched with internal strengths. Here, an organisation's purpose is to minimise the consequences of threats by leveraging upon its strength. It is also called as Maxi-Mini Strategy. Here a firm need to be smart enough to play its strengths in order to fight threats. *For example : Maggie was charged with a legal suit which leads to its ban for a certain period of time in market but Maggie overcame it through a loyal customer base and a strong brand name. it re-established itself into market with same liking in minds of people.*

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- **THE WT STRATEGY:** This is the last quadrant where threats in external environment are matched with weaknesses. It is the quadrant with maximum risk. Here the position of a firm is very weak and it needs to design its needs to be defensive in its approach. It is also called as Mini- Mini Strategy. At this quadrant, firms usually resort to mergers, joint ventures, retrenchments, shutting down of some departments and so on.

Hence, TOWS is simple and easy to use tool for strategy designing. It serves the most important purpose of strategic planning i.e. designing strategies as per the environmental variables. Both SWOT and TOWS should be used in complement to each other.

i. TOWS MATRIX	ii. OPPORTUNITIES	iii. THREATS
iv. STRENGTH	v. SO STRATEGY (SO)	vi. ST STRATEGY (ST)
vii. WEAKNESS	viii. WO STRATEGY (WO)	ix. WT STRATEGY (WT)

7.7.3 PESTELE Analysis:

It is an analysis tool for external environment of an organisation. It is used to study all the macro environment factors surrounding an organisation. Originally it was named as PEST as acronym to Political, Economic, Social and technological factors. Over a period of time, it was revised with the emerging key factors such as Environment, Legal and Ethical factors. These factors are explained in detail as follows:

- a) **Political factors:** These are the forces of governance of a nation and their interference in the economic activities of its citizens. Political stability, transparent and democratic governing system is key to development of a nation and aids in development of organisations as well. These factors include:
- Political system which may be democratic or autocratic
 - Ideologies of governance which can be individualistic or collectivist
 - Government interference which may range from laissez fair to fully controlled economy.
 - International relations i.e. political relations with other countries
 - Political standing in international organisations.
 - Political stability and acceptability i.e. a stable government



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Government is one of the key stakeholder of a business. It can bring favours and opportunities for an organisation with its favourable policies such as subsidies, removal of tariffs, and promotion in exports etc. but sometimes may create hindrances in their working as well such as increased taxes, banning exports and imports, international wars, lack of political stability and so on.

- b) **Economic factors:** These are the factors which affect the level of economic activity in a country. These include:
- Level of economic growth: developed, developing, transitioning or underdeveloped economies.
 - Nature of economic system: socialistic, capitalistic or mixed economy
 - Foreign exchange rate system: fixed exchange rate or flexible exchange rate system
 - Economic indicators: inflation rate, interest rate, income level, GDP etc.
- c) **Social factors:** These includes factors which indicate the way a society is organised and sub-divided, culture, beliefs and values they share and even changing patterns of society. These are complex factors as they can only be observed and cannot be studied. They need to be respected as people are very sensitive about them. These factors include:
- Social system- caste system, class system etc.
 - Religions
 - Traditions and customs
 - Festivals
 - Lifestyle and preferences
- d) **Environmental Factors:** These are the factors which have become active in the last ten years. Due to nations rapidly growing in race of globalisation, increased industrialisation, lose environment laws-natural resources were getting shrink, pollution levels were rising and energy is getting exhausted. These factors include:
- Concern for Energy-emergence of solar energy, energy saving devices
 - Concern for natural resource saving and their optimal utilisation
 - Environment laws
 - Sustainable development issues
 - Green production and consumption



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Businesses today are gaining competitive edge on the basis of these factors. Although environment friendly products come in luxury consumption but more and more competition can bring their prices down.

e) **Legal Factors:** The legal environment refers to the principles, rules and regulations established by the government. These regulations are a result of various legislations. These include:

- Legal system such as theocratic laws, common laws or civil laws
- Emerging laws and amendments such as corporate social responsibility laws
- Product safety standards and product liabilities
- Consumer rights and competition law.

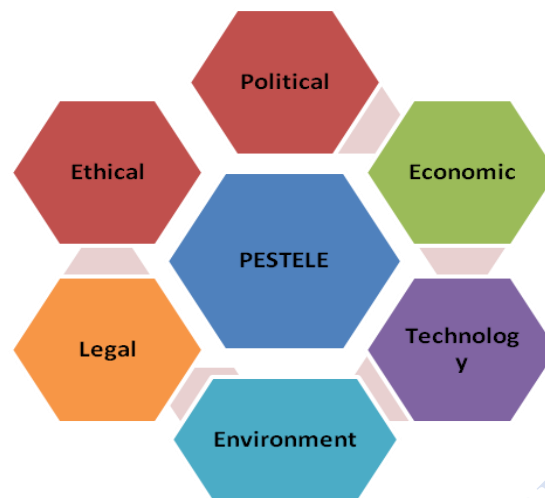
f) **Ethical Factors:** These are the factors which concern for basic value system that must be adhered to. It questions the acts of businesses which may be acceptable on all other grounds but are not acceptable on ethical grounds. These are principles of conduct violation of which may not involve any punishment but they may destroy the image of a business. These include:

- Healthy competitive practices
- Social responsibilities
- Respecting diversities
- Fair trade-playing by the rules of the game
- Ethical marketing practices

Thus PESTEL analysis is based on analysing all the factors in external environment of an organisation. A firm need to study all the factors and mark for itself the policies and laws that can be used as opportunities or which can impose a threat on it. PESTEL analysis can also be used in combination with SWOT analysis. After analysing the external environment through PESTEL, it can go on to analyse its strength and weaknesses and design its strategies accordingly.



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Source: Businessjargons.com

7.7.4 Industry Analysis:

Techniques like SWOT, TOWS, PESTEL analyse the internal and external environment of an organisation i.e. they study broad factors of external environment. There are certain factors which are specific to a certain industry rather than a single organisation. These factors are especially important in case of businesses having multiple units or departments belonging to different industries. Following are the tool of analysis to study industry specific factors.

7.7.4.1 BCG Matrix: It is a tool of analysis given by Boston Consulting Group to evaluate the position of different units of a business in an industry. It creates a portfolio of different business units to understand which business units should be shut down or which business units should be continued. This analysis is done not only on the basis of their past performance but their potential for growth as well. So this analytical tool is futuristic in nature. As it is also a matrix tool of analysis just like SWOT and TOWS, it has four quadrants where one axis represents industry attractiveness and other axis represents market share of firm.

- a) **Industry Attractiveness:** It refers to the pace at which a particular industry is growing. The growth of an industry is measured in terms of increasing market demand for products and services. For example: In India now there is increasing demand for ready to eat products, hence the industry for packed goods is booming. There can be number of reasons for growing market demand in an industry, it can be related with changes in demographic factors, favourable government policies and so on. Taking the above examples, we can say that ready to eat products are in demand due to increasing number of women are becoming financially independent. A



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booming industry becomes attractive for many markets as they generate immediate returns but at the same time they require immediate investments and consumes liquidity.

- b) **Market Share/ Position:** It refers to current position of a business in comparison to its competitors in the industry. It is measured in terms of market share. A firm having a bigger market share tend to enjoy lot of benefits in comparison to its competitors such as economies of scale, market returns, barriers to entry etc.

In BCG matrix, these two factors are measured at two extreme scales ranging from high to low. The combination of market share and industry attractiveness give rise to four quadrants in which business units can be classified. These four quadrants are explained as follows:

- **Dogs.** This quadrant represents business units which hold low market share compared to competitors and are operating in slowly growing market. This means they are consuming lot of investments and have very little potential for releasing the returns which further means that they are not worth investing into as their current position is weak as well as their potential of growth is also weak. The appropriate strategies here are disinvestment, layoff and shut down etc.
- **Cash cows.** It represents the quadrant where business units have good market share relative to its competitors but the industry they belong to show have lower growth rates. These business units belong to mature markets. These business units generate good returns but at the same time should not be invested into as their future potential for growth is weak. They are called cash cows because an organisation can milk other units with the help of revenue generated from them. All a business need to do is to spend on their maintenance. The possible strategies for these business units involve cost reduction through retrenchment, outsourcing or they can be revived through strategies such as product development or market development.
- **Stars.** This quadrant represents business units operating in high growth industries and have huge market share. These units belong to growing markets and hence are both generator and user of cash. They constitute as key units of organisation. Stars are the business units which can be supplemented with cash generated from cows. Once stars becomes mature they can also be milked like cash cows. The strategic choice here for business is to aggressively fight competition through increased promotion, continuous investment in research, development and innovation.
- **Question marks.** This quadrant represents business units which have low market share in fast growing industries which means that they consume lot of investment but are not giving returns. This is a state of dilemma for a firm as their potential for



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growth is good but at the same time there is no guarantee of success. Therefore, a very thorough analysis is required before making decisions in this area.

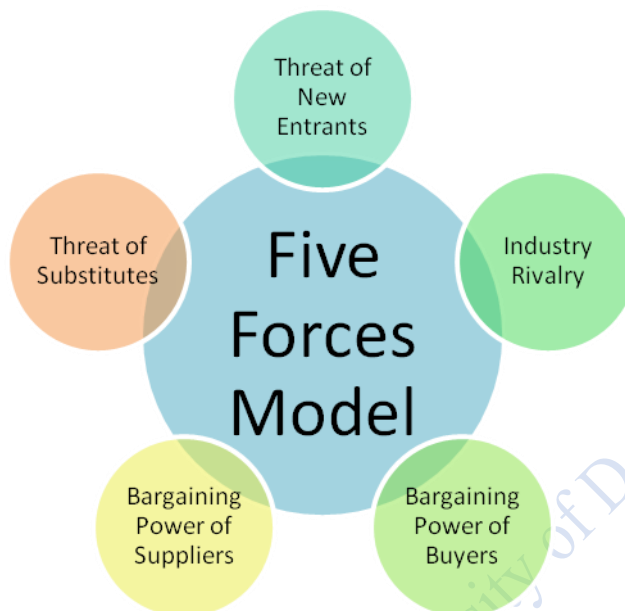
	High market share	Low Market share
High industry growth rate	Stars	Question marks
Low industry growth rate	Cash cows	Dogs

Therefore, BCG matrix is a simple analytical tool to create portfolio of various business unit. It provide a glimpse in one go about strategic position of all the business units. However, BCG is a theoretical tool which does not consider the practical aspects of business. For example: Dogs can be useful for fighting and giving competition to other organisations. It is difficult to classify businesses in clear categories as sometimes there could be business units which does not fall in any category. Along with this it does not take into account how all these business units support each other. There is a possibility that closing down of one department may bring other business unit down in profitability. Therefore, a much deeper analysis is required than just basis judgements on the basis of BCG matrix.

7.7.5 Porter's Five Forces Framework:

Michael porter developed five forces framework to help a firm identify the factors and forces in its intermediate environment, i.e., industry factors that affects its profit potential. The five forces framework is an invaluable tool for managers as it helps them understand the overall environment of the industry to which their firm belongs. According to this framework, the industry's environment is shaped by five forces-

- Rivalry and intensity of rivalry between the firms in an industry
- Threat of entry,
- Threat of substitutes,
- Bargaining power of buyers and
- Bargaining power of suppliers.



Source: businessjargons.com

- a) **Rivalry and intensity of rivalry between the firms in an industry:** The first force in the framework is the extent and nature of rivalry in an industry. A firm should identify its competitors and analyse the intensity of competition. According to Michael Porter, rivalry can be said to be existing when two firms deal in similar goods and services and target the same set of customers. *For example- Pepsi and Coca-cola, Dominoz-Pizza hut, Starbucks-Café coffee day and so on.* The intensity of competition increases further when:
- firms are of roughly equal size;
 - they are aggressive in seeking leadership;
 - they belong to high fixed costs industries (e.g. industries requiring high capital equipment costs like the steel industry);
 - there is a low level of differentiation between products and in case where the product is perishable.

In case of large number of competitors and in situations where intensity of competition is very high, a firm needs to be very active in its marketing strategies. The more the firm invest in created a differentiated brand, more it will be able to win over the competition.



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- b) **Threat of Entry and Barriers to entry:** The second force is the threat of new entrants. A firm should analyse the threat of potential competition i.e. threat of new entrants. In cases of natural monopoly and in case of industries with huge market potential-outside firm may find it attractive to enter the industry and acquire market share of the existing firm.

This threat of entry is less when there are barriers on entry of new firms. Barriers to entry can be defined as factors that need to be overcome by new entrants if they want to compete with established firms in an industry. These factors include Economies of scale, Non-scale-based advantages (for example patents), difficult to imitate know-how (Apple's user interface), superior information about customers (rich database), experience and learning, inaccessible supply and distribution channels; High differentiation and market penetration costs, cartelisation between existing firms etc.

A firm with high threat of potential entrants and low barriers to entry need to adopt a defensive strategy. It needs to be very strong with its market research and product development. It should endeavour towards creating a loyal customer base. *The firm that have successfully fought threat of new entrants is Maggie. No matter how many noodles are introduced, Maggie has a unique product and a loyal customer base which defends it.*

- c) **Threat of Substitutes:** Substitutes are products or services that offer a similar benefit and targets the same customer group but through different products all together such as tea and Coffee. Availability of substitute products has ability to give potential threat to firm's profitability especially in cases where price/performance ratio of substitute is better than the other one. Laptops replacing computers, smart phones replacing cameras and calculators, happened because of better price/ performance ratio of the later products. *In India Tata's 'one lakh' car may become a substitute for motorcycles and rickshaws.* Substitutes can be considered as indirect competitors or second layer of competitors for a firm in the industry. The only strategy to help a firm in case of substitutes is investment in improvement of existing product and continuous innovation.
- d) **Bargaining Power of Buyers:** Buyers are the organisation's immediate customers, although not necessarily the ultimate consumers. If buyers are powerful, then they can demand huge discounts or product/service improvements at same price, thereby putting downward pressure on firm's profitability. Therefore, higher the bargaining power of buyer, more is the threat to a firm. Bargaining power of buyer is likely to be high when buyers have many options/choices available in the market/ too many sellers of same product in market/perfect competition in sellers' market; few buyers



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account for the majority of sales of a firm; and when buyers are capable of backward vertical integration i.e. they are capable of becoming a producer themselves. For example: you were getting your clothes designed by a professional and now you saved the cost of a designer by self-designing.

In these cases, a firm can adopt the mantra that “Customer is the King”. A satisfied buyer no matter how powerful he is in its bargaining power, may help a firm in maintaining its profitability.

- e) **Bargaining Power of Suppliers:** Lastly, a firm should analyse bargaining power of suppliers. Suppliers are those who supply what organisations need in order to produce the final output. Powerful suppliers can eat into an organisation’s profits. Supplier power is likely to be high when suppliers are few in numbers; they provide a specialist or rare input; there are too many firms buying from them and hence a single firm represents only a small part of sales by the supplier; switching costs (i.e. shifting from one supplier to another) are high and it is disruptive or expensive to change; and suppliers can integrate forwards. Higher the bargaining power of supplier, more is the threat to the firm. The only strategy a firm can survive in this situation is partner relationship management.

Porter suggested that a firm should classify each factor on continuum ranging from high to low. This analysis helps a firm in analysing the threats and opportunities and also helps in deciding tactical strategies.

ACTIVITY

Discuss in the class about the techniques of environmental analysis and their pros and cons.



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IN-TEXT QUESTIONS

6. Liberalization entails
 - (a) Planned disinvestment policy
 - (b) Integration of economies
 - (c) License revocation and reduction in government control
 - (d) None of the above
7. Globalization does not entail:
 - (a) Barrier reduction
 - (b) Unrestricted movement of goods and services
 - (c) A global mechanism for resolving economic disputes.
 - (d) Capital mobility
8. What are the effects of government policy changes on business and industry?
 - (a) Enhanced competition
 - (b) The requirement for change
 - (c) Demanding clients
 - (d) All of the preceding
9. When one company takes over another and clearly becomes the new owner, this is referred to as a _____.
10. Relaxing the constraints and controls placed on business and industry entails_____.

7.8 SUMMARY

Business environment is sum total of all the factors that directly or indirectly affect the operations and profitability of a business enterprise. It includes employees, customers, competitors, and political, social and economic factors, legal factors and so on. There are certain factors that a business can control but there are other factors which are beyond its control but affect it adversely. Total business environment of an organisation can be studied into three parts-Micro, Meso and Macro environment. It consist of all the factors that are directly related to the business organisation.



7.9 GLOSSARY

- **BCG Matrix:** The Boston Consulting Group (BCG) growth-share matrix is a planning tool that employs graphical representations of a company's products and services to assist the company in deciding what to keep, sell, or invest more in.
- **Business:** A business or organisation that engages in commercial, industrial, or professional activities. Businesses can be either for-profit or non-profit organisations. Limited liability companies, sole proprietorships, corporations, and partnerships are all examples of business structures.
- **Business Environment:** The term "business environment" refers to "all things external to firms and industries that affect their organisation and operation." The climate or set of conditions, economic, social, political, or institutional, in which business operations are carried out is referred to as the business environment.
- **Business Environment Analysis:** The environment analysis takes into account trends and high-level factors such as interest rates and how they may affect a company's operations. These reviews can assist businesses in assessing market attractiveness and developing better future strategies.
- **Industry Analysis:** A method of providing a business entity with a thorough understanding of the complexities of a specific industry. It entails investigating market, political, and economic factors that have a direct impact on the development of an industry.
- **Management:** It is the act of accomplishing things through others and having them do so willingly.
- **Manager:** A manager is someone who is in charge of supervising and motivating employees as well as directing an organization's progress. A manager is someone who is in charge of customer service, handles customer complaints, and oversees and supervises customer service representatives.
- **PESTLE Analysis:** PESTLE analysis investigates the key external factors that influence an organisation (political, economic, sociological, technological, legal, and environmental). It can be used in a variety of scenarios and can help people professionals and senior managers make strategic decisions.
- **SWOT Analysis:** A framework for identifying and analysing a company's strengths, weaknesses, opportunities, and threats. The acronym SWOT is made up of these words. The primary goal of SWOT analysis is to raise awareness of the factors that influence business decisions or the development of a business strategy.



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- **TOWS Analysis:** TOWS matrix can be defined as a framework for developing, comparing, deciding on, and accessing business strategies. It is an acronym that stands for Threats, Opportunities, Weaknesses, and Strengths. It investigates a business from a marketing and management standpoint.

7.10 ANSWERS TO IN-TEXT QUESTIONS

1. (d), Constant	6. (c), License revocation and reduction in government control.
2. (a), True	7. (a), Barrier reduction
3. (d), Price changes in agriculture	8. (d), All of the precedings
4. (c), Dangers	9. Acquisition
5. (d), All of the precedings	10. Liberlaization

7.11 SELF-ASSESSMENT QUESTIONS

1. What is the meaning of the term business environment? What are the various components of it?
2. What is environment analysis and diagnosis? Why is it important for a firm to keep up to date with environmental changes?
3. What are various techniques of environment analysis for a business? How can they be used in complement to each other to do a total analysis?
4. What do you mean by SWOT analysis? Explain in detail its working with the help of diagram and examples.
5. TOWS is an extension of SWOT analysis. Explain the above statement and along with it highlight the point of differences between them.
6. PESTELE analysis is a tool for external environment analysis for an organisation. Explain in detail how PESTELE analysis works.
7. Explain the difference between SWOT and PESTELE analysis techniques of business environment.
8. TOWS is a tool for strategic planning also. Explain this statement.



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LESSON 8

DECISION MAKING

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STRUCTURE

- 8.1 Learning Objectives
- 8.2 Introduction
- 8.3 Nature of Decision-Making
- 8.4 Process of Decision-Making
- 8.5 Approaches of Decision-Making
- 8.6 Techniques of Decision-Making
- 8.7 Summary
- 8.8 Glossary
- 8.9 Answers to In-Text Questions
- 8.10 Self-Assessment Questions
- 8.11 References
- 8.12 Suggested Readings

8.1 LEARNING OBJECTIVES

After studying this chapter students will be able to understand: -

- Meaning and nature of decision making
- Process of decision making
- Importance of decision making
- Techniques of decision making
- Qualitative techniques of decision making
- Quantitative techniques of decision making



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8.2 INTRODUCTION

Decision making is key to planning process and an important part of management process. In all types of organisations, decisions are made regularly at all levels of management. The success of an organisation is nothing but result of the right decisions made at right time. Decision making is essential part of planning as at planning stage decisions are made regarding the future of organisation but it is part of all managerial functions.

Decision making is about making choices amongst the set of alternatives available based on analysis of each available course of action. It is the process of selecting a particular course of action from among several alternatives to achieve the desired goals and objectives.

Decision making is art of making conscious choices to select the alternative that will produce more desirable results in comparison to other alternatives. However, whether a decision is right or not, will depend upon the consequences of actions based on that decision.

One essential condition for decision making is that there should be choices and those choices should be in conflict with each other. If the firm has no choice but to go for a single alternative, then there is no point of decision making. Secondly, when a business has choices but those are not in conflict with each other i.e. one of them is very lucrative and other one is non-lucrative then obvious choice is the former one. The decision making comes into play when there are conflicting choices that is all alternatives are equally attractive or unattractive. In case of lucrative choices, business will try to maximise benefits out of them and in case of non-lucrative choices, business will try to minimise the damages.

8.3 NATURE OF DECISION MAKING

In order to understand the nature of the decision making go through the following points:

- **It is a process:** Decision making is a process which involves series of activities ranging from listing down all the alternatives to evaluating each and every alternative, making choice and finally implementing them. Thus decision making is not a one activity but series of activity to be performed systematically.
- **It is a continuous process:** Decision making is a continuous function. There can be times to take strategic decisions or key decision but decisions related to routine activities are to be made on routine basis at all levels. Therefore it is a continuous process.



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- **Goal oriented process:** Decision making is always done keeping in mind the goals and objectives set under planning. All the decisions whether routine or strategic are made in the direction of achievement of goals only.
- **Intellectual exercise:** Decision making involves analysis and calculations. This can be done only with minds having far-sighted approach, almost perfect information, are objective, have pool of experiences and are rational. Especially in case of strategic planning, decision making decides the future of an organisation. Therefore, decision making is an intellectual man's cup of tea.
- **Time consuming activity:** Decision making requires lot of efforts and resources in terms of time and money. It is in the hand of managers to make this activity worthwhile by making right decisions.
- **Pervasive:** Decision making power comes with authority. One person despite having the authority cannot take all decisions by himself. Therefore, decision making is an all pervasive activity i.e. managers at all level take decisions within the boundary of authority delegated.
- **Situational:** Decision making is affected by lot of variables. These variables give rise to different situations. A particular variable may be key in one decision but may not be another or we can say a decision taken in one particular situation may not be suitable in other one.

8.4 PROCESS OF DECISION MAKING

The Process of Decision Making has been included the following steps:

Step-1-Analysing the Problem: The very first step is to assess the situation. This involves internal and external environment analysis. Once the firm analyses the situation, it has to make several decisions related to cost, profitability, expansion, growth, lay-off, retrenchment etc. Some of the decisions can be strategic and some can be routine but they all have consequences for an organisation.

Step-2-Listing the alternatives available: Once the situation have been assessed, the next step is to list down all the alternatives with respect the problems in hand. These alternatives can be in the form of solution to the problems or they can be various courses of actions in the direction of goal achievement. The purpose here is to explore prepare an exhaustive list of alternatives. Top management can seek participation of all key members at various levels for brainstorming about various alternatives.

Step-3-Evaluating the alternatives available: Once all the alternatives have been listed, the next step is to evaluate and compare all these alternatives. Management can design a criteria



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matrix i.e. various variables on the basis of which an alternative should be accessed. A very common formula for evaluative alternatives is that benefits should outweigh the costs. However the cost here include non-financial costs as well and benefits here means non-financial benefits as well. For example: a particular department may not be profitable but it is key in supporting the other departments in organisation, so it need to be maintained with equal attention. Similarly when we talk about criteria, there could be different areas of priority for management at different times. So list of criteria with appropriate weightage should be given to each variable.

Step-4-Selecting the alternatives available: After the tables of comparisons have been drawn, the next step is select the best alternative. A best alternative is one which maximised the benefits and minimises the disadvantages or we can also put it like this that a best decision is in the form of a strategic choice which maximised opportunities and minimises threats. At this step we assume that managers are rational and they will follow the principles of maximisation and minimisation. However in practical world, a manager go for optimisation due to bounded rationality. This we will study in detail in next section of this chapter.

Step-5-Implementing the decision: Once the course of action have been laid down, next step is to put it into action. This step overlaps with areas of organisation and directing. Once the decision has been taken, it should be implemented with commitment.

Step-6-Follow up action: At this step, manages appraise the performance and take feedback from past actions. As we already studied that we can judge weather a decision was right or wrong only on the basis of its consequences. Hence at this step managers can take feedback and correct for mistakes in past decisions through improvements in future decisions.

The process of decision making is a continuous activity. It is cyclical in nature.

8.5 APPROACHES OF DECISION MAKING

The following approaches has been used in decision making: -

- a) **Rational approach to Decision making:** The above process of decision making is based on the assumption that managers are perfectly rational. Perfect rationality means that every decision is based on facts, data and their scientific analysis. It also means that managers will maximise the benefits and will minimise the costs. However, in practical world such scenarios are not possible due to various constraints. Due to these constraints, it becomes difficult for managers to maximise or minimise a variable and hence in practical world the problems are optimised.



- b) **Concept of Bounded rationality:** Herbert Simon gave the model of bounded rationality in 1970s. Bounded rationality means that managers do not always resort to mathematical model and software's to take decisions because of various limitations. These limitations are listed as follows:
- **Information Constraint:** Human mind has limited range of retention and retrieval of information. It also suffers from limited perception and perceptual distortions. Along with this, perfect information i.e. accurate and reliable facts and data are not readily available. Even if it is available, it is available at huge cost.
 - **Cognitive Limitations:** Secondly, It is difficult to list down all the alternatives for achievement of goals. It is neither necessary nor feasible to generate the entire set of alternatives. The evaluation capabilities of the decision maker are also limited. In majority cases, not every alternative can be analysed, even with the help of analytical techniques and tools like computers.
 - **Time Constraint:** In real world, a manager has to be spontaneous as problems do not wait for the right decision rather it calls for immediate solutions. In such scenarios, managers cannot get into a process and organise meetings rather he has to take a decision himself.
 - **Human factor:** the biggest limitation on rationality is human mind. A basic human being is full of emotions and biases. He does not only have a mind to put in but also has to think about interest of other people and stakeholders of an organisation. While working together in an organisation, human formulated informal relations with other people of organisation and hence he cannot be rational in taking decisions. For example: In order to save cost, it may be rational to replace labour with better machinery but sometimes to save livelihood of workers a manager may choose to do otherwise.

Therefore bounded rationality says that the managers in real world try to search for simple solutions rather than going for complexities; managers take help of heuristics and experiences to take decisions and managers select the first satisfactory alternative that is available.

8.6 TECHNIQUES OF DECISION MAKING

In order to make a rational decision, one must resort to the collection of facts and information in order to come up with a structured solution. There are several methods an individual uses in daily life for making decisions such as intuition, Word of mouth, expert opinions, suggestions, and random choices and so on. But in an organizational context, a manager cannot simply base his decisions on intuition and gut feelings as the interest of so many



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people is based on his decisions. There are several techniques of decision making at the disposal of a manager which are suitable under different circumstances. These techniques are broadly classified into-Quantitative and Qualitative Techniques of decision making. Although both the techniques are analytical and comprehensive but they use different data and hence have different tools for analysis and these are as under: -

- a) **Qualitative decision making techniques** are based on non-quantifiable data such as feedback, reviews, interviews, reports, diaries, summaries etc. It is a more in-depth analysis of all possible factors that can affect the decision making process. The data under this technique is subject to individual interpretation and hence the results are highly subjective. These techniques require knowledge and experience of experts in the area of behavioural sciences.
- b) **Brainstorming:** Under this method, a situation is presented in front of a group on which the decision needs to be taken. Brainstorming is carefully designed to encourage all group members to contribute as many viable decision alternatives as they can think of. Any negative feedback on any suggested alternative by any group member is forbidden until all members have presented alternatives. During brainstorming, group members are encouraged to state their ideas, no matter how wild they may seem, while an appointed group member records all ideas for discussion. Here the focus is on quantity not the quality of ideas. The principal behind this is to generate as many ideas as possible so as to not overlook any valuable suggestion. At the end of the process, each participant is encouraged to improve or modify other participant's suggestions. This method is most widely used as it promotes democratic thinking patterns at work place. But this is a time consuming technique of decision making and sometimes it leads to deadlock as there can be conflicting opinions. These problems can be resolved by taking precautions. First of all the number of members should be kept to minimum. Generally a group five to ten members considered to be key in decision making are sufficient. Secondly, the group should be restrained from making any sort of judgements on the ideas of other members of the group. The third thing to ensure is the role of moderator who takes a central role in handling the storm of ideas so presented. The moderator should design and explain the rules before the start of session and ensure their follow up during the session in polite and efficient manner.
- c) **Nominal Group Technique:** The Nominal Technique is very similar to Brainstorming but is considered to be more effective. As it adopts a structured procedure to go to final decision. To put it straight, it overcomes the limitations of Brainstorming technique by adopting a more formal way of making decision. This



process is designed to ensure that each group member has equal participation in making the group decisions. It involves the following steps:

Step-1: Each group member writes down individual ideas on the decision or problem being discussed.

Step-2: Each member presents individual ideas orally. The ideas are usually written on a board for all other members to see and refer to.

Step-3: After all members present their ideas, the entire group discussed these ideas simultaneously. Discussion tends to be unstructured and spontaneous.

Step-4: When discussion is completed, a secret ballot is taken to allow members to support their favourite ideas without fear. The idea receiving the most votes is adopted and implemented.

- d) **The Delphi Technique:** Unlike Brainstorming and Nominal group technique, this technique assembles a team of experts to give ideas and solutions to a problem or situation at hand. Along with that the each expert is kept separate and independent from other experts. So technically, Delphi technique is not a group decision making technique. However it employs a structured format to reach a decision. The following are the steps involved in this technique of decision making. The Delphi technique involves circulating questionnaires on a specific problem among group members, sharing the questionnaire results with them, and then continuing to recirculate and refine individual responses until a consensus regarding the problem is reached. It has following steps:

Step-1: A problem is identified.

Step-2: A set of question are identified and built around the problem and situation under review. These questions are given a structured frame through a questionnaire and each group members are asked to offer solutions to the problem by providing anonymous responses to a carefully designed questionnaires.

Step-3: Responses of all group members are compiled by a coordinator and sent out to all group members. The results are evaluated for reaching a consensus. If the consensus is not reached a second questionnaire is designed to get more responses and ideas. This process of making questionnaire and evaluation of them goes on till the point a consensus is obtained.

Step-4: Once the consensus is obtained, a report is prepared on possible solutions and decisions.

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This technique is popularly used in the field of medical sciences where experts opinions are needed on a particular problem and solutions are developed by experts till the point the consensus is not obtained. It is a daunting task to get a consensus where a team consisting of experts is made to apply their minds on a problem but at the end of the process the solution so obtained is the most credible one. As this technique is such a comprehensive technique of decision making, it is time consuming and costly. It is usually undertaken by an organisation in case of problems where there is no scope of error. One of the main advantages of the Delphi technique is that the group members are totally independent and are not influenced by the opinion of other members. An expert who is geographically separated can also contribute his thoughts and opinions so that the cost associated with bringing these experts together is avoided.

- e) **Quantitative Techniques of Decision making:** Quantitative decision-making techniques are based on numerical statistical and quantifiable data such as break-even analysis; ratio analysis, correlation and regression etc. These techniques make use of data from the financial statements of the company, such as data on revenue from operations, costs- fixed and variable etc., to enable management to take decisions that increases the net worth of the company. As these techniques are based on measurable and reliable data, they are scientific and objective in nature. Handling the data in these techniques require in depth knowledge of mathematical and statistical science.
- **Break-even analysis:** Break-even point is the point at which total revenue of an organization equals total cost such that it neither earns profit or make any loss. The break-even analysis helps management determine the number of units that must be sold in order to cover the total costs. Once the organisation has sold the number of unit equivalent to the break-event point (n^{th} unit), it starts making profit from $n+1^{\text{th}}$ unit. In order to determine such point, data on fixed cost, variable cost per unit and selling price per unit is drawn from the statement of profit and loss account. The lower the break-even point, the better it is as sooner the organisation starts making profit on its sale.
 - **Linear Programming:** Linear programming is a useful quantitative technique that is used to determine the optimal mix of limited resources for maximizing profits or minimizing costs. It is commonly used by the managers to guide the allocation of resources which are limited and have multiple uses. Some common decisions taken with the help of this technique includes decision relating to product mix and composition of factors of production. It is an extension of break-even analysis and involves the solution of linear equations.



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- **Ratio Analysis:** Ratio analysis is an accounting tool for interpreting data obtained from an organisation's financial statements. Ratios define the relationship between two variables. The basic financial ratios compare costs and revenue for a particular period. For example: Current ratio that is measured as: Current Assets divided by Current Liabilities, is an indication of whether the organisation has sufficient resources to pay off the short-term debts. An organisation uses various accounting ratios in its decision-making process. These ratios can be divided into following categories:
 - ✓ Liquidity ratios include current ratio, quick ratio, net working capital ratio;
 - ✓ Profitability ratios include return on assets, return on equity, earning per share etc.;
 - ✓ Leverage ratios include debt to equity ratio, total debt;
 - ✓ Turnover ratios include inventory turnover ratio, asset turnover ratio, accounts receivable ratio etc.

Ratio analysis helps in interpreting the financial statements to determine the strengths and weaknesses of an organization as well as its historical performance and current financial condition. Such an information is vital to taking business decisions that further the ultimate objectives of the organization and do not jeopardize its survival.

- ✓ **Regression analysis:** Regression analysis involves using statistical equations to predict or estimate the impact of one variable on another. For instance, regression analysis can be used to determine how advertising expenditure affect sales. The variable being estimated in the regression analysis is called dependent variable and the one (or more) being used to estimate the dependent variable is (are) called independent variables. For instance, in the above example, the effect on sales is being determined- dependent variable and advertising expenditure is being used to estimate the sales- independent variable. An organisation can use as many (independent) variables as required to estimate the relationship of interest. Regression analysis is an excellent tool to predict the future behaviour of relationships between variables based on their past behaviour and is widely used by the organisations in its decision-making process.
- ✓ **Inventory Management through Economic Order Quantity:** Inventory management involves determining and controlling the amount of raw material an organization should keep in stock to operate effectively and efficiently. Efficient management of inventory requires balancing several conflicting goals. While on one hand, holding large amount of inventory ensures that production schedules are not



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disturbed because of raw material shortage, on the other hand it entails huge storage, maintenance, and insurance cost. The manager is responsible for maintaining just an optimal amount of inventory so that the total cost of ordering, maintaining, and storing is minimum and at the same time organisation does not run out of stock and production is not halted. Economic order quantity model is an important decision-making tool that guides management in achieving this objective. The Economic Order Quantity (EOQ) is the number of units that a company should add to inventory with each order to minimize the total costs. This model can be expressed as a mathematical formula as follows:

$$EOQ = \sqrt{(2 \cdot D \cdot C_o) / C_h}$$

Where; D represents annual demand of raw material; C_o represents cost per order; C_h represents cost of holding per unit of inventory

For example: If annual requirement is 2400 units, cost of ordering is Rs. 10 per unit, and holding cost is Rs. 0.30 per unit, EOQ would be $\sqrt{(2 \cdot 2400 \cdot 10) / 0.30} = 400$ units. By ordering 400 units at a time, the total cost of holding inventory would be the least.

ACTIVITY

Organise a class seminar on the topic, “Need, Significance and Impact of decisions on the Growth and Development of a Business Organisation.”

IN-TEXT QUESTIONS

1. Making decisions contributes to the smooth operation of the_____.
a) Company b) Personnel
c) Structure d) Preparation.
2. The transmission of thoughts from one person to another is referred to as_____.
a) Communication b) Commanding
c) Consultative in nature d) Planning.



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3. What characteristics distinguish a programmed decision?
 - a) Difficult and risky
 - b) Uncertain and irregular
 - c) Certainty and low risk
 - d) Simple and routine
4. What does not constitute an assumption underlying the rational decision-making model?
 - a) Inadequate information
 - b) A mutually agreed-upon objective
 - c) A structured issue
 - d) high degree of certainty about the environment
5. What is the term for a bias in decision making that is based on a "rule of thumb"?
 - a) Bias in framing
 - b) The hindsight effect
 - c) Bias toward overconfidence
 - d) Heuristics

8.7 SUMMARY

Decision making is key to planning process and an important part of management process. It is the process of selecting a particular course of action from among several alternatives. Decision making comes into play when there are conflicting choices that is all alternatives are equally attractive or unattractive. Decision making is an all pervasive activity i.e. managers at all levels take decisions within the boundary of authority delegated. Decision making can be made in the form of solution to problems or they can be various courses of actions in the direction of achievement of goals. Managers can design a criteria matrix i.e. various variables on the basis of which an alternative should be accessed. A best decision is in the form of a strategic choice which maximised opportunities and minimised threats. The process of decision making is a continuous activity that is cyclical in nature.

8.8 GLOSSARY

- **Brainstroming:** A method of group problem-solving that relies on the spontaneous contribution of creative ideas and solutions This technique necessitates a lengthy, free-flowing discussion in which each member of the group is encouraged to think aloud and propose as many ideas as possible based on their diverse knowledge.



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- **Decision:** A deliberate course of action chosen from a set of alternatives in order to achieve organisational or managerial objectives or goals. The decision-making process is an ongoing and necessary component of managing any organisation or business activity.
- **Decision-Making:** The process of making decisions that involves identifying a decision, gathering information, and weighing alternative solutions. By organising relevant information and defining alternatives, a step-by-step decision-making process can help you make more deliberate, thoughtful decisions.
- **Delphi Technique:** A method of reaching a group opinion or decision by polling a panel of experts. Experts complete several rounds of questionnaires, with the results aggregated and shared with the group at the end of each round.
- **Management:** Management is the administration of an organisation, whether a business, a non-profit, or a government body. It is the art and science of managing a company's resources.
- **Manager:** A manager is someone who is in charge of supervising and motivating employees as well as directing an organization's progress. A manager is someone who is in charge of customer service, handles customer complaints, and oversees and supervises customer service representatives.
- **Qualitative Decision-Making:** It is based on factors other than numerical statistical data that may have an impact on the collected data. It is a thorough examination of all potential factors that may influence the decision-making process.
- **Quantitative Approach:** In a situation where the probability of all outcomes is uncertain, the quantitative approach seeks to make the best decision possible by employing mathematical and statistical models. In other words, it aids managers in solving complex problems during decision-making.

8.9 ANSWER TO IN-TEXT QUESTIONS

1. (a), Company/Business
2. (a), Communication
3. (d), Simple and Routine
4. (a), Inadequate information
5. (d), Heuristics



8.10 SELF-ASSESSMENT QUESTIONS

1. What do you mean by decision making? Explain the nature of decision making process.
2. Explain in detail the process of rational decision making.
3. What are the different techniques of decision making?
4. What is the difference between qualitative and quantitative techniques of decision making?
5. Write short notes on
 - Nominal technique of decision making
 - Concept of bounded rationality
 - Importance of decision making
 - Brainstorming

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LESSON 9
ORGANISING

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STRUCTURE

- 9.1 Learning Objectives
- 9.2 Introduction: Organising
- 9.3 Characteristics of Organising
- 9.4 Importance of organising
- 9.5 Process of Organising
- 9.6 Principles of Organising
- 9.7 Delegation
- 9.8 Importance of Delegation
- 9.9 Process of Delegation
- 9.10 Centralisation
- 9.11 Characteristics of Centralisation
- 9.12 Decentralisation
- 9.13 Characteristics of Decentralisation
- 9.14 Difference between Centralisation and Decentralisation
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- 9.17 Answers to In-Text Questions
- 9.18 Self-Assessment Questions
- 9.19 References
- 9.20 Suggested Readings



9.1 LEARNING OBJECTIVES

After studying this chapter students may able to understand: -

- Meaning of the term organising and organisation
- Nature and characteristics of the term organising
- Importance of organising function in an organisation
- Meaning, process and importance of term delegation in an organisation
- Meaning of term centralisation and decentralisation
- Span of management
- Principles of organising

9.2 INTRODUCTION : ORGANISING

Organising is the second function of management which follows up goals and plans as decided in planning function of management. It refers to the set of activities involved in coordinating human efforts, collecting and allocating resources, distributing authority and responsibility and so on. All these activities are coordinated in a manner that they lead to achievement of objectives and goals. It's all about setting the course of action for implementation of plans.

9.3 CHARACTERISTICS OF ORGANISING

Organising has different characteristics which makes it possible to define it multiple ways. These are given as follows:

- **Organising as an activity:** It refers to the set of activities which is about arranging resources at one place (Place can be virtual also) and allocation of those resources to different departments in an organisation. All these activities are necessary for completion of organisational goals.
- **Organising as function of management:** It is the second function of management where an organisation gets into action. In planning decision are made, policies are set, strategies are laid down but their feasibility is known only when they are put to action. Organising as a function of management ensures the fulfilment of plans and lays down the action work for rest of the functions of management.
- **Organising as a process:** As already stated that organising can be defined as set of activities to be done in a systematic way. Organising is a dynamic and continuous process. It involves systematic steps to be followed which involves:



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- ✓ Collection of resources
- ✓ Allocation of resources
- ✓ Division of labour
- ✓ Assigning authority responsibility relationships
- ✓ Creating a structure for systematic functioning
- **Organising as a structure:** the process of organising results in creation of an organisation structure or simply the organisation. We can say that organising is process and organisation is outcome of it. A good organisation structure ensures coordination both horizontally and vertically, allows flexibility and cost effective working of the organisation. An effective organisation structure lead to synergies and competitive advantage at market place.

Hence Organising is a comprehensive function of management which sets down the basis for all the further functions of management. Some of the popular definitions or organising are quoted as follows:

Organising is the establishment of authority relationships with provisions for co-ordination between them, both vertically and horizontally in the enterprise structure”. -Koontz and O ‘Donnell

“Organising is the process of identifying and grouping the work to be performed, defining and delegating the responsibility and authority and establishing a pattern of relationship for the purpose of enabling people work most effectively to accomplish the objective”. – Louis A. Allen

9.4 IMPORTANCE OF ORGANISING

The importance of organising is given as follows:

- **Systematic functioning:** An effective organising leads to systematic functioning of organisation. The organising process leads to creation of departments, hierarchy and a structure coordinated in a manner that lead to smooth flow of operations throughout the organisation.
- **Avoid chaos and confusion:** The process of organising results in appropriate division of resources, labour, authority and responsibility. This division is clearly communicated to all the members of the organisation. Therefore it avoid chaos and confusion relating to roles, responsibilities and authority.
- **Action oriented:** Organising is a function of management which is action oriented. Planning specifies the goals, objectives and lays down the course of action but it is organising which arrange for resources and does the working as per the course laid



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down in planning. In fact, organising sets the action for rest of the functions of management as well.

- **Benefits of Specialisation:** In organising work is systematically divided into different departments and work is allocated to the personnel in various departments based on their expertise and knowledge. The division of work and labour lead to cost effective and efficient working of organisation
- **Facilitates coordination:** Coordination is the essence of management and is of utmost importance. Organising process leads to a coordinated work environment as it provides for it in organisation structure as a built-in device.
- **Lead to optimum utilisation of resources:** Organizing function facilitates optimum utilization of resources whether it is human, material, financial or technical. This is because division of resources and labour is done in such a manner that there is no overlapping or duplication of work.

9.5 PROCESS OF ORGANISING

The Process of Organising involved the following procedure: -

Step-1-Identification of work: The very first step in organising is to identify work to be done. It refers to listing down various activities to be performed. This listing is done on the basis of course of action laid down in planning and in the direction of achievement of organisational goals.

Step-2-Collection of people and resources: It involves bringing productive resources (human, financial, physical, technological etc.) together at one place. The term place here should not be taken literally as today there are number of organisation which are operating in a virtual and boundary less environments. Coming together at one place implies bringing together everything under a common ownership for serving a common purpose.

Step-3-Division of work: Once the productive resources are gathered, the next step is the division of work to be done into the smaller set of similar activities (known as jobs). This process is also called as departmentalization. This step results in creation of different departments specialised in their working.

Step-4-Allocation of work to people: Once the different set of critical activities are identified it is important to create a skill and set match i.e. allocation of these jobs to people suited to perform them in the most efficient manner. In this step, employees are allocated to different department under a manager head.

Step-5-Creating authority-responsibility relationships: This is basically answering the questions who has to report to whom? who is accountable to whom and so on. It results in creation of organisational hierarchy which further defines the structure of the organisation.



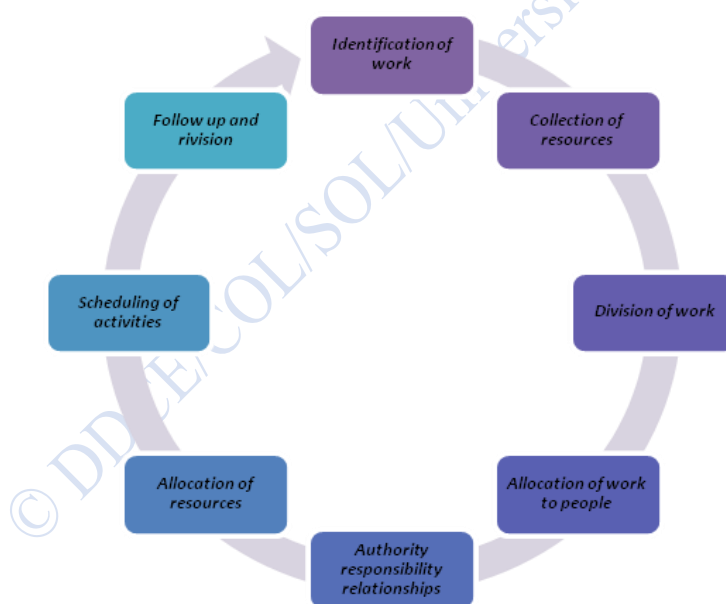
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Creation of authority-responsibility relationships helps avoid any duplication of effort, brings in role clarity, and accountability. Thus division of work, allocation of work to people and binding people together in a formal relationship constitute three very important elements or steps of organising process.

Step-6-Allocation of resources: in this step, each department is allocated with physical resources such money, material and machine. Here the budget for each department is laid down and resources are allocated based on the goals and objectives. Books are maintained in order to keep a count of resources being issued to different departments.

Step-7-Scheduling of activities: In this step, time of completion of each activity is specified. Schedules are laid down in such a manner that it facilitates coordination in working of various departments.

Step-8-Follow up and revision: organising is a continuous process. Once an organisation structure is laid down, a continuous follow up should be made to identify the loopholes and gaps. A good organisation structure is one which is flexible and can be adapted as per the changes in environment.



Source: businessjargons.com

9.6 PRINCIPLES OF ORGANISING

As we have already studied that organising is a key function which sets the organisation into motion, there are certain principles which every manager should follow for effective



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organising process. In the absence of these principles, organising process will not be able to serve its purpose. These principles are discussed as follows:

- **Principle of division of work:** This principle states that entire workload in organisation should be divided into groups classifying similar set of activities in one group. This divided work should be allocated to person based on their expertise in the area. An organisation should clearly define the jobs, their name and the nature of work they require. Division of work leads to benefits of specialisation however an organisation should be careful with respect to overspecialisation.
- **Principle of optimum departmentation:** Division of work leads to creation of departments. These departments can be created and defined on various bases. This principle states that the departments so created should help in attainment of organisational goals in best possible way. An organisation should have appropriate number of departments. As too many departments may lead to coordination problem and may create unnecessary complexity in working of organisation.
- **Principle of unity of direction:** This principle implies that each department so created must have one master plan and master plan of all the departments should be in sync with the overall goals and objectives of organisation. Multiple goals and objectives in an organisation may confuse the employees and may lead to number of uncalled challenges and problems.
- **Principle of Unity of Command:** This principle states that along with one master plan for each department, there should be one overall head to lead and supervise a department. The heads of different department can be called as departmental heads or managers. The group should be leaded by one person. This is because each person has different leadership and supervision style and multiple commands may confuse the subordinates and workers of organisation.
- **Principle of span of management:** This principle implies that there should be a limit to which number of subordinates could be put under a supervisor. This principal basically talks about effective span of management. it deals with the question –what is optimum number of subordinates to be kept under a supervisor for him to effectively manage them. However this principle does not provide any rule of minimum and maximum number of subordinates per supervisor. It only indicates not to have too narrow and too broad span of management. A Manager should be capable enough to decide the optimum span of management keeping in mind the nature of work, type of organisation, labour skills and his own experience.
- **Principle of flexible organisation structure:** This principle states that an organisation structure should be flexible. An organisation works in a dynamic environment and hence it should be capable of adjusting itself to changing



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environment conditions. A rigid organisation structure leads to deadlock and obsolete working style in an organisation.

- **Authority and responsibility principle:** This principle indicates that there should be a balanced distribution of authority and responsibility at various levels in the organisation. In the absence of adequate delegation of authority will create hindrances in smooth working and too much of authority may lead to its exploitation. Therefore, authority should always be in math with responsibility.

ACTIVITY

Discuss in the class about the organising and its significance in smooth functioning of a business organisation.

IN-TEXT QUESTIONS

1. Which of the following does not occur during the organising process?
 - a) Responsibilities are assigned
 - b) Forming a reporting relationship
 - c) Concentration
 - d) Work division
2. Organizing excludes .
 - a) Who will do the work? b) When will it be completed?
 - c) What action will be taken? d) What steps will be taken?
3. _____ specifies who reports to whom.
 - a) Process of organising b) The management procedure
 - c) The planning procedure d) None of the Above
4. Organizing activities by product line is a component of .
 - a) Formal structure b) Divisional structure
 - c) Unofficial organisation d) Functional Organization
5. The type of organisation known for spreading rumours is known as _____.
 - a) Decentralized administration b) Formal structure
 - c) Centralised administration d) Informal organisation



9.7 DELEGATION

The Delegation is a term used for assigning the tasks and responsibilities to a person in the organisation. Delegation is an activity used in all organisations no matter big or small. This activity is very necessary for efficient working of an organisation. It is actually based and derived from principle of Management by Exception. Management by exception principle states that if one person will try to manage and control everything in the organisation, he may end up managing and controlling nothing. It may lead to chaos and disturbed working of an organisation. Management by exception stated that top management should concentrate on key areas of working whereas the routine tasks should be delegated to lower works in hierarchy. It will save the energy of top management from draining and hence will lead to smooth functioning of organisation. In order to assign a task to a lower level management, top managers need to allocate responsibilities as well as give need to allocate authority matching with it in order for smooth completion of work. This process of assigning responsibilities with authority is called as Delegation.

9.8 IMPORTANCE OF DELEGATION

The importance of delegation is as follows:

- Delegation helps in quick completion of work. As it assigns the responsibility to multiple workers and hence it multiplies the working hours of organisation. for example: If there is single person doing all the work in an organisation, then an organisation has 24 hours in a day but if it has 3 workers, the same day will have 72 hours for work and so on.
- Delegation helps top management in concentrating on key areas of organisation. For the growth of an organisation, it is very important to make a distinction between core and routine activities. If top management will keep on engaging in routine activities as well, there energy will get diverted from core areas. Hence delegation of routine activities to lower level workers is important.
- Leads to specialisation: there are certain activities which require attention of an expert. These activities need to be delegated to team of experts. Organisation today are delegating this work to an outside organisation for taking benefits of expert services. This is also called as Outsourcing.
- Delegation is not only about value benefits but also affects the psychology of a person. Delegation act as a motivator for employees. When top management entrust them with a task based on their capabilities, it gives an internal boost and confidence to an employee.
- Delegation also lead to development of leaders for tomorrow. It helps in development of employees. Delegation of responsibilities helps them in learning and gathering experience through practical and real life situations.

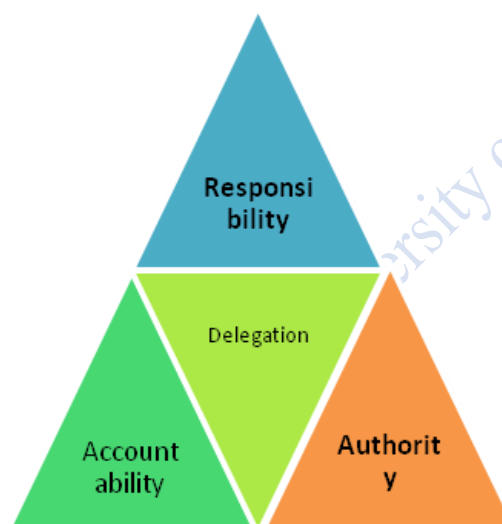


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9.9 PROCESS OF DELEGATION

According to Koontz and O'Donnell, "The entire process of delegation involves the determination of results expected, the assignment of tasks, the delegation of authority for accomplishment of these tasks, and the exaction of responsibility for their accomplishment." The process of delegation has three main elements:

- Authority
- Responsibility and
- Accountability



Source: businessjargons.com

The process of delegation is explained as follows:

Step-1-Assignment of responsibilities: The very first step is distribution of work and responsibilities. The distribution of work is necessary for two reasons-first is to take the burden off the shoulders of top management from routine work; and second is to assign the work to a subordinate who has expertise and specialised knowledge in a specific area. Therefore, a manager should assign the responsibilities and divide the work in such a manner that it serves in enhancing the overall effectiveness and efficiency of an organisation in the direction of accomplishing the goals.

Step-2-Delegation of authority: Once the tasks are assigned, every manager needs power on resources and labour which can assist him in completion of work. In the absence of such a power, a person is as good as a barking dog who cannot bite. Therefore, delegation of responsibility requires equal amount of delegation of authority as well. A manager needs to see where the balance can be maintained. As delegation of authority is a tricky area. As too



less of authority in comparison to responsibility is a red zone area similarly too much of authority may lead to its exploitation.

Step-3-Establishing Accountability: The last step in the process is creating accountability. Although it is a part of the delegation process but it cannot be delegated. A departmental head may delegate and assign the work to its subordinates but he will still remain answerable in front of top management for his work. Accountability works both ways. It is dangerous in situation where the work has gone wrong but it is rewarding in situation where the work has positively surpassed the standards of performance. It is also called as answerability. It should be clearly defined and stated that who will be answerable to whom for clear lines of communication.

9.10 CENTRALISATION

Centralisation is a philosophy which can be said is opposite of decentralisation. As shown in diagram, it runs in opposite direction to decentralisation. Centralisation is about concentrating authority at one point in organisation. In centralised organisation structures, delegation of work is there but authority is concentrated at centre point. Employees delegated with responsibility have no power to take decisions on their own. They need to consult top management before every key decision. In small organisations, this authority lies in the hand of a single person but in large organisations the authority is shared by group of people who are called as white-collar workers or executives or managing directors or top managers of the organisation.

9.11 CHARACTERISTICS OF CENTRALISATION

Centralised organisations are characterised as under:

- Bureaucratic organisations where decision making is slow and has to follow a scalar chain.
- It is a bottom-up approach. Here the authority runs at the top of organisation.
- These structures are called as traditional structures. Today in global and competitive world, centralised structures are hardly successful.
- Centralisation is characterised by authoritative styles of leaderships.
- Centralised structures are suitable where major workforce of an organisation is unskilled and is not capable of taking key decisions.

9.12 DECENTRALISATION

Decentralisation is systematic delegation of authority and responsibility at different levels in an organisation. Decentralisation lead to creation of organisation structure consisting of

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hierarchies. Here the delegation of authority and responsibility is not one time but is of permanent nature. Decentralisation is a modern philosophy which leads to creation of modern organisation structure.

9.13 CHARACTERISTICS OF DECENTRALISATION

Characteristics of a decentralised organisation are stated as follows:

- Decentralised organisations are characterised by a participatory and democratic work environment.
- There is quick decision making in such organisations as authority is distributed at all level rather than at one point.
- Such organisations are characterised by highly motivated employees as they feel empowered with authority and work hard to sustain the same.
- These organisations lead to administrative and managerial development of personnel in organisation.
- These organisations are most suitable form consisting majorly of skilled labour force.

9.14 DIFFERENCE BETWEEN CENTRALISATION AND DECENTRALISATION

Figure: Centralisation vs decentralisation



Source:



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The difference between centralisation and decentralisation is given as under:

Basis	Centralisation	Decentralisation
Authority	Concentrated at one point	Distributed systematically at various levels in organisation
Flow of authority	Here authority flows upwards	Here authority flows downwards.
Motivation	Concentration of authority may lead to demotivation in employees as they may feel helpless in absence of any power.	Here, employees are motivated as they have say in the working of organisation
Suitability	It is suitable in case of small organisation or in case of unskilled labour force.	It is suitable in case of large organisation and where workers are well capable to take their own decisions.
Approach	It is a traditional approach of organising.	It is a modern approach of organising.
Decision making	It leads to delay in decision making as all decisions are to be taken at one point.	It leads to quick decision making.
Conflicts	There is no scope of conflict. Lower level workers follow the orders given by top management.	There is scope of conflict as everyone has authority and opinions which may clash with other colleagues.

ACTIVITY

Visit any telecommunication company's office situated in the area nearby your educational institution and ask from the officials about the delegation, centralisation and decentralization of the authority and responsibility followed by them for the proper functioning of their company.



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IN-TEXT QUESTIONS

6. Delegation is defined as .
 - a) Optional b) Mandatory
 - c) None of the alternatives are correct.
 - d) Both a) and b) are correct.
7. Decision-making authority can be delegated to a lower level, which is related to _____.
 - a) Concentration b) Assignment
 - c) Decentralized administration
 - d) None of the alternatives are correct.
8. Decentralisation is defined as .
 - a) Optional b) Mandatory
 - c) Both a) and b) are correct.
 - d) None of the alternatives are correct.
9. The following organisation is ideal for _____ because it allows for quick communication and accurate feedback.
 - a) Functional Organization b) Informal Organization
 - c) Organizational Structure d) Formal Structure
10. Organizing entails organising which of the following resources?
 - a) Men b) Money c) Machine
 - d) Materials e) Minutes f) All of these

9.15 SUMMARY

Organising is the second function of management which follows up goals and plans as decided in planning function. It's all about setting the course of action for implementation of plans. A good organisation structure ensures coordination both horizontally and vertically, allows flexibility and cost effective working of the organisation. Organising is the process of identifying and grouping the work to be performed, defining and delegating the responsibility and authority and establishing a pattern of relationship. The Process of Organising involved



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the following procedure: Step-1-Identification of work – Listing down various activities to be done. Step-2-Degree of Specialisation – Work is allocated to personnel based on their expertise and knowledge. The next step is the division of work into smaller set of similar activities. This results in creation of different departments specialised in their working. A good organisation structure is flexible and can be adapted as per the changes in environment.

9.16 GLOSSARY

- **Centralisation:** The term "centralization" refers to an organisational structure in which decision-making powers are concentrated in a few leaders at the top of the organisational structure. Top-level decisions are made and communicated to lower-level managers for implementation.
- **Company:** It is a legal entity formed by a group of people to engage in and run a commercial or industrial enterprise. Depending on the corporate law of its jurisdiction, a company can be organised in a variety of ways for tax and financial liability purposes.
- **Decentralisation:** It is a type of organisational structure in which authority is delegated by top management to middle and lower levels of management in an organisation.
- **Delegation:** The responsibility for specific tasks is transferred from one person to another. Delegation occurs in management when a manager assigns specific tasks to their employees.
- **Employee:** A person who is paid to work for someone else.
- **Executive:** An executive is someone who holds a senior position in a company. Executives decide what the company should do and make sure it gets done.
- **Management Company:** It is an organisation formed to manage a specific pool of resources owned by a specific fund, which is typically managed by a team of experts. Accounting, business valuation, market research, investment and tax advice are just a few of the services offered by these firms to the fund.
- **Organizing:** It is the management function that comes after planning. It entails task assignment, task grouping into departments, task assignment with adequate responsibility, and resource allocation across the organisation to achieve common goals.



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9.17 ANSWER TO IN-TEXT QUESTIONS

1. (c), Concentration	6. (b), Mandatory
2. (d), What steps will be taken?	7. (c), Decentralized Administration
3. (a), Process of organising	8. (a), Optional
4. (b), Divisional Structure	9. (b), Informal organisation
5 (d), Informal Organisation	10. (f), All of these

9.18 SELF-ASSESSMENT QUESTIONS

- What is the meaning of the term Organising? Explain its nature and characteristics in detail.
- What is the importance of organising function in management cycle?
- Explain the process of creation of organisation structure in detail. What are some of the features of a good organisation structure?
- “An effective organisation structure is based on principles”. What are those principles? Explain all the principles in detail.
- Explain the meaning of the term delegation. Explain the steps involved in it.
- What is decentralisation and how is it related with the process of Delegation?
- What is the difference between decentralisation and Centralisation?

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LESSON 10

ORGANISATION STRUCTURE: ELEMENTS

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STRUCTURE

- 10.1 Learning Objectives
- 10.2 Introduction
- 10.3 Elements of Organisation Structure
 - 10.3.1 Departmentation
 - 10.3.2 Levels of Management
 - 10.3.3 Authority, Responsibility and Accountability Relationships
 - 10.3.4 Channels of Communication
 - 10.3.4.1 Difference between Formal and Informal Organisations
 - 10.3.4.2 Which Structure is Better: Formal or Informal?
 - 10.3.5 Span of Management
 - 10.3.5.1 Tall Structure
 - 10.3.5.1.1 Advantages of Tall Structure
 - 10.3.5.1.2 Disadvantages of Tall Structure
 - 10.3.5.2 Flat Structure
 - 10.3.5.2.1 Advantages of Flat Structure
 - 10.3.5.2.2 Disadvantages of Flat Structure
 - 10.3.5.3 Factors Affecting Span of Management
- 10.4 Summary
- 10.5 Glossary
- 10.6 Answer to In-Text Questions
- 10.7 Self-Assessment Questions
- 10.8 References
- 10.9 Suggested Readings



10.1 LEARNING OBJECTIVES

After studying this chapter students may able to understand: -

- Meaning of the term Organisation structure
- Various elements of Organisation structure
- Levels of Management-Top, Middle and Lower level of Management
- Types of authority-Line and Staff authority
- Formal and Informal organisations
- Span of Management: Tall and Flat span of management

10.2 INTRODUCTION

An organisation structure refers to horizontal and vertical divisional relationships in an organisation. It is a framework in which systematic arrangement is made for people and resources in organisation. It is designed in a manner that every person, resource and work has proper place in organisation. It clearly defined the role, responsibilities and work relationships in an organisation. Organisational structure falls in formal working of an organisation and once designed it cannot be changed easily. A sound organisation structure is one which allows for smooth flow of work in the direction of achievement of organisational goals. We can define following as the key elements of an organisation structure.

10.3 ELEMENTS OF ORGANISATION STRUCTURE

The elements of the organisation structure are given as under:

10.3.1 Departmentation:

It involves division of work on various basis such as functions, products or area. This division leads to creation of different departments and this process is called as Departmentation. In large organisation, creation of departments is needed as they deal in multiple products and have wider area of operations. The departmentation can be done on various basis such as functions, products, geographies and customers. These are discussed in brief in following section:

- **Functional Departmentation:** it involves creation of departments along activities or functions of the undertaking. The principal is grouping of activities on the basis of similarities of functions. Different departments perform different activities in an organisation. These are named on the basis of functions so performed such as



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marketing department, manufacturing department, sales department and so on. It is the simplest, logical and most widely accepted form of creating departments.

- **Product Departmentation:** Here the departments are created around the products or product lines which company sells. It is suitable for companies that produce multiple products. As company expands its areas of operations, it adds more products to its line of products which in turn require their own scale of functional activities. Therefore, it is suitable for companies going for product diversification.
- **Customer departmentation:** Here the departments are created on the basis of different customers and their needs. For example: A bank creates different types of loans such as home loans, car loans on the basis of different needs of customers. Some organisation follow mass customization and some organisation goes much deeper in understanding the needs and designing products according to customer which is also popularly known as customization. This departmentation is suitable for high end customers and organisations designing and making customer specific products. It involves high costs as each customer brings new cost but equally rewarding at the same time.
- **Geographic Departmentation:** Here the jobs and resources are organised and classified on the basis of geographic area of operations. These geographic units are also known as headquarters. General Manager of every department looks after functional activities of his geographical area but overall functional managers provide supporting services to the managers of different areas. For example: Banks have different branches such as northern division, southern division. For firms doing business globally, this is the most common basis of division as they keep their domestic and international operations separate.

10.3.2 Levels of Management:

This element involves creation of managerial levels which follows a hierarchy. Generally, there are three levels of management-Top level, middle level and lower level.

- **Top level of Management:** This level of management perform all the staff functions of management i.e. designing strategies, taking decisions in key areas, writing goals and objectives for lower levels, payroll statements, expansion and diversification decisions, mergers and alliances and so on. They also design the rules, policies and codes of conduct for an organisation. These level of managers are called as executives or directors or white collar workers. Planning is the core function of top management whereas lower level actually puts them to action. Top management of an organisation is generally the face of an organisation who act as its representatives to outside world.
- **Middle level of Management:** This level works directly under Top management. This constitute of divisional heads or we can say departmental managers and heads. Their work is to put the plans designed by top management into action. They perform



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both planning and executive functions. They derive and design plans for their individual departments and also get them accomplished through subordinates. They are directly accountable to top management for their success and failures. They also act as mediator between top and lower level of management. In cases of conflict, middle level of management can help in resolving the issues between the two levels.

- **Lower Level of Management:** This level of management involves factory workers, office and administrative workers, labours, clerks etc. These are the employees who actually are the action heroes. The quality of product and services are in the hands of lower level management. They need to follow the orders of their supervisors. As they generally constitute of moderately skilled or unskilled workers, they don't participate in decision making of organisation. They are also called as blue collar workers.

10.3.3 Authority, responsibility and accountability relationships:

Organisation structure not only tells about jobs and tasks, it also tells about the relationships between the workers. It distributes responsibilities delegate's authority and establishes accountability. The dynamics of authority responsibility relationships lead to creation of two kind of structures-Centralised and Decentralised. Centralised structures are those where authority lies in the hands of one person or group of persons whereas decentralised structures are those where authority and responsibility is systematically distributed throughout the organisation. These are discussed in detail in the first chapter of this unit. Apart from this classification, many organizations, managers use authority as basis of division. It includes Line authority and staff authority. These differ in terms of power vested in each one of them.

- **Line Authority:** These are the people in the organisation who are directly responsible for achieving organizational goals. The activities to be classified as line activities differ from company to company in terms of their goals and objectives. For example, managers at a manufacturing company may limit line functions to production and sales, while managers at a department store, in which buying is a key element will consider the purchasing department as well as the sales department as line activities. In case of small organisations, all positions are line roles itself.
- **Staff Authority:** These are the individuals in organisation who provide expert advice to line managers. We can also say that all functions which cannot be classified as line roles can be called as staff roles. They offer line managers with planning advice through research, analysis and options development. Their power lies in the expert opinions. They also assist in policy implementation, monitoring and control in legal and financial matters; and in the design and operation of data analysis and interpretation systems. The services of staff managers have become of key importance today. In large and global organisations, the division between line and staff managers is clear and required to handle complex operations.



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10.3.4 Channels of Communication

This is another important element of organisation structure. It refers to system and process of information generation and transmission at various levels in organisation. These are called as channels of communication. Communication is of utmost importance in efficient management of an organisation. The system of channels of communication give rise to two types of organisation-Formal and Informal organisations.

- **Formal organisations:** These are the organisations which work on systematic channels of communication. They clearly spells out authority, responsibility relationships which is permanent and stable in nature. It clearly states that who has to communicate to whom and in which manner. In such organisations, every record for every communication is maintained for verification and references. Oral communication holds no value in these organisations. Generally, the flow of communication from top management to lower level involves orders, rules, policies etc. and flow of communication from lower to upper involves grievances, feedback, applications and so on. Such system is necessary for coordinated and smooth functioning of the organisation. However, formal organisations results in rigid organisation structure which may not be suitable in case of dynamic environment. Along with this, formal organisations lead slow decision making as all communication channels have to follow scalar chain.
- **Informal organisations:** These are the organisations which do not have rigid channels of communication. Work relations in these organisations are based on personal and social interactions. There is boss and authority of command in such organisations. There is no direction of flow of communication in such organisation. There are no predetermined rules in such organisations. These organisations are necessary for efficient working as they lighten the atmosphere and mood of organisation. Such work environments are less stressful for employees and especially skilled employees feel motivated to work in such organisations. Therefore, informal organisations brings efficiency in working of organisation

10.3.4.1 Difference between Formal and Informal organisations

Basis	Formal Organisations	Informal Organisations
Communication	Written and formal communication	Oral communication
Flow of communication	Upward communication in form of complaints or applications and downward communication in form of orders, summons and rules	No direction of flow of communication
Advantage	Lead to systematic and smooth	Motivate employees and

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	functioning	reduce stress
Disadvantage	Lead to slow and rigid working	Spread rumours and divert energy to non-important issues in organisation.
Creation	Voluntarily created and deliberately sustained	It is created as a result of day to day interactions of random nature.

10.3.4.2 Which structure is better: formal or informal?

Both formal and informal organisations have their own set of benefits and limitations but these structure are not in competition with each other rather they can co-exist in one organisation. An organisation is a place where people come together and work collectively for achievement of goals. It is very organic and natural for people to interact and connect with each other at work place as they are social animals. Therefore, creation or emergence of an informal organisation is a very natural process. Even if people are bided by formal relations, they tend to create social relationships. This is in fact very necessary for efficient working of an organisation. This is because a rigid formal organisation leads to work pressure and stress which can be released by talking and communicating with each other. An informal atmosphere in an organisation takes off the pressure from mind of employees and they look forward to such interactions at work place thereby reducing absenteeism and resignations. Many organisations today have understood the importance of good working environment and hence they organise parties, trips, picnics for colleagues and employees.

However, informal organisations can also be harmful and diverting. They may divert the energy of employees from productive to unproductive activities. It may also lead to work politics, groupism, gossips and unhealthy rumours. In such scenarios, informal organisation works in opposite direction. They may disturb the mental peace of employee and hence may lead to inefficient working in organisation. Therefore, a balance needs to be maintained between the degree to which an organisation should be formal and informal.

ACTIVITY

Organise a class seminar on the topic, “Structure of Organisations” and tell all the students to make power point presentations by taking the examples of Large, medium, small and tiny organisations. Discuss the benefits and drawbacks of different types of organisational structure followed by these organisations.



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IN-TEXT QUESTIONS

1. ____ refers to the process of dividing a large monolithic functional organisation into small and flexible administrative units.
a) Departmentation b) Delegation
c) Organisation d) Command
2. The ____ includes departmentation.
a) Organisational Process b) Process control
c) The planning procedure d) The hiring procedure.
3. Examples of ____ include banks, insurance companies, and distribution companies.
a) Departmentalization based on function.
b) Byproducts of departmentation
c) Territorial departmentation
d) Customer departmentation
4. The departmentation is based on activities that are grouped according to the type of customer_____.
5. Production process departmentation is referred to as_____.

10.3.5 Span of Management:

Span of management refers to optimum number of subordinates that a supervisor can manage effectively. It is yet another important element in designing an organisation structure. It is important to decide the limit as excess number of subordinates cannot be managed by one supervisor and too less number of subordinates may lead to unnecessary number of levels and complications. Ideally 5 to 6 can be considered as the optimum number that a supervisor can manage effectively. Depending upon span of management, there can be two types of organisation structure-Tall and Flat organisations.

10.3.5.1 Tall structure: These are the structures where there are less number of subordinates per supervisor. There are narrow span of management thereby giving rise to number of levels. As there are less number of subordinates, a supervisor is able to keep a strict control over his subordinates but at the same time as number of levels are more it created complications in coordination and management.



10.3.5.1.1 Advantages of Tall Structure: Following are the advantages of creating tall structures:

- In tall structures, there is better supervision as managers can closely supervise the activities of subordinates.
- It allows for better communication between superior and subordinated as superiors can clearly their expectations and subordinate can express their grievances and challenges to supervisor.
- It promotes good and strong relationships amongst superiors and subordinates.
- There is better control in narrow span of management.

10.3.5.1.2 Disadvantages of Tall Structure: The disadvantages of tall structure are given as under:

- It leads to creation of multiple levels of structured and divisions which complicates the working of organisation.
- It is a costly structure to maintain and coordinate as it requires large number of manpower which increases the overhead expenditure.
- With too many levels, it leads to delayed communication, slow decision making and more filtering of information.
- As employees work under strict control and supervision, it restricts employees' creative and innovative abilities and may further lead to low job satisfaction and morale.

10.3.5.2 Flat structure: These are the structures where there are large number of subordinate per supervisor. They have broad span of management and hence lesser number of levels in an organisation. These structures are cost effective and suitable where more power is distributed to subordinates rather than concentrating on supervisor. Most of the modern day organisation structures are flat.

10.3.5.2.1 Advantages of Flat Structure: The advantages are as under:

- In this structure, less number of managers are required for supervision and hence it is less costly.
- In these structures, decision making is quick and effective as it is decentralised.
- It boosts the morale and job satisfaction of subordinated as they are not treated as machines with constant and strict supervision.
- There is effective communication as the number of levels is less.



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10.3.5.2 Disadvantages of Flat Structure: The disadvantages are as follows:

- It is not suitable in organisation where closed supervision is required because of unskilled workers.
- With wide span of management, a single manager may find it difficult to handle the activities of subordinated.
- Subordinates have to be trained so that dilution of control does not affect organisational productivity.

Both tall and flat structures have positive and negative features and it is difficult to find the exact number of subordinates that a manager can effectively manage. Span of control is situational and depends on a variety of factors. A good manager keeps these factors in mind while deciding the span of management.

10.3.5.3 Factors affecting Span of Management:

The factors which affects the span of management are as under:

- **Capacity of Superior:** The term capacity hereby refers to ability of superior to understand the problems of management and subordinates and coming up with solutions. It includes his communication style, leadership style, power handling, decision making and functional expertise and so on. If a superior has all these capabilities, he will be able to manage large number of subordinates. Thus, a superior possessing such capacity can manage more subordinates as compared to an individual who lacks these abilities.
- **Capacity of Subordinate:** Hereby capacity of subordinate refers to dexterity and efficiency level of subordinate in doing the work. If subordinates are capable enough to do their work and are well trained, they can handle their working with minimal interference and supervision. This means a superior can manage a large number of subordinates as he will be required just to give the broad guidelines and devote less time on each.
- **Nature of Work:** Span of management depends upon the kind of work involved. The work can be routine or sometimes of strategic nature. In case of routine work, a large span of management can work as same work is to be done every day which requires minimum supervision. In case work is of strategic nature, it requires narrow span of management for strict supervision and control.
- **Superior-subordinate relationships:** It refers to the comfort between superior and subordinate. If superior trusts the ability of subordinates, shares a long and cordial bond with subordinates, then a wide span of management can also work. But if superior does not have trust in subordinates and their relationships are bitter, then a narrow span of management is required to avoid chaos and confusions.



ACTIVITY

Discuss in the class about elements of organisation structure to understand the significance of concepts of departmentation

IN-TEXT QUESTIONS

6. The term span of management is also known as .
 - a) The scope of the company
 - b) Span of Control
 - c) Duration of activity
 - d) Planning horizon
7. When orders, instructions, or directions are delegated to a specific person, this is known as .
 - a) Broad delegation
 - b) Official delegation
 - c) Specific delegation
 - d) Unofficial delegation
8. _____ span of management control results in _____ structures with multiple levels of management.
9. Which of the following does NOT describe a narrow span of control?
 - a) There are fewer opportunities to delegate.
 - b) creates a more manageable business hierarchy
 - c) Supervision and control are more stringent.
 - d) a greater disparity between top and bottom management
10. Define span of control?

10.4 SUMMARY

A sound organisation structure allows for smooth flow of work in the direction of achievement of organisational goals. It clearly defined the role, responsibilities and work relationships in an organisation. It involves division of work on various basis such as functions, products, geographies and customers. There are three levels of management-Top level, middle level and lower level. Top management perform all the staff functions of management i.e. designing strategies, taking decisions in key areas, payroll statements, expansion and diversification decisions, mergers and alliances and so on. These level of



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managers are called as executives or directors or white collar workers. Organisation structure tells about jobs and tasks, it also tells about the relationships between the workers. It distributes responsibilities delegate's authority and establishes accountability. The dynamics of authority responsibility relationships lead to creation of two kind of structures-Centralised and Decentralised. Centralised structures are those where authority is concentrated in one person or group of persons. Many organizations also use line and staff authority as basis for this classification. These are the individuals who provide expert advice to line managers.

10.5 GLOSSARY

- **Communication:** The movement of information within a company or between companies. It focuses on reaching a company's target audiences—consumers, employees, vendors, media groups, and so on—via a variety of communication methods.
- **Department:** A department is commonly thought of as a subset of a larger organisation. The term "department" can refer to a geographical or administrative division within a country, as well as a governmental ministry or a component of an institution such as a university.
- **Departmentation:** The process of departmentalizing an enterprise in order to gain efficiency and coordination, the division of tasks into departments and sub-departments, as well as the delegation of authority for task completion.
- **Departmentalization:** It is a type of organisational structure in which people are divided into groups, or departments, based on a set of criteria. These departments are led by their own individuals and collaborate to complete tasks. Multiple departments may collaborate on large or complex projects.
- **Levels of Management:** The line of division that exists between various managerial positions in an organisation is referred to as the Levels of Management. As the size of the company and workforce grows, so does the number of management levels, and vice versa.
- **Organisation:** An organisation is a structure in which people from various backgrounds, educational backgrounds, and interests come together to work toward a common goal. Employees must work closely with one another and give their all to achieve the organization's goals.
- **Organisational Structure:** An organisational structure is a system that defines how specific activities are directed in order to achieve an organization's goals. Rules, roles, and responsibilities are examples of such activities. The organisational structure also governs how information flows within the company.



10.6 ANSWER TO IN-TEXT QUESTIONS

1. (a), Departmentation	6. (b), Span of control
2. (a), The hiring procedure	7. (c), Specific delegation
3. (c), Territorial Departmentation	8. Narrow and Tall
4. Departmentation by customers	9. (c), Supervision and Control are more stringent
5. Equipment departmentation	10. The Span of Control refers to the number of subordinates that a superior can manage effectively. Simply put, the span of management refers to the manager who has a group of subordinates who report directly to him.

10.7 SELF-ASSESSMENT QUESTIONS

1. Explain the term Organisation Structure. Explain its various elements.
2. Explain the term Span of Management. How is it important for an organisation?
3. What is an optimal span of management? Describe different factors that help in determining the optimal span of management.
4. Explain the difference between following-
 - Tall and flat organisations
 - Formal and Informal organisations
 - Product and functional structure
 - Line vs. staff authority

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LESSON 11

ORGANISATION STRUCTURE

Written by : Dr. Vipin Aggarwal
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STRUCTURE

- 11.1 Learning Objectives
- 11.2 Introduction
- 11.3 Types of Organisation Structure
- 11.4 Traditional Organisation Structure
 - 11.4.1 Functional Structure
 - 11.4.1.1 Merits of Functional Structure
 - 11.4.1.2 Limitations of Functional Structure
 - 11.4.2 Product Structure
 - 11.4.2.1 Merits of Product Structure
 - 11.4.2.2 Limitations of Product Structure
 - 11.4.3 Geographical Structure
 - 11.4.3.1 Merits of Geographical Structure
 - 11.4.3.2 Disadvantages of geographical Structure
- 11.5 Modern Organisation Structure
 - 11.5.1 Project Structure
 - 11.5.1.1 Benefits of Project Structure
 - 11.5.1.2 Drawbacks of Project Structure
 - 11.5.2 Mixed Organisations
 - 11.5.2.1 Benefits of Mixed Organisations
 - 11.5.2.2 Limitations of Mixed Organisations
- 11.6 Virtual Organisations
- 11.7 Characteristics of Virtual Organisations



- 11.8 Advantages of Virtual organisations
- 11.9 Disadvantages of Virtual Organisations
- 11.10 Difference between Traditional and Modern Organisation Structure
- 11.11 Summary
- 11.12 Glossary
- 11.13 Answers to In-Text Questions
- 11.14 Self-Assessment Questions
- 11.15 References
- 11.16 Suggested Readings

11.1 LEARNING OBJECTIVES

After studying this chapter students may able to understand: -

- Types of organisation structure
- Different types of traditional structures
- Functional structure-its advantages and disadvantages
- Product structure-its merits and limitations
- Geographic structure-its merits and limitations
- Project organisations- its merits and limitations
- Matrix organisations-its merits and limitations
- Virtual organisations-its merits and limitations

11.2 INTRODUCTION

Grouping of activities into departments (or small units) is an essential step in setting up an organisational structure. It is a means of dividing the large and complex organisation into small units. There are many alternative patterns for grouping organisational activities. It can be done by function, by territory or geography, by production, by kinds of customers served or by a combination thereof. Broadly the organisation structures are classified as Traditional and Modern Organisation structures.

11.3 TYPES OF ORGANISATION STRUCTURE

Different types of modern and traditional structures are discussed in detail as below: -



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- **Traditional Structure:** Traditional Organisation structures associate themselves with division of organisation on the principal of specialisation but highly guided by hierarchy i.e. one division being superior to another. They look like pyramids where organisation is divided at three levels i.e. top, middle and lower level of management. Where all the major decisions are communicated to mid-level and low-level management by top level management. Little to no input is required or solicited from employees, and ultimate authority rests in the hands of those at the top of the chart.
- **Modern Structure:** Modern Organisation structures also associate themselves to the principal of specialisation but do not believe in superiority of one function over another. They believe in ideas of flexibility and freedom. These organisational design is all about empowering employees to make decisions and implement changes without needing the approval of supervisors. In this type of structure, employees are given the productivity goals and hence their performance is assessed on the basis of productivity rather than the amount of time spent inside the organisation. This structure eliminates the vertical design of a traditional company and gives employees ownership of the work they perform.

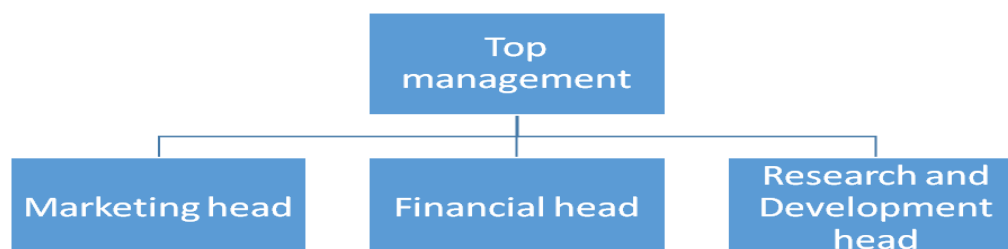
11.4 TRADITIONAL ORGANISATION STRUCTURE

The following are the different types of traditional organisation structure:

11.4.1 Functional Structure:

This is the most common basis of structuring an organisation. Under this basis, grouping of activities is done on the basis of functions to be performed like production, marketing, human resource, finance, etc. Under this each department specialize in these functions. These are most suitable for organisation dealing single product but have large scale production and therefore need to specialise in functions to reduce their cost of production. This is the most widely used organisation structure which exists in all organisations at some level.

Figure: Functional Structure



Source: businessjargos.com



11.4.1.1 Merits of Functional Structure:

The merits are as under:

- It leads to optimum utilisation of human and material resources.
- Appropriate delegation of work to different departments' leads reduces burden on top management.
- It facilitates co-ordination within the departments as they have commonality in terms of functions.
- It eliminates duplication of efforts thereby leading to efficiency in functioning.
- It classifies and list down all activities and lays emphasis on their performance

11.4.1.2 Limitations of Functional Structure:

The limitations are as follows:

- It may lead to over specialisation i.e. creation of too many departments on the basis of functions may lead to confusion and chaos in the organisation may affect the teamwork.
- It may be difficult to co-ordinate the activities of different departments as different department heads may narrow their focus to the department.
- Functional department restricts the overall development of the managers as they concentrate their efforts on one skill and activity.
- This structure may not be suitable for an organisation who deal in multiple and diverse products.

11.4.2 Product Structure:

In this structure, the departments are created product-wise. For every product that an organisation produces, there is different department for it. It is suitable in case of organisations producing multiple and diverse products especially when product lines are not related to each other. Big organisations such as Unilever limited, TATA Procter & Gamble, Godrej, Samsung follow such classification. Such organisation structure keeps the functioning of one department separate from other. Departments created on the basis of product may further be sub-divided on the basis of functions within their own departments.



Source: Businessjargons.com



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11.4.2.1 Merits of Product Structure:

The merits are as under:

- Each product division is considered as strategic business unit with its own growth curve.
- The performance of each product can be easily evaluated. As responsibility for the performance of the product can be fixed on the concerned product managers.
- It permits maximum use of specialised production facilities leading to specialisation in a product.

11.4.2.2 Limitations of Product Structure:

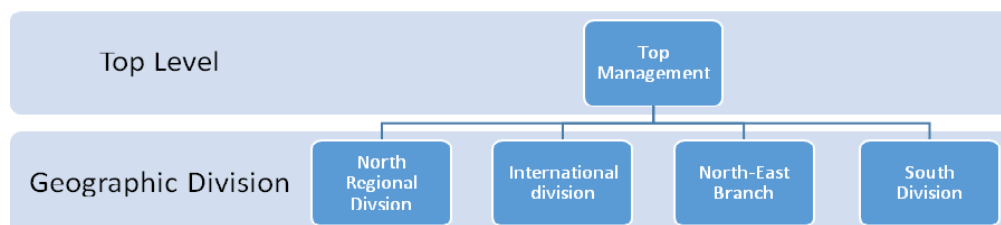
The limitations are as follows:

- There is duplication of physical facilities and functions; as each product has its own specialised functions, resulting in higher operating costs.
- When the demand for a particular product declines, there is underutilisation of plant capacity.
- The product manager may work in the interest of his own product department ignoring the overall goals of the organisation.
- It is a complex organisation structure to handle as there is double layer of divisions i.e. one on the basis of product and second on the basis of functions.

11.4.3 Geographical Structure:

It is appropriate for organisations that have multiple areas of operations in different geographical locations. For instance, an insurance company, a bank, a chain store, etc. have their business spread in many locations throughout the country. All activities of a particular territory are assigned to one department. The activities are classified into zones, districts and branches. Each region has a regional manager. It is suitable for large scale enterprises or the companies whose nature of activities are similar but it is geographically dispersed.

Figure: Geographical Structure



Source: Businessjargons.com



11.4.3.1 Merits of Geographical Structure:

The merits are as follows:

- It helps in enjoying the benefits of economies of local area operations.
- It facilitates the expansion of business into various regions.
- There is better co-ordination of activities as the regional managers look after all the operations of that division/region.
- Since managers are aware of local customs, styles, preferences, etc., they can respond to the local conditions more effectively.
- It provides an opportunity to train managers as they perform all the functions of that division.

11.4.3.2 Disadvantages of Geographical Structure:

The disadvantages are as follows:

- There is duplication of physical facilities resulting in high operating costs.
- Administrative control and co-ordination of different regional divisions by the top managers becomes difficult.
- There may be a problem of integration of various regions.

ACTIVITY

Discuss in the class about the various organisational structure designed in the different types of organisations whether government or private. Draw the structure and write down their pros and cons. Prepare an assignment and submit it to the subject teacher.

IN-TEXT QUESTIONS

1. The following is also referred to as a military organisation.
 - a) Line Organisation
 - b) Organizational structure
 - c) Organization of the line and staff
 - d) None of these



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2. Which of the following organisational structures requires each specialist to provide functional advice to all other foremen and workers?
 - a) Organizational structure
 - b) Functional Organization
 - c) Organization of the line and staff
 - d) All of the preceding
3. Which organisational structure is commonly used by large steel plants?
 - a) Organizational structure
 - b) Organizational structure
 - c) Line and staff Organisation
 - d) All of the Above
4. A component of _____ is grouping activities based on product line.
 - a) Formal structure
 - b) Divisional Structure
 - c) Informal organisation
 - d) Functional Organization
5. Describe the type of organisation that is purposefully designed by top management to achieve a common organisational goal.
 - a) Corporate structure
 - b) Divisional structure
 - c) Formal Organisation
 - d) Unofficial organisation

11.5 MODERN ORGANISATION STRUCTURE

The following are the modern structures of organisation:

11.5.1 Project Structure:

The project organisation structure consists of a number of horizontal departments oriented towards the completion of projects of long duration. The size of project varies from one project to another. Each project is important for the organisation. A team of specialists from different functional areas is created for each project. The activities of the project are co-ordinated by the project manager. It is temporary organisation structure created for a specific project with a given time limit. After the project is completed, the structure is dismantled and the functional specialists go back to their original departments. The objectives of the project, its start and finishing time, and the resources required for its implementation are clearly defined. The project department staff is separate and independent of the functional department. The figure below shows the project organisation structure. The project managers form their own teams in addition to the existing functional departments. The project organisation is employed in organisations where projects are subject to high standards of



performance like aero-space, aircraft manufacturing, construction and professional areas like management consultants.

11.5.1.1 Benefits of Project Structure:

The project organisation offers the following benefits:

- Project organisation focuses attention on the complex project by unifying the diverse actions towards the completion of the project.
- It facilitates the timely completion of the project without disturbing the normal routine work of the entire organisation.
- Project organisation allows maximum use of specialised knowledge. Specialists are highly motivated while working on the complex projects.
- It provides flexibility in accomplishing the work, thereby encouraging initiative and creativity on the part of the project staff.
- Project members become versatile due to the experience in different kinds of projects.

11.5.1.2 Drawbacks of Project Structure:

The Project organisation suffers from the following drawbacks:

- There is lack of clearly defined responsibility, lack of communication lines and absence of standards of performance for the functional specialists. This makes the job of project manager very difficult.
- Since there are specialists from a number of diverse fields, there is a danger of over-specialisation.
- Every project has a completion date which makes the work environment stressful.
- It causes a sense of insecurity among the members as they feel that they might lose their jobs once the project is completed.

Figure: Project Structure



Source: businessjargons.com



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11.5.2 Matrix Organisation:

Matrix organisation has been developed to cater to the needs of large and complex organisations which require structure that is more flexible and technically oriented than the functional organisation structure. The objective is to successfully complete a series of projects. Matrix organisation is a combination of two organisation structures-functional and project. The organisation is divided into different functional areas, e.g., purchase, production, marketing, human resource, etc. Each function is headed by a functional manager. The organisation is also divided on the basis of projects. Each project has a project manager. The employees have to work under two superiors. The authority of the project managers flows horizontally (across) while the authority of the functional manager flows vertically (downward). Therefore, it is called matrix organisation.

The project teams are created from the functional departments and are placed under the project manager for the duration of the project. When the assignment is complete, they go back to the functional department to which they belong. The matrix organisation structure violates the principle of unity of command as each person has two bosses-the functional manager and the project manager. This results in indiscipline, confusion, etc., adversely affecting the productivity and profitability of the organisation. It is, therefore, important to determine the nature and extent of authority of each boss for the smooth functioning of the organisation.

Matrix organisation structure is used in industries with highly complex products as in case of aerospace industry where project teams are created for specific space and weapon systems. It is also suitable for multi-project organisations like construction companies engaged in constructing different projects at the same time.

Table: Matrox Organisation

	Top Management		
	Product A Division	Product B Division	Product C Division
Marketing Team	Product A group	Product B group	Product C group
Financial Team	Product A group	Product B group	Product C group
Legal Team	Product A group	Product B group	Product C group

Source: Prepared by writer



11.5.2.1 Benefits of Matrix Organisation:

The Matrix organisation offers the following benefits:

- It facilitates proper co-ordination and control. Each project is assigned specialists from several functional areas. The project manager monitors the progress of the project to ensure its timely completion.
- It is more flexible than the traditional functional structure. Effective exchange of information and regular interaction between the project department and the functional specialists enables the enterprise to respond quickly to the changes in market, technology, etc.
- In matrix structure, people get an opportunity to enhance their skills and knowledge as they interact with specialists from diverse fields. It encourages creativity and widens the horizons of the personnel.
- It provides motivation to the project staff as they use their competence for the completion of a particular project. Clear definition of responsibility and well established lines of communication helps in co-ordinating the efforts of people from various functional groups and the project manager.
- Each project is assigned the requisite physical, financial and other resources. The personnel

11.5.2.2 Limitations of Mixed Organisation:

The Matrix organisation suffers from the following limitations:

- It violates the principle of unity of command as employees receive orders from the functional boss as well as the project manager. This creates confusion and gives rise to jurisdictional conflicts in the organisation.
- In matrix organisation, people are drawn temporarily from different functional departments. Project manager does not have line authority over his group of personnel. This results in the problem of co-ordinating the efforts of the people for the project objectives.
- Matrix organisation is not a homogeneous and a compact group. The multiplicity of vertical and horizontal relationships may impair organisational efficiency. The functional specialists may try to emphasise their own specialisation at the cost of overall project. There is no clarity of jurisdiction of functional specialists and the project managers.
- In matrix organisation, working relationships are not very clear. It is difficult to balance the authority of the project manager and functional manager.



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- The employees are temporarily drawn from the functional departments and work on a number of projects over a period of time. It is difficult for the functional managers to appraise the performance of employees. The employees may find it difficult to adjust to the requirements of the new project resulting in low employee morale.

11.6 VIRTUAL ORGANISATIONS

Virtual organisation is a relatively new form of organisation structure that emerged in 1990s as a result of the proliferation on information and communication technologies (ICT). It is also known as digital organisation.

Practically, the term “virtual organisation” is used to describe a network of independent firms that are linked together by information technology to share skills, costs and access to one another’s markets. It may or may not have any central office nor organization chart. The primary aim of a virtual organisation is to provide innovative, high-quality products or services.

They are often associated with terms such as virtual office, virtual teams, and virtual leadership. In a virtual organisation, all the boundaries of traditional organisation structure—vertical as well as horizontal—are removed. In this sense, it is a boundary less organisation. Partners in virtual organisations share risks, costs, and rewards in pursuit of a specific market opportunity. They bring together world-class core competences in the domains of design, manufacturing, marketing, technology etc, and thereby creating substantial synergies. The life of such organisations usually last up till the time the specific market opportunity is exploited.

11.7 CHARACTERISTICS OF VIRTUAL ORGANISATIONS

Some of the defining features of virtual organisation are discussed below. This list is non-exhaustive but covers the essential features:

- **Borderless Organisation:** Virtual organisations are borderless in the sense that they are not situated in a particular country like traditional organisations. They bring myriad people from different parts of the country and in some cases from different parts of the world to work on a specific project or market opportunity, linked by the ICT tools.
- **Flat organisation:** Compared to the traditional organisation structures, virtual organisations have flatter structure and fewer or no management level (or hierarchies) between staff level and top executives.
- **ICT is the Backbone:** The origin of virtual organisations is attributed to the proliferation of ICT tools. A virtual organisation relies on various ICT tools such as



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Google documents, Dropbox, Slack, Yammer, TeamViewer etc., to coordinate the flow of work, scheduling team meetings, information sharing etc.

- **Informal communication:** Most of the communication in the virtual organisations is informal in nature. People in such organisations do not stick to conventional chain of communication, sending information from one level to the next.
- **Complementary Resources:** Virtual organisations combine complementary resources of different individuals, groups, or organisation, in order to achieve a common goal. For example, a virtual organisation in the area of Financial Technologies (FinTech) would usually combine an individual or organisation having core competence in the area of finance and other in technology. The idea is to combine together the resources and competences such that they create synergy, i.e., greater returns can be earned from the combined use of the resources, than individually.
- **Interdependent relationships/ Blurred boundaries:** Members of the virtual organization create a network of interdependent relationships. These relationships between different individuals, groups, or organisations make them more dependent on each other than they have been in the past and in other forms of structure. The interdependencies make organisations boundaries to get blurred as competitors, suppliers, and customers enter into cooperative agreements.

11.8 ADVANTAGES OF VIRTUAL ORGANISATIONS

The advantages of virtual organisations are as under:

- The flat structure of the organisation enables quick decision making which is essential in the rapidly changing business environment where market opportunities can be won or lost in a blink of an eye.
- Use of information and communication tools provides a cost-effective way of coordinating team work and maintaining communication across and beyond the boundaries of a nation. This leads to substantial savings in the time, cost, and effort.
- A most significant advantage of virtual organisation is that it allows its members the access to superior resources and competences without actually needing to invest in them or owning them.
- Virtual organisation structure results in substantial savings in overhead costs associated with maintaining an office space like in traditional organisation. This frees up resources that can be utilized in improving the scalability and growth potential of the organisation.



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- Relative to traditional organisation structure, a virtual organisation has greater ability to tap into global pool of talented workers as physical presence is not an impediment.

Virtual organisations tend to be more productive. The ability to work remotely without having to travel to the traditional office premises and being exposed to office setting is claimed to increase productivity level of workers

11.9 DISADVANTAGES OF VIRTUAL ORGANISATIONS

In spite of the number of advantages, virtual organisations suffer from the following disadvantages:

- While the use of information and communication tools significantly reduce the time and expense involved with decision making, arranging meetings etc., the lack of physical touch results into many complexities.
- The conduct of confidential and sensitive business transactions are more effective when done in physical presence.
- Virtual organisations bring together people from various diverse backgrounds, especially culture. The members may also be located in different time zones. Many a times, multicultural teams may not come on a common understanding of common goals, thereby having detrimental effects.
- This form of organisation has relatively less control over its members which could lead to poor work performance and damage to firm reputation.

Despite these limitations, virtual organisations have become a reality and are growing in popularity. There are several successful cases of virtual organisations in different parts of the world.

11.10 DIFFERENCE BETWEEN TRADITIONAL AND MODERN ORGANISATION STRUCTURE

The difference among these two has been given as under:

Traditional	Modern
These organisation structure are relatively stable and inflexible.	These organisation structure are dynamic and flexible.
These structures follow a simple design.	These structures are complex in design and understanding.



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These are relatively less costly to maintain.	These structure requires updated technology and resources, therefore they involve high cost.
They are suitable for organisations dealing in one or two product lines with limited areas of operations.	These structures are suitable for global firms dealing in customized or multi-range diverse products.
These structures include product, geographic and functional divisions.	These structures have both product and functional divisions vested in each other.
These structures have centralised authority.	These structures have participatory work environment with balanced delegation of authority at various levels.
Employees may have low morale in absence of authority and say in decision making.	Employee morale is high as they are put in command for decision making.

ACTIVITY

Organise a class seminar on the topic, “Virtual Organisation Are Need of the Hour.” And discuss the benefits and limitations of these type of organisation.

IN-TEXT QUESTIONS

6. What are the explanations for organisational structures?
 - a) Who, where, and when does what?
 - b) The firm's competitive advantage
 - c) Internal firm reporting, both formal and informal
 - d) The firm's core competencies



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7. According to Barlett and Ghoshal (1989), the matrix structure is as follows:
 - a) "too simple for a complicated environment."
 - b) "improves decision-making speed."
 - c) "prove to be all but unmanageable."
 - d) "easily manageable."
8. According to the Stopford and Wells model, a multinational firm with a high degree of diversification and a high level of foreign sales should:
 - a) Matrix Structure
 - b) Organization of international divisions
 - c) Structure of the area
 - d) The overall product structure
9. What exactly is a virtual organisation?
 - a) An organisation that uses information and communication technologies (ICTs) to coordinate activities across physical boundaries.
 - b) A company that sells products to customers through the use of internet technologies.
 - c) A company that uses digital technologies to manage the supply chain.
 - d) A company that uses video conferencing to coordinate its workforce.
10. The _____ model refers to employees who work from home and do not come into the office.

11.11 SUMMARY

Organisation Structure is a means of grouping large and complex organisations into small units. It can be done by function, by territory or geography, by production or by kinds of customers served or by combination thereof. There are two types of organisation structures - Traditional and Modern Organisation structures. For every product that an organisation produces, there is a different department for it. Big organisations such as Uniliver limited,



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TATA Procter & Gamble, Godrej, Samsung follow such organisation structure. Merits: It allows maximum use of specialised production facilities leading to specialisation in a product. It is appropriate for organisations that have multiple areas of operations in different geographical locations. For instance, an insurance company, a bank, a chain store, etc. have their business spread in many locations throughout the country. It provides an opportunity to train managers as they perform all the functions of that division.

11.12 GLOSSARY

- **Functional Structure:** It is a business structure that divides a company into departments based on areas of expertise. These departments function as functional units, with functional managers or department heads in charge.
- **Geographical Organisational Structures:** These structure are appropriate for businesses that have offices or units in various regions or geographical areas. Businesses can use this structure to have a reporting and functional system in multiple locations.
- **Matrix Structure:** There are multiple lines of authority in a matrix organisational structure, with some employees reporting to at least two managers. Functional managers supervise departments such as engineering and marketing, while project managers supervise employees who work on specific projects.
- **Modern Organisation Structure:** A hierarchical, top-down power structure does not exist in modern organisational structures. It is also known as a modern organisational structure because it eliminates departmental boundaries between employees and requires them to collaborate on projects in pursuit of the company's goals.
- **Organisation:** An organisation is a structure in which people from various backgrounds, educational backgrounds, and interests come together to work toward a common goal. Employees must work closely with one another and give their all to achieve the organization's goals.
- **Organisational Structure:** An organisational structure is a system that defines how specific activities are directed in order to achieve an organization's goals. Rules, roles, and responsibilities are examples of such activities. The organisational structure also governs how information flows within the company.
- **Project Structure:** The organisational structure of project management is used to determine the hierarchy and authority of people involved in a specific project. On a chart, the structure defines each team member's function and the reporting lines for team members to refer to during a project.



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- **Traditional Organisation Structure:** A traditional organisational structure is based on a system in which power is distributed upward through the organisation and all employees follow a chain of command.
- **Virtual Organisation:** A virtual organisation is an alliance of separate individuals, business units, or companies with diverse core competencies that collaborate to bring a project to market faster. These projects are typically initiated to address a specific market opportunity.

11.13 ANSWER TO IN-TEXT QUESTIONS

1. (a) Line Organisation	6. (a) Who, where, and when does what?
2. (b) Functional organisation	7. (c) Prove to be all but unmanageable
3. (c) Line and Staff Organisation	8. (a) Matrix structure
4. (b) Divisional Structure	9. (a) An organisation that uses information and communication technologies (ICTs) to coordinate activities across physical boundaries.
5. (c) Formal Organisation	10. Telecommuting

11.14 SELF-ASSESSMENT QUESTIONS

1. Explain the difference between traditional and modern organisation structures?
2. If you are manager of global company dealing in multiple products, which organisation structure will you go for in order to bring maximum benefits to the organisation?
3. Explain in detail various types of traditional structures taking support of diagrams and illustrations.
4. Explain various types of modern organisation structure taking support of diagrams and illustrations.
5. Explain the difference between project organisation structure and matrix organisation structure.
6. Explain in detail working and designing of a virtual organisation. what are its key merits and limitations.

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UNIT IV

LESSON 12
STAFFING

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Revised by : Dr. Virender Kaushal

STRUCTURE

- 12.1 Learning Objectives
- 12.2 Introduction
- 12.3 Nature of Staffing
- 12.4 Importance of Staffing
- 12.5 Process of Staffing
- 12.6 Recruitment
- 12.7 Sources of Recruitment
 - 12.7.1 Sources of Internal Recruitment
 - 12.7.1.1 Merits of Internal Sources
 - 12.7.1.2 Demerits of Internal Sources
 - 12.7.2 Sources of External Recruitment
 - 12.7.2.1 Merits of External Sources
 - 12.7.2.2 Demerits of External Sources
- 12.8 Selection
- 12.9 Selection Process
- 12.10 Employee Orientation or Induction
- 12.11 Importance of Orientation or Induction
- 12.12 Process of Orientation or Induction
- 12.13 Training and Development
- 12.14 Benefits of Training and Development



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12.15 Methods of Training and Development

12.15.1 On-the-Job Methods

12.15.2 Off-the-Job Methods

12.16 Career Development

12.17 Performance Appraisal

12.18 Objectives of Performance Appraisal

12.19 Methods of Performance Appraisal

12.19.1 Traditional Methods

12.19.2 Modern Methods

12.20 Summary

12.21 Glossary

12.22 Answers to In-Text Questions

12.23 Self-Assessment Questions

12.24 References

12.25 Suggested Readings

12.1 LEARNING OBJECTIVES

After studying this chapter students may be able to understand: -

- Understand the concept and importance of Staffing
- Understand the concept and process of Recruitment, selection and orientation
- Know about the term career development and its importance
- Gain insight about Training and development and various methods of training.
- Gain an understanding about the concept of Performance Appraisal and the various methods of appraising the employees.

12.2 INTRODUCTION

Many authors use the term “Human Resource Management” instead of the term “staffing”. According to **Koontz and O'Donnell**, “*The managerial function of staffing involves manning the organisational structure through effective and proper selection, appraisal, and development of personnel to fill the roles designed into the structure.*” Staffing is the way



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towards monitoring the association structure through legitimate and effective recruitment and selection and choice. Staffing identifies with recruitment, training and compensation of the personnel. Staffing function manages human component in the business. It helps in filling the vacant occupation positions in the association.

Like other crucial managerial functions, staffing is performed by the top management at all times. A newly developed organisation will perform the function of staffing as the third step right after planning and organising. To characterize and explain the group of employees included in the staffing concept, it should be expressed that staffing function is concerned with the placement, growth and development of all of those members of the organization whose function it is to get things done. In simple words Staffing alludes to the persistent cycle of finding, choosing assessing and building up a working relationship with current or future employees. The primary objective of staffing is to fill the different jobs inside the organization with reasonable candidates. It includes selecting the right person for the right job, training and developing the skills of the employees, giving them proper remuneration, doing their performance appraisal and giving them proper promotions and transfer. Some of the definitions are given below:

According to Dalton E. McFarland, “The staffing function of management consists of few interrelated activities such as planning of human resource, recruitment, selection, placement, training and development, remuneration, performance appraisal, promotion and transfers. All these activities make up the elements of the process of staffing.” **As defined by Theo Haiman**, “Staffing pertains to recruitment, selection, development and compensation of subordinates.”

S. Benjamin has defined staffing as, “The process involved in identifying, assessing, placing, evaluating and directing individuals at work.” “Staffing is a process through which an organisation ensures that it has, on a continuous basis, the proper number of employees with the appropriate skills in the right jobs at the right times to achieve the organisation’s objectives.” -**Caruth, Caruth and Pane**. **According to Heneman, Judge and Kammeyer-Mueller**, “Staffing can be defined as the process of acquiring, deploying and retaining a workforce of sufficient quantity and quality to create positive impacts on the organisation’s effectiveness.” **As defined by Koontz and Weihrich**, “Staffing can be defined as filling and keeping filled positions in the organisation structure.”

12.3 NATURE OF STAFFING

The nature of characteristics of staffing is given as under:

- Staffing is people oriented. It involves efficient utilization of human resources in an organization.



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- Staffing is a Pervasive activity. It is required in every organization. It is required at all levels of organization for all types of employees.
- Staffing is development oriented. It is concerned with developing potentialities of personnel in the organization. It develops their personality, interests, and skills.
- Staffing is a continuous and never-ending process.
- Staffing is focused on the human objectives. It develops potentialities of employees so that they can derive maximum satisfaction from their work.
- Staffing is an integral part of the general management. It is very much a part of every line manager's responsibility.
- Staffing is interdisciplinary in nature. It has its roots in social sciences. It uses concepts drawn from various disciplines such as psychology, sociology, anthropology, and management.
- Staffing is Individuals as well as group-oriented. It is concerned with employees both as individuals and as group in attaining goals

12.4 IMPORTANCE OF STAFFING

Staffing function fills the positions in the organisation by finding right people for the right job. It is the human asset, which helps business to achieve greater heights therefore, having right kind of workforce is the most fundamental and crucial function of management. The continuous advancement in the technology, changing human behaviour and increase in size of business requires staffing to appoint people who not only have the specialized knowledge but also the right attitude, aptitude, commitment and sense of loyalty for the organisation. The importance is as follows:

- **Identifies Competent Personnel:** Staffing identifies the requirement of workforce to fill in the positions in the organisational structure and selects right people for the right job. It ensures that people with adequate competencies and skills are employed.
- **Helps in efficient performance of other functions:** Staffing is the key to the productive performance of different functions of management. If an organisation does not have capable workforce, it can't perform planning, organisation and control functions appropriately.
- **Effective usage of technology:** It is the human factor that is instrumental in the powerful use of most recent innovation, capital, material, etc. The management can ensure right kinds of personnel by performing the staffing function.
- **Optimum utilisation of resources:** Staffing identifies the workforce requirements and plans appointment of people accordingly. This ensures that there are adequate personnel available to avoid under-utilisation or disruption of work due to under-



B.Com. (Hons.)

staffing. For example – Adequate number of teachers in each department ensures that each class has an assigned teacher.

- **Improved performance:** By deploying perfect individuals on the correct occupation encourages business ventures to utilize physical assets in the most ideal way prompting higher profitability, better productivity and improved execution. For instance – To get best outcomes, educators with capability in Business Studies are the correct individuals to be appointed in the commerce department to teach Business Studies.
- **Continuous survival and Growth:** Proper training and employee development programmes apprise the managers with the changes in business environment. The succession planning for managers guarantees the constant endurance and development of the venture.
- **Provides job satisfaction and builds Morale:** Right organisational climate enables the workers to contribute their best towards the achievement of organisational goals. Staffing provides opportunities for growth through internal promotions, appreciates and rewards the contribution through continuous appraisals. This keeps the labour force fulfilled and in high confidence.

12.5 PROCESS OF STAFFING

The process of staffing includes the following steps below:

Step-1-Human Resource Planning: This is the initial phase in the process of staffing in which a planner projects and decides the number and kind of manpower required by the organisational structure in future. It includes workload and workforce analysis. It has two aspects viz., short term and long term. Understanding and estimating the manpower requirement is very crucial.

Step-2-Recruitment: Recruitment is the process of searching for prospective employees and stimulating them to apply for the jobs in the organisation. It alludes to recognising the sources of man power availability. An organisation may resort to the usage of both internal as well as external sources for the purpose of recruitment.

Step-3-Selection: It is the process of selecting and appointing the right candidates for various job positions in the organisation. Selection is the process of elimination. It involves choosing the right candidate from the pool of potential candidates who is best suited for the job. Recruitment is a positive process as it aims at encouraging more and more employees to apply for a specific job. Whereas selection is a negative process as it involves rejection of the unsuitable candidates.

Step-4-Orientation and Placement: once the screening is done, the selected candidates are appraised with the working conditions and the environment of the organisation. Through the process of orientation. Orientation or Induction refers to familiarising the selected candidate



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with other employees as well as with the rules and regulations of the organisation. Placement refers to putting a selected candidate at a particular job position. It simply means placing the selected person on the job for which he has been selected.

Step-5-Training and Development: Training refers to the process of bestowing essential abilities and knowledge to the employees to enhance their level of performance. It includes coordinated techniques by which employees acquire knowledge and special skills to accomplish a particular job. Training provides benefit to both the employees as well as the organisation. Training builds up and increases the morale of the employees and make them more equipped and efficient. Development is ceaseless cycle of building skills in workers and encouraging development in them to expand their abilities for dealing with higher/greater positions in future.

Step-6-Remuneration and Compensation: In order to achieve the objectives of the organisation. It is necessary to pay equitable amount of wages and salaries to the employees. It refers to the monetary compensation paid to the employees for their work performance

Step-7-Performance Evaluation: It is the appraisal system or systematic evaluation of various categories of employees in terms of their behavior and work performance in the organisation.

Step-8-Transfer – It is the moving of employees to similar positions in the other work units.

Step-9-Promotion – It is the moving of employees from low position to higher position in the organisation carrying higher responsibilities, status and pay. It is also called vertical movement upward direction.

IN-TEXT QUESTIONS

1. Determine the correct order of the steps in the staffing process.
 - (a) Recruitment, Manpower Requirement Estimation, Placement and Orientation, and Selection
 - (b) Manpower Requirements Estimation, Selection, Placement, and Orientation, Recruitment
 - (c) Manpower Requirements Estimation, Recruitment, Placement, and Orientation
 - (d) Manpower Requirements Estimation, Recruitment, Selection, Placement, and Orientation
2. Which of the following does not have anything to do with staffing?
 - a) Recruiting b) Choosing
 - c) Instruction d) Promotion



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3. _____ is the process of placing the right people in the right jobs.
4. Employees are shifted from one job position to another using which method of training:
 - a) Promotion b) Transfer
 - c) Job Rotation d) Training
5. This explains why staffing has become more important:
 - a) Expansion of business operations
 - b) Rapid technological advancements
 - c) Human behaviour complexities
 - d) All of the Above

12.6 RECRUITMENT

Recruitment or Hiring is the process of searching and attracting the right candidates for hiring them for vacant jobs in an organization. It may be described as an activity that aims to bring the job-seeker (applicant) and the job-giver (employer) in contact with one-another. Recruitment is the process of identifying the sources for prospective candidates and to stimulate them to apply for the job. It is the positive process of employment. It is an operative function of human resource management coming under the managerial function called organizing. In the words of **Edwin Flippo**, '*recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organisation*'. It increases the ratio of applicants and number of posts vacant and thus provides an opportunity to the management to select the suitable person.

12.7 SOURCES OF RECRUITMENT

Recruitment refers to the process of searching for potential employees and influencing them to work for their organization. There are two sources of recruitment, internal sources and external sources.

12.7.1 Sources of Internal Recruitment:

Internal sources of recruitment consist of employees who are already on the payroll of a firm. It also includes former employees who have returned to work for the organization.



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Recruitment from internal sources is done to fill up vacancies through promotion, re-hiring and transferring employees within the company. Following are the internal sources available to the organisation:

- **Transfer:** it refers to the shifting of an employee from one job to another without special reference to change in responsibility or compensation. It also does not alter the number and kind of employees working in the enterprise. An employee can be transferred from one department to another whenever there is a vacancy in the organisation.
- **Promotion:** promotion refers to appointment of an employee to a position of greater responsibility or authority. It is yet another internal source to meet personnel demand. It brings about a change in the nature of job, status and pay but it doesn't alter the number of employees in an enterprise.
- **Internal advertisement:** The existing employees may be intrigued taking up the vacant jobs. So an advertisement might be circulated within the organisation to intimate the employees.
- **Retirements:** The retired employees may be given the extension in their service in case of non-availability of suitable candidates for the post.
- **Former Employees:** Former employees who had performed well during their tenure may be called back, and higher wages and incentives can be paid to them.
- **Absorption of Trainees:** Some people join the organisation as trainee to acquire some job related skills in the given stipulated time as per their appointment as trainees. Such people can also serve as an internal source of recruitment by giving them regular job after their training gets completed. They are considered as a valuable asset since they are already aware about the culture and environment of the organisation.

12.7.1.1 Merits of Internal Sources:

The merits are as under:

- Internal recruitment serves as a tool to boost the morale of employees as internal hiring creates job and promotion opportunities for existing employees.
- Internal hiring promotes a feeling of loyalty amongst the employees.
- Cost is saved as there is no need to give advertisements about the vacancy. Training cost is saved as the employees already know about the nature of job to be performed.
- It is a simpler and easy process.
- Existing employees are already aware of the company's working methods and don't take a long time to adjust to new positions.



12.7.1.2 Demerits of Internal Sources:

The demerits of internal sources are as under:

- It can lead to a stagnation in the company's workforce.
- Young people with the knowledge and innovative ideas do not get the chance. As a result no fresh ideas gain entry into the organisational structure.
- It promotes favouritism.
- Often employees who are not suitable for a higher position are given promotions just because they have been at the organization for a long time, not because of their skills and qualifications.
- It brings the morale down of employees who do not get promotion or selected.

12.7.2 Sources of External Recruitment:

External sources of recruitment refer to the sources that lie outside or exist external to the organization:

- **Direct Employment or Recruitment at Factory Gates:** An important source of recruitment is direct recruitment by putting up a notice on the noticeboard of the enterprise, containing the details of the jobs available. It is known as recruitment at factory gates. It is a direct method of recruitment. It does not involve the cost of advertising the vacancies. Generally a huge crowd of unemployed persons assemble at the gate of every big factory every day. Whenever unskilled workers are required, the Human resource Manager selects in a general way the workers available and pick up the required number of workers. It is the cheapest method to fill casual vacancies.
- **Casual Callers:** A few associations, which are viewed as great employers attract a constant flow of spontaneous applications to their workplaces. This serves as a valuable source of manpower. In the event that satisfactory consideration is paid to keep up forthcoming application folders for various jobs, the personnel department may find the spontaneous applications exceptionally helpful in filling the opportunities at whatever point they emerge. The merit of this source of recruitment is that it saves the expenses of enlisting labour force from different sources.
- **Campus Recruitment:** Jobs in numerous modern associations have gotten progressively specialized and complex for which advanced educational qualifications and degrees are generally required. Thus, big organisations maintain a close contact with the universities, vocational institutes and management institutes for a recruitment to various jobs. Recruitment from educational institutions is a grounded practice of thousands of business and different associations.
- **Media Advertisement:** Advertisement in newspapers or trade and professional journals is generally given to search qualified and experienced personnel for the



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vacant jobs. Most of the senior positions in industry as well as commerce are filled by this method. It gives publicity to the vacant posts and the details about the job in the form of job description and job specification are made available to public in general. This enables self- screening by the prospective candidates.

- **Employment Exchange:** Employment exchanges run by the government are regarded as a good source of recruitment for unskilled and skilled operative jobs. They attempt to match demand for and supply of human resources on a national level. They charge fees for their services from the employers and sometimes from the candidates selected for a job through them.
- **Recommendations:** Applicants introduced by trusted employees, friends and relatives may prove to be a good source of recruitment. Indeed, numerous businesses like to take such people since something about their background is known. It is assumed that the suggesting individual will rarely recommend a person who is not suitable for a job.
- **Web or Internet Recruitment:** There are certain organizations which have created specialised websites to collect data about job-seekers and job providers. Some of the popular websites include naukri.com, monster.com, jobstreet.com, etc. They are frequently visited by a large number of job seekers and organisations searching for suitable employees.

12.7.2.1 Merits of External Sources:

The following are the merits:

- By using external sources of recruitment, the management can make qualified and trained people apply for vacant jobs in the organisation.
- It offers wider choice to the management for selecting the people for employment.
- The insiders may have limited talents. External sources facilitate the infusion of fresh blood with new ideas into the enterprise
- It encourages competitive spirit amongst the internal employees since they know that external sources can also be tapped so they produce better performance.

12.7.2.2 Demerits of External Sources:

The following are the demerits of the external sources of recruitment:

- External recruitment may lead to dissatisfaction and frustration among existing employees. They may have a feeling that their chances of promotions are reduced.
- Recruitment from outside takes a long time.
- It is very costly to recruit staff from external sources.



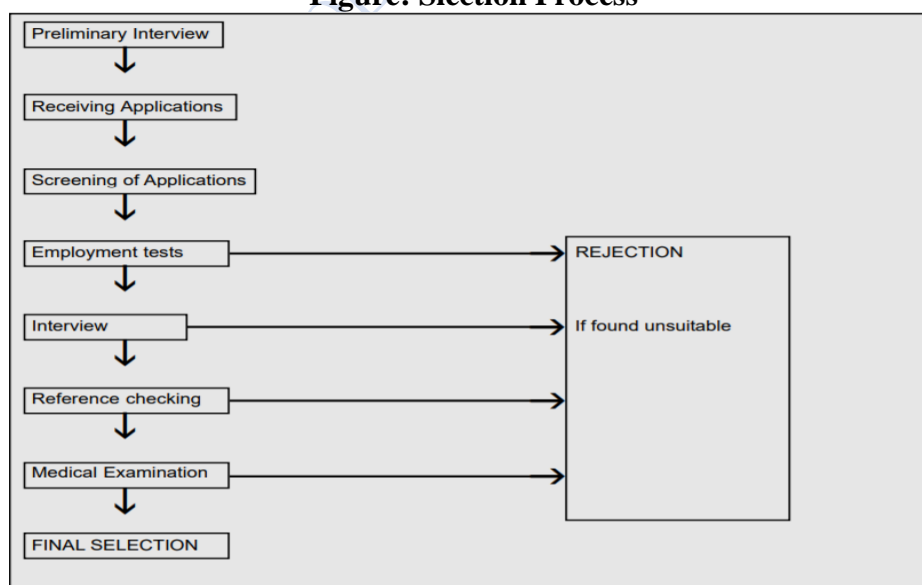
12.8 SELECTION

Selection is the process of choosing from among the pool of prospective job candidates developed at the stage of recruitment. Finding the interested candidates who have submitted their profiles for a particular job is the process of recruitment, and choosing the best and most suitable candidates among them is the process of selection. It results in elimination of unsuitable candidates. It follows scientific techniques for the appropriate choice of a person for the job. **Heinz Weihrich and Harold Koontz have defined**, “Selection is the process of choosing from the candidates, from within the organization or from outside, the most suitable person for the current position or for the future positions” **Dale Yoder has defined**, “Selection is the process by which candidates for employment are divided into two classes those who will be offered employment and those who will not”; **M. Ataur Rahman**, “Selection is the screening and filtering process of job applicants who have been invited to apply for the vacant positions through which the process comes to an end”.

12.9 SELECTION PROCESS

The selection process can be defined as the process of selection and shortlisting of the right candidates with the necessary qualifications and skill set to fill the vacancies in an organisation. The selection process varies from industry to industry, company to company and even amongst departments of the same company. It involves the following steps:

Figure: Slection Process



Source: toppr.com



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Step-1-Preliminary screening or short listing: The first step taken by a manager involves eliminating the most unqualified and unsuitable candidates on the basis of information provided through application forms. It helps in eliminating those candidates who do not possess the requisite qualifications, age and experience. It is also known as screening interview

Step-2-Application Blanks: The candidates who clear the prelims stage are required to fill application blanks. They are used to record the information about the employees with respect to their qualifications and experience etc. this technique can be combined with the interview method to select the best candidate. The application blanks can be of one page or many pages depending on the information that is sought from the applicants.

Step-3-Selection tests: Selection tests aim at measuring certain characteristics of individuals. Important tests are:-

- **Intelligence tests:** Intelligence test aims at measuring the intelligence of an individual. They are also known as proficiency tests. These tests include verbal comprehensiveness, memory, thinking ability, numerical ability, and ability to handle complex work situations.
- **Aptitude test:** It measures the ability and potential of an individual to learn new skills.
- **Personality tests:** Value and belief system of the employee is judged. These tests are very important and are difficult to be designed.
- **Trade test:** This test judges the professional competence and job-related knowledge of the candidates.
- **Interest Tests:** Interest tests help in ascertaining the pattern of interests or involvements of an individual. These tests are used for vocational guidance and are assessed in the form of answers to a well drafted questionnaire.

Step-4-Employment interview: The next step in the selection process is the employee interview. Employment interviews are done to identify a candidate's skill set and ability to work in an organisation in detail. Purpose of an employment interview is to find out the suitability of the candidate and to give him an idea about the work profile and what is expected of the potential employee. An employment interview is critical for the selection of the right people for the right jobs.

Step-5-Reference and background checks: More information about the candidate is gathered from indirect personal sources like previous employers, teachers, university professors, etc. Often employers ask for references with names, addresses and contact numbers of people to verify information provided by the applicant. References help the employer to acquire more information about the candidate's capabilities, experience in the previous companies and leadership and managerial skills.



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Step-6-Selection Decision: The employer then chooses the best candidates out of those who clear the tests, interviews and reference checks.

Step-7-Physical and medical examination: The medical exam is also a very important step in the selection process. Medical exams help the employers know if any of the potential candidates are physically and mentally fit to perform their duties in their jobs. A good system of medical check-ups ensures that the employee standards of health are higher and there are fewer cases of absenteeism, accidents and employee turnover.

Step-8-Job Offer: This is the final step in the selection process. After the candidate has successfully passed all written tests, interviews and medical examination, the employee is sent or emailed an appointment letter, confirming his selection to the job. The appointment letter contains all the details of the job like working hours, salary, leave allowance etc. Often, employees are hired on a conditional basis where they are hired permanently after the employees are satisfied with their performance.

ACTIVITY

Visit the recruitment section of University of Delhi and ask the recruitment officer about the process followed by the institution for the selection and placement of teaching and non-teaching staff in the university. Note down all the important information and prepare the diagrammatical representation of recruitment process followed by the University and submit the same to the coordinator.

IN-TEXT QUESTIONS

6. A workforce analysis is a component of
- a) The hiring procedure
 - b) The selection procedure
 - c) Process of training and development
 - d) Estimation of manpower needs



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7. Which of the following sources is most useful for finding managerial candidates?
 - a) Recruiting directly
 - b) Employment swap
 - c) Advertisement
 - d) Infrequent callers
8. Which of the following is not a selection process?
 - a) Examination
 - b) Verifying references
 - c) Attitude development
 - d) Medical evaluation
9. Many large organisations work closely with universities, vocational schools, and management institutes to find qualified candidates for various positions. This is referred to as .
 - a) Staffing firms and management consultants
 - b) Recruiting directly
 - c) Contractors for labour
 - d) On-campus hiring
10. Recruitment is the process of:
 - a) Promotion of employees
 - b) Training to employees
 - c) Performance Appraisal
 - d) Searching for prospective employees

12.10 EMPLOYEE ORIENTATION OR INDUCTION

Induction, also called orientation is designed to provide a new employee with the information he or she needs to function comfortably and effectively in the organization. It is a planned introduction of new hires to their jobs, their peers and the company. Employee orientation is necessary because it sets a basis for the new employees. The first impressions are significant because they build the base for everything that follows. Still, it is the most neglected function in several organizations. Without orientation, a new employee may feel uncomfortable in the new environment and can take extra time to reach full potential.

12.11 IMPORTANCE OF ORIENTATION OR INDUCTION

The induction or orientation program is important because of the following reasons:



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- It ingrains loyalty amongst the employees. The positive first impression of the organization fills the new employee with pride and enthusiasm, jump-starting the sense of loyalty towards the organization.
- It accelerates the learning process by streamlining the information in simpler manner.
- An ideal orientation process makes the new employee feel welcomed, supported, comfortable, and able to interact easily.
- It also improves the performance of employees and reduces the turnover rate.

12.12 PROCSS OF ORIENTATION OR INDUCTION

The following are the different stages included in this process:

Stage-1-General introduction: This stage includes two parts. First part includes information about the employing firm in terms of goals, objectives, organisational structure, policies, market etc. the second part entails the job specific information like job practices, employees activities, services, incentives, benefits, overtime provisions etc.

Stage-2-Specific orientation: In this stage employees are given job specific requirements by their immediate seniors. Information about a particular department and its facilities like lunchroom, coach room etc. , and some general information about breaks , parking facilities' , leave policy , internet usage policy and some safety precautions to be followed on the job . Some companies even have the concept of buddies in which an existing employee is assigned to the new recruit.

Stage-3-Follow up: follow up stage is the most important stage of orientation process as it gives an opportunity to the management to inquire about any questions or issues of the new recruits. It also helps in measuring the effectiveness of the entire process

12.13 TRAINING AND DEVELOPMENT

According to **Edwin Flippo**, '*training is the act of increasing the skills of an employee for doing a particular job*'. Training and development programmes are designed according to the requirements of the organisation, the type and skills of employees being trained, the end goals of the training and the job profile of the employees. **Dale S. Beach** defines training as '*the organized procedure by which people learn knowledge and/or skill for a definite purpose*'.

12.14 BENEFITS OF TRAINING AND DEVELOPMENT

Training and development offers various benefits:

- Training improves the quantity and quality of the workforce. It increases the skills and knowledge base of the employees.



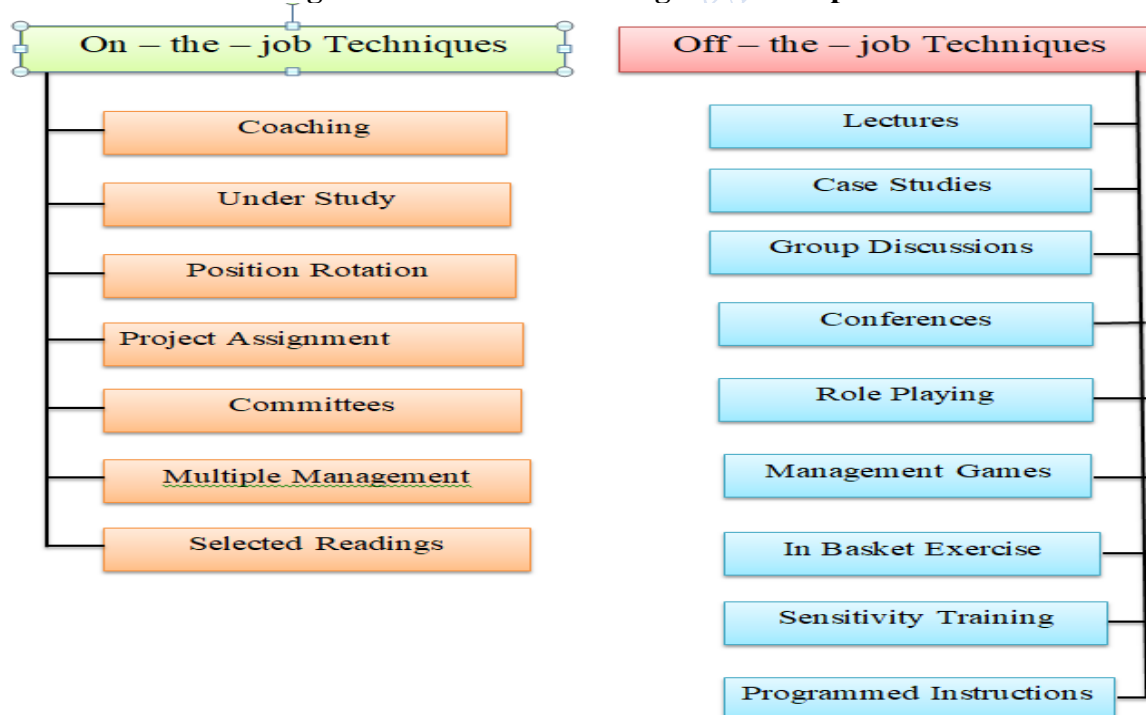
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- Trained employees are highly efficient in comparison to untrained ones.
- Reduces the need to constantly supervise and overlook the employees.
- Improves job satisfaction and thus boosts morale.
- Helps in the long-term growth and survival of the company.
- Creates an effective team of managers who can handle the company issues without fail.
- Ensures that the employees utilise their managerial and leadership skills in particular to the fullest.

12.15 METHODS OF TRAINING AND DEVELOPMENT

The following methods have been used in order to train and develop the employees working in an organisation:

Figure: Methods of Training and Development



Source: simplynotes.in



12.15.1 On the Job Methods:

The different types of on the job training methods have been given as under:

- **Job rotation:** There are various jobs in all organizations. Each job or work requires a different set of skills in the workforce. This method is used to develop the workforce in all the sectors and zones of the organization. In this method, a worker gets an opportunity to work on different posts with a different set of responsibilities without any increase in the pay scale. Hence, it is also known as 'lateral movements'.
- **Coaching:** There is a need for both theoretical as well as practical development of the worker in any organization. In order to do so, most of the organizations opt for this method of training. Under this method, the trainee is placed under a particular supervisor who functions as a coach in training and provides feedback to the trainee.
- **Job instructions:** Also known as step-by-step training method. Under this method a worker is guided by a supervisor or a trainer who tells him/her about the exact steps for the accomplishment of the work. The trainer also corrects the mistakes of the employees.
- **Apprenticeship Training:** Meant for lower level skilled jobs. Trainee earns as he works under his boss. Example, electricians and plumbers are trained through this method. Generally stipend is paid during the training period. Hence it is also known as "earn when you learn" scheme.
- **Committee assignments:** Under this method of training, the organization organizes a meeting or seminar of workers where they get a real life problem of the organization. A group of trainees are asked to solve a given organizational problem by discussing the problem. This helps to improve team work.
- **Internship training:** Under this method, instructions through theoretical and practical means are provided to the trainees. Usually, students from the engineering and commerce colleges receive this type of training for a small stipend.

12.15.2 Off the Job Methods:

The different types of off-the-job training methods have been given as under:

- **Vestibule Training Method:** Vestibule Training Method is a very famous means of training the employees especially the manual workers. If the company starts to train the workers in the factory or the workplace itself then there are chances of mishaps with the machinery of the factory. In this method, similar tools and machinery are arranged outside the organization. Hence, this allows the workers to improve their abilities by working with similar instruments and machinery
- **Simulation:** Under this method an imaginary situation is created and trainees are asked to act on it. For e.g., assuming the role of a marketing manager solving the marketing



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problems or creating a new strategy etc. The various simulation techniques are as follows:

- ✓ **Case study method:** Usually case study deals with any issue faced by a business which can be addressed by an employee. The trainee is allowed chance to analyse the case and come out with all possible solutions. This method can enhance analytical and critical thinking of an employee.
- ✓ **Business games:** According to this method the trainees are divided into groups and each group has to discuss about various activities and functions of an organization which is imaginary. They hold discussion and decide about various areas like production, promotion, pricing etc. Thus the group is able to generate results through this co-operative decision making process.
- ✓ **Role play:** In this case also a problem situation is simulated asking the employee to assume the role of a particular person in the situation. In simple words the participant interacts with other participants assuming different roles. The whole play will be recorded and trainee gets an opportunity to examine their own performance.
- ✓ **In-basket method:** The employees are given data about an imaginary company, its activities and products and services, HR employed and all data related to the firm. The trainee (employee under training) needs to make notes, delegate assignments and prepare schedules within a specified time. This can create situational decisions and quick decision making skills of employees.
- **Incident method:** Incidents are prepared on the basis of actual situations which happened in different organizations and each employee in the training group is asked to make decisions as if it is a real-life situation. Later on, everyone sits and decide a common solution to the incident on the basis of the individual as well as group decisions
- **Grid training:** It is an ongoing and phased programme lasting for six years. It includes phases of planning development, execution and assessment... The grid takes into consideration parameters like concern for individuals and concern for individuals.
- **Lectures and Conferences:** when the numbers of trainees are quite large this method is considered to be suitable. Lectures can be very much helpful in explaining the concepts and principles very clearly, and face to face interaction is very much possible. A meeting of several people to discuss any subject is called conference. Each worker analyses and discusses various problems related to the topic. Moreover, this method enables each worker to express their respective viewpoints.
- **Management education:** At present universities and management institutes gives great emphasis on management education. Many management Institutes provide not only degrees but also hands on experience having collaboration with business concerns.



ACTIVITY

Discuss in the class on the topic “Need and Significance of Orientation Programme” for the new employees.

Request your class teacher to organise a special lecture on the topic, “Methods of Training and Development followed in the organisations to enhance the competencies of the employees. **Hint:** Take the example of University of Delhi

IN-TEXT QUESTIONS

11. This training method allows employees to learn while working alongside superiors.
 - a) Apprenticeship education
 - b) Initial training
 - c) Job rotation
 - d) Mentoring
12. The learning experience that seeks relatively permanent change in an individual in order to improve his ability to perform on the job is known as _____.
13. Employees learn their jobs on the equipment they will be using in this method, but training takes place away from the actual workplace.
 - a) An apprenticeship programme
 - b) Vestibule training
 - c) Job rotation
 - d) Job evaluation
14. _____ is the process of introducing the selected employee to other employees and familiarising him with the organization's rules and policies.
15. Which of the following is not an organisational benefit of training and development?
 - a) Assist in avoiding the waste of time and money.
 - b) Increase employee productivity
 - c) Help the individual advance in his or her career
 - d) Lower absenteeism while increasing employee turnover



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12.16 CAREER DEVELOPMENT

A formal methodology taken by an organization to assist its people acquire the skills and experiences needed to perform current and future jobs is termed as career development. According to Schuler, "It is an activity to identify the individual needs, abilities and goals and the organization's job demands and job rewards and then through well designed programmes of career development matching abilities with demands and rewards". People are the most important asset of an organization can have. So, it becomes prime responsibility of the organizations to take care of their employees and give them an opportunity to grow especially to those who are career conscious and deliver performance. Company's policies especially policies regarding promotion, counselling the employees, opportunities to excel in future help employees to develop their career. Career development provides necessary skills, education and experiences as well as behavioural changes and refinement techniques that allow individuals to work better and add value. There are various benefits of career development to the organisation:

- It helps in retaining the top talent in the organisation.
- It increases employee engagement as they look forward for meaningful careers and goals.
- It helps in strengthening the succession planning.
- It helps in tapping the knowledge capital within the organisation
- It also helps in filling gaps in the organisation specially the critical level roles which are highly demanding.
- It also helps in branding the image of the employers.

12.17 PERFORMANCE APPRAISAL

According to **Dale Yoder**, "Performance appraisal includes all formal procedures used to evaluate personalities and contributions and potential of group members in a working organisation. It is a continuous process to secure information necessary for making correct and objective decisions on employees." The basic purpose of performance appraisal is to identify employees worth and their contribution to the company.

12.18 OBJECTIVES OF PERFORMANCE APPRAISAL

The various objectives of performance appraisal are as follows:



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- A systematic appraisal system encourages the managers to appropriately distinguish the performance of employees in a systematic manner and their areas of talent and areas where they are deficient.
- It encourages the managers to put the correct workers for the ideal positions relying upon their abilities in particular areas
- It assists workers by identifying the areas in which they need to improve. The managers can likewise utilize this data to give productive analysis of the manner in which employees perform their work.
- Another objective of an appraisal system is to determine the effectiveness and results of training programmes.
- To create healthy competition among employees.

12.19 METHODS OF PERFORMANCE APPRAISAL

There are two methods used by managers to evaluate the performance of the employees:

12.19.1 Traditional Methods:

The different types of traditional methods used for the purpose of performance appraisal have been given as under:

- **Confidential Report:** This is one of the traditional method of appraisal which is used in the government organizations. The immediate superior of the employee prepares this report. It covers the strengths and weaknesses, main achievements and failure, etc. of the employee. It is a descriptive report which is used for the promotions and transfers of the employees. One of the limitations of this method is its dependability on impressions rather than data. This method focuses on evaluation rather than developing employees.
- **Free form or Essay method:** Under this technique, the evaluator composes a short essay on the worker's performance based on general impressions. It gives a decent measure of data about the employee. This strategy endures a few downsides like biases due to the high level of subjectivity, the reliance of assessment on the composing capacity of the evaluator, and so on.
- **Simple ranking method:** In this procedure, the evaluator gives relative positions to every employee working in the same working unit and doing the same work. The ranks are given from good to poor based on their performance. For Example, if five persons A, B, C, D, and E have to get a rank on the basis of their performance, they will be given rank like 1 to 5 where 1 means good and 5 stands for poor performance.
- **Paired comparison method:** A modification to the straight ranking method is paired comparison method. In this method, unlike the straight ranking method, all the



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employees are subjected to relative comparisons. The evaluator is provided with a bunch of slips each containing the pair of names, the evaluator places a tick mark against the employee whom he considers the better of the two. The number of times this employee is compared as better with others determines his or her final ranking. Following formula is used to know the number of pairs for comparison: $N(N-1)/2$. Where N stands for number of persons to be evaluated.

- **Forced distribution method:** The method assumes that employees' performance level confirms to a normal statistical distribution. Evaluators are compelled to distribute the employees on all points on the scale. It removes the biasedness of rating the employees at a higher end of scale. This method is easy to understand and apply. The only limitation is that rater finds it hard to explain why an employee is placed in a particular grouping.
- **Graphic rating scales:** this method includes a numerical scale which states different degrees of a particular trait. Under this method, the company or organization provides a form to each evaluator. Each form contains many characteristics relating to the personality and performance of the employee. Hence, the rater records his judgment on the employee's trait on the scale.
- **Checklist Method:** this method includes a checklist which contains a list of statements that describe the characteristics and performance of employees on the job. The rater ticks to indicate if the employee possesses any specific trait/quality or not. Hence, the number of ticks describe the rating or result of the employee.

12.19.2 Modern Methods:

The modern performance appraisal methods undertaken by the organisations are as follows:

- **Management by Objectives:** Peter Drucker was the first one to officially propound the goal setting approach which he stated as "Management by Objectives and Self-Control". Douglas McGregor further expanded this concept as he felt that traditional method of appraisal was done by ranking on the basis of traits which is very subjective and can't be assessed accurately. Under this method performance is rated against the achievements of objectives stated by the management. The process of MBO involves:
 - ✓ Establishing goals and expected desired results from each subordinate.
 - ✓ Establishing performance standards
 - ✓ Comparing goals attained by the employees with the goals that were set.
 - ✓ Making new goals and strategies for the goals that were not achieved in previous year.

This method is more useful for managerial positions.



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- Behaviourally Anchored Rating Scales:** The problem of judgmental performance evaluation related to traditional methods led to some organisation using a technique known as “Behaviourally Anchored Rating Scales (BARS)” around 1960s. This technique uses behavioural statements which are developed from critical incidents that helps in describing the qualities (like consistency, job knowledge, inter personal relationships etc.) required for job performance as good or bad. These behavioural situations are converted into performance dimensions and are numerically scaled.
- Assessment centres:** this concept was first introduced in US and UK in 1940s. In India, Crompton Greaves, Eicher, Hindustan Lever and Modi Xerox have adopted this technique of performance evaluation. An assessment centre is a focal area where managers come together to participate in well planned simulated exercises. They are assessed by senior managers supplemented by the psychologists and the HR specialists for 2-3 days. It is mainly used for evaluating executive or supervisory potential. An assessee participates in-basket exercises, work groups, simulations, and role playing which are essential for successful performance of actual job. In the end of the process, feedback in terms of strengths and weaknesses is also provided to an assessee. This method involves more accurate evaluation, minimum biasedness but suffers from the limitations such as cost and time consuming.
- 360 degree Feedback:** This method was first developed and formally used by General Electric Company of USA in 1992. Information such as employee’s skills, abilities and behaviours, is collected under this method. In 360-degree feedback appraisal system, an employee is appraised by his supervisor, subordinates, peers, and customers with whom he interacts in the course of his job performance. All these appraisers provide information or feedback on an employee by completing survey questionnaires designed for this purpose. All information that is accumulated is then compiled through the computerized system to prepare individualized reports.
- Cost Accounting method:** under this method an employee’s performance is evaluated on the basis of the monetary benefits the employee yields to his/her organisation. This is ascertained by establishing a relationship between the costs involved in retaining the employee, and the benefits an organisation derives from him/her.

ACTIVITY

Discuss a class seminar on the topic, “Need and Significance of Career Development and Performance Appraisal”. Also discuss that $P = f(A, O, M)$ by taking the example of department of commerce, University of Delhi.



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IN-TEXT QUESTIONS

16. An objective evaluation of an individual's performance against well-defined benchmarks is known as .
 - a) Performance Appraisal
 - b) Human Resource Planning
 - c) Data for goal identification
 - d) None of the preceding
17. What is the connection between performance appraisal and?
 - a) Job Planning
 - b) Development
 - c) Job Analysis
 - d) None of these
18. Which of the following is an alternative term for performance appraisal?
 - a) Output quantity and quality
 - b) Job expertise
 - c) Employee assessment
 - d) None of these
19. How can performance appraisal help a company gain a competitive advantage?
 - a) Maintains legal compliance
 - b) Reduce job dissatisfaction and turnover
 - c) Enhances performance
 - d) All of the Above
20. Performance appraisal is also referred to as _____ or _____.
 - a) Performance review, annual review
 - b) Performance evaluation, loss evaluation
 - c) Loss analysis, annual review
 - d) Discount and loss analysis

12.20 SUMMARY

Staffing is the process of finding, assessing, placing, evaluating and directing individuals at work. The primary objective of staffing is to fill the different jobs inside the organization with reasonable candidates. Staffing includes selecting the right person for the right job, training and developing the skills of the employees, doing their performance appraisal and giving them proper promotions and transfers. Staffing can be defined as acquiring, deploying

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and retaining a workforce of sufficient quantity and quality to create positive impacts on the organisation's effectiveness. The importance of staffing is that it identifies the requirement of workforce to fill in the positions in the organisational structure and selects right people for the right job. Staffing identifies the workforce requirements and plans appointment of people accordingly. This ensures that there are adequate personnel available to avoid under-utilisation or disruption of work due to under-staffing. Staffing provides opportunities for growth through internal promotions, appreciation and rewards the contribution through continuous appraisals.

12.21 GLOSSARY

- **Career Development:** It is the support that an organisation gives to its employees' professional growth, particularly when they move to a new position or project within the organisation. This assistance frequently includes coaching, mentoring, skill development, networking, and career planning.
- **Development:** It is the process of discovering and evolving into the person you want your employees to be by examining their personality, skills, and abilities, as well as their hopes and ambitions.
- **Education:** It is the discipline concerned with methods of teaching and learning in schools or school-like settings, as opposed to various nonformal and informal socialisation methods.
- **External Recruiting:** External recruitment occurs when a company hires candidates who are not currently employed by the company. External recruitment is a time-consuming process in which companies must post job descriptions on various job boards, create and engage with a talent pool, improve employer branding, and so on.
- **Induction:** The process of welcoming newly hired employees and assisting them in adjusting to their new roles and working environments is known as induction. Starting a new job can be a stressful experience, and new employees require assistance in settling in.
- **Internal Recruiting:** It is the process of filling job openings within a company using its existing workforce. This is in contrast to external recruiting, which occurs when a company seeks to fill vacancies from outside sources.
- **Orientation:** The process of introducing new employees to the company and acquainting them with its policies, benefits, and culture is referred to as orientation. It is the first step in the process of continuous socialisation for employees.
- **Performance Appraisal:** A performance appraisal is a process that evaluates and documents how well an employee performs his or her job. It is a component of a



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business's performance management system. Performance appraisals are based on an employee's progress toward goals set with his or her manager once a year.

- **Recruitment:** The process of actively seeking out, finding, and hiring candidates for a specific position or job is known as recruitment. The recruitment definition encompasses the entire hiring process, from initial screening to the integration of the individual recruit into the company.
- **Selection:** It is the process of identifying and hiring candidates to fill vacancies in an organisation. Employee selection is the process of matching an organization's requirements with individuals' skills and qualifications.
- **Staffing:** It is the process of recruiting employees and evaluating their skills and knowledge before assigning them to specific job roles. A staffing model is a data set that tracks work activities, labour hours required, and employee time spent.
- **Training:** It is a systematic process in which employees are instructed and taught technical knowledge related to their jobs. It focuses on teaching employees how to use specific machines or perform specific tasks in order to increase efficiency.

12.22 ANSWER TO IN-TEXT QUESTIONS

1. (d) Manpower Requirements Estimation, Recruitment, Selection, Placement, and Orientation	11. (a) Apprenticeship Education
2. (d), Promotion	12. Training
3. Staffing	13. (b) vestibule training
4. (c) Job rotation	14. Orientation
5. All of the above	15. Increase employee productivity
6. (d) Estimation of manpower needs	16. (a) Performance Appraisal
7. (c) Advertisement	17. (c) Job Analysis
8. (c) Attitude development	18. (c) Employee evaluation
9. (d) On-campus hiring	19. (d) All of the above
10. (d) Searching for prospective employees	20. (a) Performance review, annual review



12.23 SELF-ASSESSMENT QUESTIONS

1. “In the process of management staffing is an important element”. Explain.
2. What is staffing? Explain the nature and importance of staffing.
3. Define staffing and its process.
4. What is recruitment? What are the various sources of recruitment available to an organisation?
5. Explain in brief any six sources of external recruitment.
6. Define selection. Explain the steps in selection process.
7. What is training? Explain various on the job and off the job training methods.
8. “Performance Appraisal is not only for appraisal but is for achievement and improvement of performance”. Explain.
9. Define performance Appraisal. Explain the methods of performance appraisal in detail.
10. Define Orientation. Discuss the process of orientation.

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LESSON 13

MOTIVATION

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STRUCTURE

- 13.1 Learning Objectives
- 13.2 Introduction
- 13.3 Nature of Motivation
- 13.4 Importance of Motivation
- 13.5 Needs, Incentives and Motives
- 13.6 Intrinsic and Extrinsic Motivation
- 13.7 Theories of Motivation
 - 13.7.1 Maslow's Need Hierarchy Model
 - 13.7.1.1 Limitations of the Theory
 - 13.7.2 Herzberg's two-Factor Theory
 - 13.7.2.1 Implications of Two-Factor Theory
 - 13.7.2.2 Limitations of Two-Factor Theory
 - 13.7.2.3 Comparison of Maslow and Herzberg Models
 - 13.7.3 McGregor's Theory X and Theory Y
 - 13.7.3.1 Assumptions of Theory X
 - 13.7.3.2 Assumptions of Theory Y
 - 13.7.3.3 Implications of Theory X and Theory Y
 - 13.7.3.4 Critical Appraisal of McGregor Theory
 - 13.7.4 Ouchi's Theory of Z
 - 13.7.4.1 Features of Theory Z
 - 13.7.4.2 Limitations of Theory Z



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- 13.8 Summary
- 13.9 Glossary
- 13.10 Answers to In-Text Questions
- 13.11 Self-Assessment Questions
- 13.12 References
- 13.13 Suggested Readings

13.1 LEARNING OBJECTIVES

After studying this chapter students may able to understand: -

- Understand the concept and importance of Motivation
- Decipher the terms Needs, incentives and Motive
- Understand the Major motivational theories –Maslow , Herzberg, Mc Gregor and Ouchi's Theory z.

13.2 INTRODUCTION

For what reason do individuals work? For what reason do some make progress toward the most noteworthy achievements while others are gratified with mediocrity? Such inquiries are fundamental to Management. There are no basic standards for invigorating workers to more noteworthy exertion. Motivation comes from thought processes which are articulation of various requirements by a human being. All human activities are brought about by a specific need or intention. The need can be characterized as absence of something. Individuals attempt to get this lackness eliminated. Motivation is an effective tool for managers for instilling confidence in their workforce. A well-motivated employees will contribute efficiently towards the achievement of the organisational goals.

Motivation is characterized as inward consuming enthusiasm brought about by needs, wants and desires which impels a person to apply his physical and mental energy to accomplish his desired goals. Motivation is goal-oriented behaviour. Individuals are motivated when they expect that a strategy is probably going to prompt the accomplishment of an objective and an esteemed prize – one that fulfils their requirements and needs.

The word Motivation is derived from the word “**Motive**” which means any **idea, need or emotion that prompts a man into action**. There is always a stimulus behind the behaviour of a man. Stimulus is the function of the motive of the concerned individual. One can understand the motives of an individual by analysing his needs and desires. There is no universal theory to demonstrate the factors affecting the motives of an individual which in



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turn controls his behaviour at any given point of time. There are different motives which functions at different times for different people and affects their behaviour. Different people have characterized Motivation in their own words.

According to **D.E. Mc Farland** , “Motivation is the way in which urges, drives, desires, aspirations, strivings or needs direct, control or explains the behaviour of human beings.”

According to **Stephen P Robbins** “Motivation is the willingness to exert high levels of effort toward organisational goals, conditioned by the effort’s ability to satisfy some individual needs.”

Roberts Dubin defined motivation “the complex of forces starting and keeping a person at work in an organisation. Motivation is something that moves the person to action and continues him in the course of action already initiated.”

Koontz and O'Donnell had a view that “Motivation is a general term applying to the entire class of drives, desires, needs, wishes and similar forces that induce an individual or a group of people to work.”

As defined by William G. Scot, “it means a process of stimulating people to action to accomplish desired goals.

13.3 NATURE OF MOTIVATION

The nature of the motivation has been described as under:

- **Motivation is a Psychological phenomenon:** Motivation is attributed to the Psychological aspect of an individual. The degree of fulfilment, happiness, and so forth, which one experiences by utilizing a similar prize/impetus fluctuates from individual to individual. This is because of difference in attitude, sentiments and view of the people. It is the internal feeling of a person to accomplish something. A motivated individual would exhibit better performance and good organisational relations.
- **Motivation is a Continuous process:** Human needs are limitless. It is said that, 'Even God can't fulfil every single human need.' With the fulfilment of one need, another need ideally of the higher order manifests and this cycle continues forever. In this manner, new needs arise when the current needs are fulfilled. Further, all the needs can't be fulfilled simultaneously. Needs are to be fulfilled in a steady progression persistently. Consequently, Motivation is likewise a consistent and a ceaseless interaction.
- **Motivation is a complex Process:** To begin with, motivation is an internal feeling which can't be seen. Frequently we notice people putting a lot of additional time. We can't state whether they are doing it due to extra pay they get or just in light of the fact



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that they enjoy their work. Motivation is a complex process as People / employees behave differently in different environment. Each of them possess unique abilities and skills which needs to be tapped for their self-growth and for the growth of the organisation. Motivation is a dynamic phenomenon, technique that worked in past for an employee may not work for him in the present. Since he might be having some different motives.

- **Motivation leads to Goal- Directed behaviour:** Motivation has a significant effect on human conduct; it bridges human energy which is required for the working of an organisation. Goals and motives cannot be separated. Employees work towards their goals. As soon as their goals are accomplished, they lose interest in their work. Thus it is a crucial task of manager to keep his team motivated and engrossed in the organisational work.
- **Motivation and satisfaction are related but not synonymous concepts:** Motivation is the drive to fulfil a need or objective. It is concerned with objective coordinated conduct. Satisfaction alludes to the contentment encountered when a need is fulfilled. The term satisfaction is utilized to analyse the outcomes which an employee has already experienced.
- **Motivation can be Either Positive or Negative:** Positive motivation attempts to influence the behaviour of employees by giving rewards like additional pay, promotions, allowances etc. Negative motivation includes penalties which will be imposed if the employee doesn't perform well such as demotion, fringe or wage cut etc.

13.4 IMPORTANCE OF MOTIVATION

The significance of the motivation is given as under:

- **Proper utilisation of resources:** Motivation makes individuals to work hard. At the point when execution becomes result oriented, it generates far greater revenue for the organisation. The assets like cash and material will be utilized at the ideal level to create maximum yield. Workers/ employees are needed to use modern techniques. Consequently, improvement in their abilities happens, which benefits both the organisation and the individual employee.
- **Reduction in Absenteeism and Turnover:** Because of an alluring compensation structure, sufficient monetary and non-monetary motivational schemes help to reduce labour absenteeism and turnover. A motivated employee would seek an autonomy to work in their own way. As a result they will be loyal and dedicated in their work.



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- **Accomplishment of organisational objectives:** An important function of management is to achieve organisational goals. Motivation helps the manager to instil confidence and inspire people to work for accomplishing the desired objectives.
- **Establishing good work relations:** management encompasses building of a healthy environment where people can thrive and give their best. Motivation reduces the friction between the managers and employees. It helps in developing cordial relations in the organisation. Motivated employees will have a high morale and would work sincerely thereby reducing the chances of conflicts
- **Communication:** motivation builds up communication flow between superiors and juniors. Managers try and understand the needs and wants of their employees and also satisfy them by providing various incentives.
- **Facilitate change:** Organisation operates in a dynamic environment subjected to various internal and external forces. As a result organisation has to adapt itself to such changing conditions and also to incorporate them. Sometimes employees shows resistance towards such change. Motivation helps in overcoming this resistance.
- **Improved Corporate Image:** Motivation helps in building a good corporate image. The motivated employees exhibits good performance, generates more revenue, creates an environment which is conducive for the growth of an organisation. This builds up a positive image in the eyes of the people who are dealing with the company. Thus it boosts the image of the organisation.

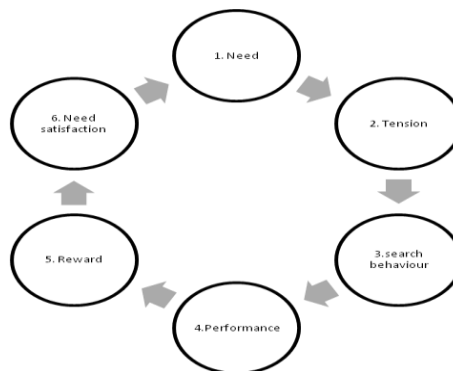
13.5 NEEDS, INCENTIVES AND MOTIVES

There is a difference among these three things: needs, incentives and motive. A need might be present in an individual but it doesn't lead to action mandatorily. It has to be activated which is done by providing incentives. Thus incentives in an external stimulus that directs people towards some goal. The need is an internal state that makes the outcomes alluring. **Motive is activated need, an active desire or wish.** A motive becomes active only when there is some incentive. Thus incentives pertains to two things. Firstly it refers to the individual or his needs which one is trying to satisfy. Secondly it refers to the opportunity provided by the company to their employees to satisfy their needs in return for their services. Conceptually, the difference between motivation and incentive is that incentive is the means to motivation. The motivation process starts with need deficiency which creates tension. Such tension stimulates search behaviour within an individual which leads to the performance and achievement of certain goal that will satisfy the needs of the individual and lead to reduction in tension.

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Figure: Needs, Incentives and Motives



Source: Toppr.com

13.6 INTRINSIC AND EXTRINSIC MOTIVATION

- a) **Intrinsic Motivation:** *Intrinsic motivation comes from within an individual.* When you're **intrinsically motivated**, you engage in an activity solely because you enjoy it and get personal satisfaction from it. Thus intrinsic rewards includes achievement and accomplishment, feeling of responsibility. It is the feeling that an employee experiences when he accomplishes a challenging job. It leads to inner growth of the employee. Now the question comes how can managers promote and support intrinsic motivation in the employees? This can be done only by ensuring that the achievements of the employee are fully, fairly and explicitly recognised. Middle and high level executives generally requires intrinsic motivation and it is primarily non – financial.
- b) **Extrinsic Motivation:** It refers to the motivation by giving external or tangible rewards. It involves those factors which are beyond the job or you can say outside the job itself. It primarily involves financial rewards like salary, bonus, allowances, paid vacations, profit sharing, stock options, retirement options, fringe benefits and promotion. It also includes the drive to avoid punishments or negative outcome such as transfer or being terminated. External rewards can induce the participation of employees in the matters in which they have least interest. It also motivate people to acquire new skills and knowledge in order to perform better.

ACTIVITY

Discuss in the class on the topic, “Nature, Need and Significance of Motivation.” And analyse the impact of motivation on the performance of an



IN-TEXT QUESTIONS

1. The set of forces that energise, direct, and sustain behaviour is known as .
a) Motivation b) Expectancy
c) Independence d) Interaction.
2. Which of the following is NOT a source of internal motivation?
a) Objectives b) Requirements
c) Mentalities d) Feedback
3. Employee motivation is the process by which employees' efforts at work are energised, directed, and sustained toward the achievement of a goal. (True/False)
4. Which of the following is NOT a motivating "pull" force?
a) Training availability b) Performance objectives
c) Rewards and remuneration d) Push for high output levels
5. Which of the following is NOT a motivating "push" force?
a) Security requirements
b) Ambitions for professional advancement
c) Perceptions of the supervisor
d) The timing and amount of feedback

13.7 THEORIES OF MOTIVATION

The motivational theories that explain human behaviour in terms of human needs are known as content theories. Such theories focus on the “what of motivation”. The theories which explain how motivation occurs are known as process theories. The third type of theories known as reinforcement theories focus on the manner in which behaviour is learned. In this chapter we will focus on content theories which are explained below:

13.7.1 Maslow’s Need Hierarchy Model:

Abraham Maslow developed the need hierarchy model in 1940s. It is one of the most widely mentioned theories of motivation. Maslow's Need Hierarchy Theory depends on the needs of individuals. He recognized five distinct classes of needs. He organized these needs into a hierarchy, and expressed that people wish to fulfil specific need to a moderate degree, and

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afterward attempts to fulfil the next need in the order of the hierarchy. Maslow suggested that human needs can be arranged in a particular order from the lower to higher as shown in figure. The need hierarchy is as follows:

- **Physiological Need:** Fundamental and essential necessities needed for human life are physiological requirements. These requirements identify with the endurance and support of human existence. These requirements incorporate such things as food, clothing, shelter, air, water and different necessities of life. These requirements should be fulfilled consistently as they are needed for survival.
- **Safety and Security Needs:** After satisfaction of the physiological needs, individuals need the affirmation of keeping a given financial level. Factors such as natural environment, biological danger, economic deprivation and emotional insecurity are the sources of threat to an individual. A person seeks protection from such threats. In order to inspire employees, organisations provide fringe benefits, health and accident insurance, housing loans, etc.
- **Social Needs:** Man is a social animal. The basic urges of individuals to associate, make friendship, belong with others, and desire to be accepted by others, seek affection and companionship. The formation of informal groups, encouraging the employees to work in teams, and providing scope for interpersonal communication and relationships helps in keeping the employees motivated.
- **Self-esteem Needs:** Maslow believed that people look for growth. They want to be identified and respected by others. This instinct is called as esteem. Esteem needs are associated with self-esteem and esteem from others. The need for power, self-respect, autonomy, self-confidence, status, securing attention of others, appreciation, achievement, recognition of competence, knowledge, desire to have freedom, are some of the esteem needs individual wishes to satisfy. Maslow called them, as higher order needs. These needs remain dormant until basic, security and social needs are satisfied. Satisfaction of esteem needs boosts the self-confidence of an individual, improves strength, capability and provides feeling of adequacy in the individuals. Whereas inability to fulfil these needs leads to the feelings of inferiority, weakness and helplessness.
- **Self-Actualization Needs:** Transformation of perception and dream into reality is known as Self-actualization. The term 'self-actualization' was coined by Kurt Goldstein and means to become actualized in what one is potentially good. Everyone possess innate potential to do things differently from others. It encompasses realising he full inner potential of oneself and becoming what one is capable of. It includes desire for personal achievement. The sense of achievement gives him satisfaction.

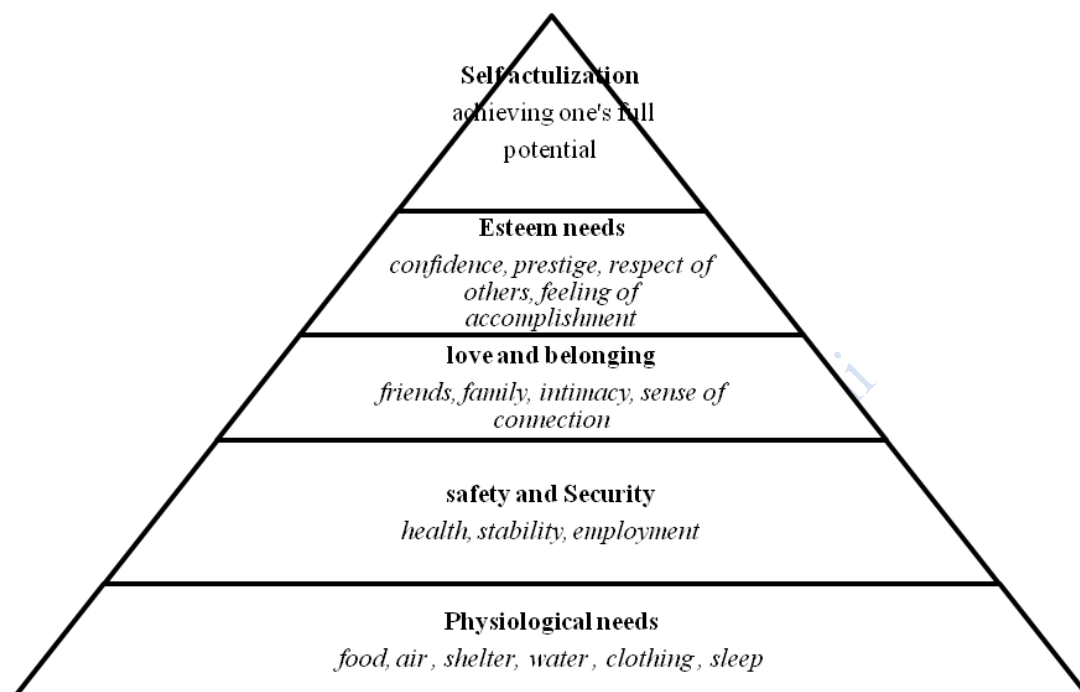


Figure 2: Maslow's Need Hierarchy

There is a sequence of domination of needs as proposed by Maslow. Higher order needs doesn't emerge until the lower order needs are satisfied. That means the third need doesn't dominate till the time first two needs have been satisfied. Man has limitless needs. One is satisfied another emerges. And also if one need is satisfied then it stops being a motivating factor.

13.7.1.1 Limitations of the Theory:

This theory is very simple, common and easily understandable. This theory is dynamic because it presents motivation as a changing force; changing from one level of needs to another level it accounts for both inter-personal and intra-personal variations in human behaviour. Despite being widely appreciated the theory suffers from the following limitations:

- Researchers have proved that there is lack of hierarchical structure of needs as suggested by Maslow, though every individual has some ordering for his need satisfaction. Some people may be deprived of their lower level needs but may strive for self-actualization needs.
- There is a lack of direct cause and effect relationship between need and behaviour. One particular need may cause different type of behaviour in different persons. On the



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other hand, a particular individual may exhibit behaviour which may be due to the result of different needs. Thus, need hierarchy is not a simple process to comprehend.

- Need and satisfaction of needs is a psychological feeling. Sometimes even the person may not be aware about his own needs. In that case how can managers know about the needs of their employees?
- Some people say that hierarchy of need simply does not exist. At all levels needs are present at given time. An individual motivated by self-actualization needs cannot afford to forget his food. But this criticism is solved by Maslow by saying that needs are interdependent and overlapping.
- It is doubtful that once need is satisfied it ceases to be the motivating force. It is also inconclusive to say that satisfaction of one need leads to the activation of next level needs in the hierarchy.

13.7.2 Herzberg's Two-Factor Theory:

In 1959, Frederick Herzberg, a behavioural scientist proposed a two-factor theory or the motivator-hygiene theory. He carried out his research by interviewing 200 engineers and accountants who were working in 11 different firms in the Pittsburgh area. The participants were asked to recall incidences when they felt motivated and unmotivated by their job. Herzberg found that there are some job factors that result in satisfaction while there are other job factors that prevent dissatisfaction. According to Herzberg, the opposite of "Satisfaction" is "No satisfaction" and the opposite of "Dissatisfaction" is "No Dissatisfaction". Herzberg classified these job factors into two categories-

- **Hygiene factors-** Hygiene factors are those job factors which are essential for existence of motivation at workplace. These do not lead to positive satisfaction for long-term. The absence or non-existence of these factors leads to dissatisfaction. In simple words, hygiene factors refer to those factors whose adequacy/judicious presence in a job pacifies the employees and do not make them dissatisfied. These factors are extrinsic to work. Hygiene factors are also called as **dissatisfiers or maintenance factors** as they are required to avoid dissatisfaction. These factors depict the job environment. The hygiene factors demonstrated the physiological needs which the individuals wanted and expected to be fulfilled. Hygiene factors include:
 - ✓ **Pay** - The pay or salary structure should be reasonable and fair. It must be equal and competitive with the other organisations in the same industry and domain.
 - ✓ **Company Policies** - The Company should avoid rigid policies. They should be fair and clear. It should include flexible working hours, dress code, breaks, vacation, etc.



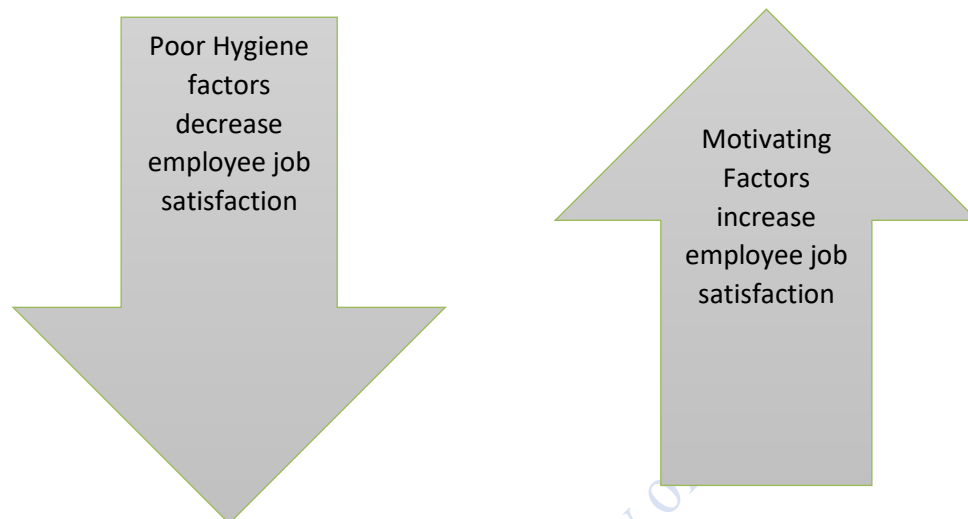
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- ✓ **Fringe benefits** - The employees should be offered health care plans (medical), benefits for the family members, employee help programmes, etc.
- ✓ **Working conditions** - The working conditions should be secure, clean and hygienic. The work equipment and machinery should be updated and well-maintained.
- ✓ **Status** - The employees' status within the organization should be familiar and retained. In simple words, organisation should provide meaningful work to its employees so that it gives them a sense of status.
- ✓ **Interpersonal relations** - The relationship of the employees with his peers, superiors and subordinates should be appropriate and acceptable. There should be no conflict or humiliation element present.
- ✓ **Job Security** – The employees should feel secure in their jobs. The organization must provide for such measures and avoid any hostile working environment for the employees.
- **Motivational factors-** According to Herzberg, the hygiene factors cannot be regarded as motivators. The motivational factors provides positive satisfaction. These factors are within the work/ job itself. These factors motivate the employees for a superior performance. These factors are called satisfiers. These are factors involved in performing the job. Employees find these factors intrinsically beneficial. The motivators depicted the psychological requirements that were perceived as an additional benefit. Motivational factors include:
 - ✓ **Recognition** – The managers should praise and recognize the employees for their accomplishments.
 - ✓ **Achievement** - The employees must have a sense of achievement. This depends on the job. There must be a reward of some sort in the job. The employee should have a proud feeling of having done something worthwhile.
 - ✓ **Growth and promotional opportunities** - There must be growth and advancement opportunities in an organization to motivate the employees to update their skills and perform well.
 - ✓ **Responsibility** - The employees must hold themselves accountable for the work. The managers should give them ownership of the work. They should minimize control but retain accountability.
 - ✓ **The work** - The work itself should be purposeful, interesting and stimulating for the employee to perform and to get motivated.

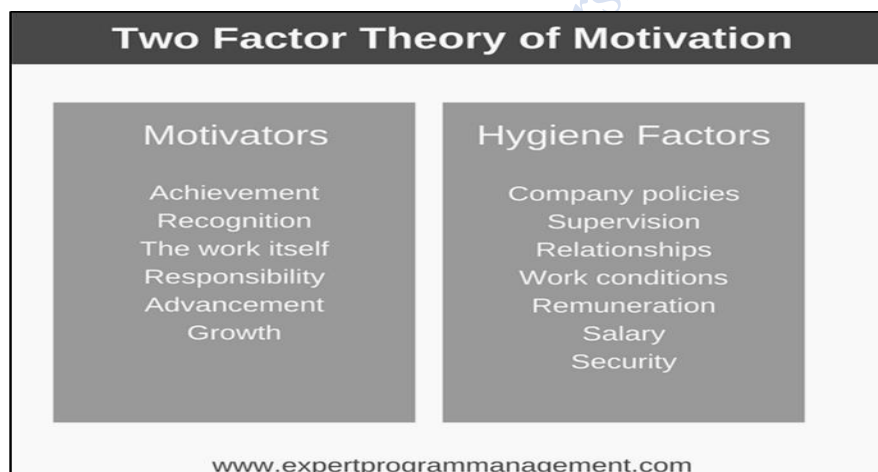
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Figure: Herzberg's Two factor theory



Source: www.expertprogrammanagement.com



13.7.2.1 Implications of Two-Factor Theory:

The implications of the theory is given as under:

- The Two-Factor theory implies that the managers must stress upon guaranteeing the adequacy of the hygiene factors to avoid employee dissatisfaction. Also, the managers must make sure that the work is stimulating and rewarding so that the employees are motivated to work and perform harder and better.
- This theory emphasize upon job-enrichment so as to motivate the employees.
- The job must be such that it harnesses the employee's skills and competencies to the maximum.



- By Focusing on the motivational factors one can improve quality of work.
- Herzberg's theory seeks to tap psychological needs of employees and increase their satisfaction.
- This theory also brings to light the importance of rewards system and monitoring the employee performance.

13.7.2.2 Limitations of Two-Factor Theory:

The two factor theory is not free from limitations:

- The two-factor theory overlooks situational variables.
- Herzberg based its theory that there is a correlation between satisfaction and productivity. But the research conducted by Herzberg stressed upon satisfaction and ignored productivity.
- The theory's reliability is uncertain. Analysis has to be made by the raters the raters may damage the findings by analysing same response in different manner.
- No comprehensive measure of satisfaction was used. An employee may find his job acceptable despite the fact that he may hate/object part of his job.
- The two factor theory is not free from bias as it is based on the natural reaction of employees when they are enquired the sources of satisfaction and dissatisfaction at work. They will blame dissatisfaction on the external factors such as salary structure, company policies and peer relationship. Also, the employees will give credit to themselves for the satisfaction factor at work.
- The theory focuses on white collar classes and ignores blue-collar workers.

13.7.2.3 Comparison of Maslow and Herzberg Models:

Herzberg model is an improvement over Maslow's need hierarchy model. However both are content theories and focuses on what of motivation. The lower order needs are similar to the maintenance factors whereas the high order needs of self-esteem and self-actualisation is similar to the motivators or satisfiers. Although there are marked similarities in the two models, several differences exist which are depicted in the table below:

BASIS	MASLOW'S MODEL	HERZBERG'S MODEL
Basis of theory	Hierarchy of five sets of human needs and their satisfaction in motivating employees.	It involves hygiene and motivators. If Hygiene factors are absent then they tend to be the dissatisfiers whereas motivators are satisfiers.
Nature	Descriptive theory	Prescriptive theory



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Hierarchy of needs	Hierarchical arrangement of needs	No such hierarchical arrangement
motivator	Any need can be a motivator if it is relatively unsatisfied	Only high order needs serve as a motivator
Applicability	Takes a general view of motivational problems	Takes a micro view and deals with work oriented motivational problems of professional employees
Empirical data	It is not based on any empirical study	The theory is based on the study of empirical data.

13.7.3 McGregor's Theory X and Theory Y:

In 1960, Douglas McGregor formulated Theory X and Theory Y suggesting two aspects of human behaviour at work, or in other words, two different views of individuals (employees): one of which is negative, called as Theory X and the other is positive called as Theory Y. According to McGregor, how managers (autocratic and permissive) perceives the nature of individuals or subordinates is based on various assumptions.

13.7.3.1 Assumptions of Theory X:

The autocratic managers make the following assumptions about their subordinates:

- An average employee intrinsically does not like work and tries to escape it whenever possible.
- Since the employee does not want to work, he must be persuaded, compelled, or warned with punishment so as to achieve organizational goals.
- A close supervision is required on part of managers. The managers adopt a more domineering style.
- An average employee is generally self-centred and dislike responsibilities. He is less ambitious and wants security above everything else.
- An average employee resist change.
- An average employee needs formal direction.
- Motivation occurs at psychological and safety needs

13.7.3.2 Assumptions of Theory Y:

Manager having theory Y orientation makes the following assumptions about their subordinates:



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- Employees can perceive their job as relaxing and normal. They doesn't inherently dislike work.
- Employees may not require only threat, external control and coercion to work, but they can use self-direction and self-control if they are dedicated and sincere to achieve the organizational objectives.
- Employees' would be loyal and committed to organization, if they find the job to be rewarding and satisfactory.
- An average employee can learn to admit and recognize the responsibility. In fact, he can even learn to obtain responsibility.
- The employees have skills and capabilities. Their logical capabilities should be fully utilized. In other words, the creativity, resourcefulness and innovative potential of the employees can be used to expound organizational problems.
- Motivation takes place at higher order needs, though lower level needs are important too.

Hence, we can say that Theory X presents a negative perspective on employees' nature and behaviour at work, while Theory Y presents a hopeful perspective on the employees' inclination and conduct at work. In the event that associate it with Maslow's model, we can say that Theory X depends with the understanding that the workers accentuate on the physiological requirements and the safety needs; while Theory Y depends with the understanding that the social needs, esteem needs and the self-actualization needs overwhelm the employees. McGregor sees Theory Y to be more legitimate and sensible than Theory X. Hence, he energized cheerful group relations, mindful and invigorating positions, and cooperation of all in decision making process.

13.7.3.3 Implications of Theory X and Theory Y:

- Quite a few organizations use Theory X today. Theory X encourages use of tight control and supervision as the theory is propounded on the notion of centralisation of authority.
- Theory X involves autocratic leaders thus it implies that employees are reluctant to organizational changes. Hence, it does not encourage innovation.
- Theory X managers believes that job doesn't provide intrinsic satisfaction to people so they concentrate on the economic needs of their employees.
- Many organizations are using Theory Y techniques. Theory Y implies that the managers should create and encourage a work environment which provides opportunities to employees to take initiative and self-direction. Employees should be given opportunities to contribute to organizational well-being.



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- Theory Y encourages decentralization of authority, teamwork and participative decision making in an organization.
- Theory Y searches and discovers the ways in which an employee can make significant contributions in an organization. It harmonizes and matches employees' needs and aspirations with organizational needs and aspirations.

13.7.3.4 Critical Appraisal of McGregor Theory:

- The theories tends to over- generalise and simplify an average human being.
- Attuning management practices according to Theory X assumptions makes for a hard approach to managing; and invites resistance of people to management practices. Likewise, attuning management practices according to Theory Y assumptions makes for a soft approach to managing and leads to laissez faire management and organisational inefficiencies.
- Theory 'X' and Theory 'Y' assumptions are two extreme sets of assumptions about human behaviour. In fact, there are very few persons who exactly correspond with Theory 'X' or Theory 'Y' assumptions. Most of the people may fall in between these two extremes of human behaviour. McGregor has ignored this aspect of human behaviour.
- Theory X and theory Y is not suitable for the best of situations. Managers usually resort to using of integrative approach based on situations.

13.7.4 Ouchi's Theory of Z:

William Ouchi developed Theory Z after making a comparative study of Japanese and American management practices. Theory Z is an integrated model of motivation. Theory Z suggests that large complex organisations are human systems and their effectiveness depends on the quality of humanism used. Type 'Z' organization consists of three main features like subtlety, intimacy, and trust. Subtlety involves sensitivity towards others that yields higher productivity, intimacy implies support and concern, and trust is something that demands mutual trust between members of the organization to reduce conflict and encourage teamwork. One of the dominating presumptions of this theory is that the management harbours a focused energy of trust in its employees to help a participative management, where the employees take part in the decision making by and large.

13.7.4.1 Features of Theory Z:

The features of theory z are as follows:

- **Mutual Trust:** According to William Ouchi openness, mutual trust and integrity are crucial elements of an efficient organization. In this case, top managers act as facilitators and not as decision makers. When there is trust and understanding between



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the employees, management, and the union, conflicts gets reduced and the employees showcase complete cooperation in accomplishing the organizational objectives.

- **Strong bond between organisation and Employees:** There are various means that can be used to build up a strong bond between the employees and the organization. Shareholders may renounce dividends to circumvent retrenchment of workers. Giving permanent jobs and conferring lifetime employment opportunities to the employees will increase employee loyalty towards the organization. Greater emphasis must be given to the horizontal movement to reduce stagnation. Priority must be given to Employee career planning so that every employee is rightly placed resulting in a more conducive and stable work environment.
- **Employee involvement:** Theory Z is based on the notion that by involving employees in the matters of the management leads to the improvement in their performance and commitment. Such participation stimulates a sense of responsibility and escalates performance and enthusiasm in implementing decisions. Involvement entails meaningful participation of employees in the decision-making process, in matters that directly affect them.
- **Human Resource development:** Theory Z is a hybrid system that incorporates both the Japanese management and American management. Group decision making, social-cohesion, job security, and quick decision making are the areas of concern in Japanese management. It also incorporates the American management in which a quick decision making, risk-taking, and individual freedom are the incorporated areas of concern. In theory Z, the abilities of every individual are recognized and attempted to utilize and develop them through career planning, training, job enlargement, and so on.
- **Team work:** As per theory Z there is no formal structure in the organisation. The organisation is based on the team work and cooperation involving the sharing of information, plans and resources. Thus it talks about integrated structure which is devoid of any charts, division or visible structure. An integrated organisation puts emphasis on job rotation which improves understanding about interdependence of tasks. Such understanding leads to group spirit.
- **Informal control system:** there should be an informal control system in the organization. To follow this control system, the emphasis should be on cooperation and mutual trust, and not on the superior-subordinate relationship.

13.7.4.2 Limitations of Theory Z:

The theory Z has following limitations:



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- The process becomes lengthy and time consuming if all the employees start participating in the decision making. Moreover their participation is not always encouraged by the managers due to ego issues.
- On the other hand, employees also may fear involvement in decision making due to the fear of criticism.
- Theory Z emphasizes an unstructured organization, which can be chaotic as nobody in the organization will choose to take responsibility for any action.
- An employee may be ambitious and hence may not want to be retained in the lifetime employment scheme. Although it is aimed to build a strong rapport and loyalty among the superiors and subordinates, it just aids in job security. Lazy employees are fabricated by job security. On the other hand, employers too don't seek to retain lazy and inefficient employee.
- Organization constitutes of employees from different regional, linguistic and religious backgrounds with people varying in practices, behaviours, and habits. As result it may not be possible to build up a common culture in the organisation.
- As Theory Z emerged from the Japanese principles, which may not seem beneficial for the rest of the world. Since all the economies differ in structure, form, and culture, the theory may not seem to work for all of them

ACTIVITY

Discuss in the class the role and significance of motivation theories in maintain the performace and enthusiasm of the employees at work.

IN-TEXT QUESTIONS

6. Who developed the hierarchy of needs theory of motivation?
a) Maslow, Abraham b) McClelland, David
c) Vroom, Victor d) Herzberg, Frederick
e) McGregor, Douglas
7. How many levels are there in the Motivational Needs Hierarchy Theory?
a) 6 b) 5 c) 4 d) 3 e) 2



8. What is the motivation theory based on Satisfaction-progression?
 - a) The Alderfer-ERG theory
 - b) Maslow's theory of the hierarchy of needs
 - c) Two-factor theory of Herzberg
 - d) Skinner's theory of reinforcement
 - e) Vroom's Theory of Expectancy
9. According to Frederick Herzberg, ____ are elements associated with working conditions.
10. While scholars agree that satisfaction is a factor in motivation, they point out that there is little evidence that increasing employee satisfaction increases motivation. As a result, they have criticised the ____ for being overly simplistic.

13.8 SUMMARY

Motivation is an effective tool for managers for instilling confidence in their workforce. A well-motivated employees will contribute efficiently towards the achievement of the organisational goals. The word Motivation is derived from the word "Motive" which means any idea, need or emotion that prompts a man into action. Motivation is the internal feeling of a person to accomplish something. A motivated individual would exhibit better performance and good organisational relations. The degree of fulfilment, happiness, and so forth, which one experiences by utilizing a similar prize/impetus fluctuates from individual to individual. Motivation is the drive to fulfil a need or objective. It is concerned with objective coordinated conduct. Positive motivation attempts to influence the behaviour of employees by giving rewards like additional pay, promotions, allowances etc. Negative motivation includes penalties which will be imposed if the employee doesn't perform well. Motivational schemes help to reduce labour absenteeism and turnover. A motivated employee would seek an autonomy to work in their own way. It helps in developing cordial relations in the organisation. Motivated employees will have a high morale and would work sincerely thereby reducing the chances of conflicts.

13.9 GLOSSARY

- **Extrinsic Motivation:** It uses rewards or other incentives, such as praise, fame, or money, to motivate people to do certain things. Unlike intrinsic motivation, this type



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of motivation is driven by external factors. Extrinsic motivation is demonstrated by being paid to do a job.

- **Intrinsic Motivation:** The act of doing something without any obvious external rewards is known as intrinsic motivation. You do it because it is enjoyable and interesting, rather than because of an external incentive or pressure, such as a reward or deadline.
- **Motivation:** Managers can use motivation to inspire their teams to achieve more and improve their workplace experience. When a company's managers motivate their teams, it may see an increase in overall productivity and achievement.
- **Needs:** Needs are basic or advanced urges or demands that compel us to take appropriate action in order to satisfy them. Needs are the gaps in marketing that companies try to fill with their products and services.

13.10 ANSWER TO IN-TEXT QUESTIONS

1. (a), Motivation	6. (a) Maslow, Abraham
2. (d) Feedback	7. (b) 5
3. True	8. (b) Maslow theory of the hierarchy of Needs
4. (b) Performance objectives	9. Hygiene Factors
5. (d) The timing and amount of feedback	10. Two-factor theory

13.11 SELF-ASSESSMENT QUESTIONS

1. What is motivation? Discuss the nature and significance of motivation.
2. "Motivation is the core of Management". In the light of this statement, explain the importance of motivation.
3. Explain McGregor's Theory X and Theory Y. Do you think it is an improvement over the traditional view of motivation? Critically examine it.
4. Explain Maslow's need hierarchy model. Why has it been criticised.
5. What do you mean by the term Motivation? Explain Herzberg's two factor theory and differentiate it from Maslow's need model.
6. Explain the terms "Motivator" and "Hygiene" factors in Herzberg. What effects are these factors presumed to have on an individual motivation?



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7. Explain the intrinsic and extrinsic motivation and also differentiate between these two types of motivation.
8. “Theory Z is a comprehensive philosophy of management”. Comment.
9. Enumerate the assumptions of McGregor’s Theory X and Theory. Which one is applicable to India?
10. “Ouchy’s Theory Z is the last word on motivation”. Critically examine.

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LESSON 14

LEADERSHIP

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STRUCTURE

- 14.1 Learning Objectives
- 14.2 Introduction
- 14.3 Characteristics of Leadership
- 14.4 Importance of Leadership
- 14.5 Leadership Vs Management
- 14.6 Formal and Informal Leaders
- 14.7 Leadership Styles
- 14.8 Comparison of Leadership Styles
- 14.9 Summary
- 14.10 Glossary
- 14.11 Answers to In-Text Questions
- 14.12 Self-Assessment Questions
- 14.13 References
- 14.14 Suggested Readings

14.1 LEARNING OBJECTIVES

After studying this chapter students may able to understand: -

- Understand the concept and characteristics of leadership
- Know about the importance of leadership
- Understand the difference between Management vs. Management
- Decipher the meaning of formal and informal leaders
- Gain insight about leadership styles



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14.2 INTRODUCTION

An important element of the directing function of management is Leadership. Leadership becomes imperative wherever, there is an organized group of people working towards a common goal. *“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 gropingly and shatteringly. He is a person who gives form to the uncoarctate 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 capacity to develop certainty and energy among individuals and to make an inclination in them to be driven. To be a fruitful pioneer, a manager should have the characteristics of premonition, drive, activity, fearlessness and individual respectability. Various circumstances may request various sorts of authority. Leadership has been regarded as an important modifier of organisational behaviour. A strong leadership contributes towards the effectiveness of the organisation. 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.

According to **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 its normal limitations”*

As per **Koontz and O’Donnell**, *“Leadership is the ability of a manager to induce subordinates to work with confidence and zeal”*

Dubin, R. defined *“Leadership is the exercise of authority and making of decisions.”*

According to **Allford and Beaty**, *Leadership is the ability to secure desirable actions from a group of followers voluntarily, without the use of coercion.*

As per **George R. Terry**, *Leadership is the activity of influencing people to strive willingly for group objectives.*

As propounded by **Hemphill, J.K.**, *Leadership is the initiation of acts which result in a consistent pattern of group interaction directed towards the solution of a mutual problem.*

According to **James 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 organisational objectives and satisfaction with the type of leadership provided.*

In the various definitions of leadership accentuates that the capacity of an individual to influence and direct group effort towards the achievement of organizational goals. Thus, one



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can say that leadership is the practice of influence that stimulates subordinates or followers to do their best towards the achievement of desired goals.

How Starbucks' CEO Handled Company Tragedy

Starbucks is famous for its exceptional treatment of employees, offering things like insurance to even part-time workers. When tragedy struck the company, it's no surprise that their CEO was able to offer solace to a hurting store and community.

In 1997 three employees were killed in a bungled robbery of one of the Washington D.C. stores. Instead of issuing a press release or calling legal counsel, CEO Howard Schultz flew straight to D.C. and spent the entire week with the employees and their families in the area. Schultz's compassion and incredible leadership helped heal those closest to the tragedy.

14.3 CHARACTERISTICS OF LEADERSHIP

The following are the characteristics of leadership

- **Leadership is the process of influencing:** Leadership is a process to influence others and to guide them towards the achievement of organisational goals. A leader must be able to influence the behaviour, attitude and beliefs of his subordinates. A successful leader is able to modify, reshape and direct the conduct of the members. It is an interpersonal influence which is exerted in different situations.
- **Leadership is based on Authority:** In order to lead and direct the group, a leader requires adequate power and authority. He is a person of knowledge, experience and skills and enjoys authority by virtue of holding a formal position in the organisation.
- **It involves followers:** It exists only with followers. If there are no followers, there is no leadership. A leader requires people for directing and influencing them towards the attainment of organisational objectives.
- **Leadership helps in realisation of common goals:** the most important task of leader is to inspire, motivate and guide people towards the realisation of common goals. A leader expects complete coordination from the team members. He integrates the individual and organisational goals so that there are no conflicts.
- **Situation based:** the situational variables greatly influence the role of a leader. Very often a leader has to modify his approaches and styles in order to accomplish a task at hand based on the given situation. Thus, leadership is situational. It is based on different situations.



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- **Involves stimulating the followers:** Leadership is the function of stimulating and inspiring the followers to strive willingly to attain organizational objectives. A leader is considered to be successful when he is able to inspire and integrate an individual's interest with common goals of the organisation.
- **Leadership is personal Quality:** Leadership is a personal quality. It is the characteristic quality that inspires people to follow a leader.

14.4 IMPORTANCE OF LEADERSHIP

The importance of leadership is given as under:

- **Initiates action:** Leader is a person who starts the work by communicating the policies and plans to the subordinates from where the work actually starts. Leader has to take the initiative in all matters of interest to the group. He should not depend upon others for decision and judgment. He should float new ideas and his decisions should reflect original thinking.
- **Motivation:** The Management has to supply leadership in the organisation in order to get work done. As group efforts and teamwork are essential for realizing organizational goals, leadership, becomes vital for the execution of work. Through the exercise of leadership, managers can influence any group of human work accomplishment. Leadership pulls up the group to a higher level of performance through its work on human relations. A leader proves to be playing an incentive role in the concern's working. He motivates the employees with economic and non-economic rewards and thereby gets the work from the subordinates.
- **Providing guidance-** A leader needs to direct as well as assume a managing part for the subordinates. Direction here implies training the subordinates the manner in which they need to perform their work adequately and effectively.
- **Creating confidence-** Confidence is a significant factor which can be accomplished through communicating the work endeavours to the subordinates, clarifying them about their job and giving them rules to accomplish the objectives viably. It is additionally imperative to hear the representatives concerning their grievances and issues.
- **Building 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. Morale denotes willing co-operation of the employees towards their work and getting them into confidence and winning their trust. A leader can be a morale booster by achieving full co-operation so that they perform with best of their abilities as they work to achieve goals.



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- **Builds work environment-** Management is getting things done from people. A productive workplace helps in sound and stable development. Accordingly, human relations ought to be kept into mind by a leader. He ought to have individual contacts with workers and ought to tune in to their issues and address them. He should treat representatives on humanitarian grounds.
- **Co-ordination-** Co-ordination can be achieved through reconciling personal interests with organizational goals. This synchronization can be accomplished through legitimate and effective co-ordination which should be primary motive of a leader.
- **Integration of Formal with Informal Organizations:** If management fails to provide competent leadership, informal leadership will prevail over management in controlling and regulating the behavior of employees. Being confronted with such a situation, management fails to influence workers, to improve their performance and to stop employee unrest. Leadership is the natural accompaniment of all associations of human beings. For their personal and social contentment, workers are performed to rely mostly on informal leadership if management cannot provide effective leadership. Competent leadership can, however, integrate informal organizations with formal organization and utilize them constructively for achieving company objectives.

14.5 LEADERSHIP VS MANAGEMENT

"Leadership and managership are two equivalent terms" is a wrong assertion. Leadership doesn't need any administrative situation to act as a leader. Then again, a manager can be a genuine manager only when he has the attributes of leader in him. By goodness of his position, leader has to administer his team. A manager needs to play out every one of the five capacities to accomplish objectives, i.e., Planning, Organizing, Staffing, Directing, and Controlling. Leadership is a part of these capacities. Authority as an overall term isn't identified with managership. An individual can be a leader by temperance of characteristics in him. For instance: head of a club, class, government affiliation, social association, and so forth. Therefore, it is true to say that, **"All managers are leaders, but all leaders are not managers."**

A leader is one who influences the behaviour and work of others in group efforts towards achievement of specified goals in a given situation. On the other hand, manager can be a true manager only if he has got traits of leader in him. Manager at all levels are expected to be the leaders of work groups so that subordinates willingly carry instructions and accept their guidance. A person can be a leader by virtue of all qualities in him.



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Leaders and Managers can be compared on the following basis:

Basis	Manager	Leader
Origin	An individual becomes a manager by virtue of his position.	Personal qualities are the basis for a person becomes a leader
Formal Rights	Manager gets formal rights in an organization because of his status.	Formal rights are not available to a leader.
Followers	The subordinates or juniors are the followers of managers.	The group of employees whom the leaders leads are his followers.
Functions	All five functions of management are performed by a manager.	Leader influences people to work willingly for the accomplishment of group objectives.
Necessity	A manager is very crucial to a concern.	A leader is required to create cordial relation between person working in and for organization.
Stability	It is more stable.	Leadership is temporary.
Mutual Relationship	All managers are leaders.	All leaders are not managers.
Basis	Manager	Leader
Accountability	Manager is held accountable for self and his subordinates behaviour and performance.	Leaders have no well-defined accountability.
Concern	A manager's concern is organizational goals.	A leader's concern is group goals and member's satisfaction.
Followers	People follow manager by virtue of job description.	People follow them on voluntary basis.
Role continuation	A manager can continue in office till he performs his duties satisfactorily in congruence with	A leader can maintain his position only through day to day wishes of



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	organizational goals.	followers.
Sanctions	Manager has command over allocation of various tasks and distribution of sanctions.	A leader has command over different sanctions and related task records. These sanctions are essentially of informal nature.

14.6 FORMAL AND INFORMAL LEADERS

From the view point of true acknowledgment from the top administration, Leaders might be bifurcated into formal and informal leaders. A formal leaders is one who is officially designated or chosen for direct and control the activities of the subordinates. In other words when formal authority vested in the executive is exercised to influence behaviour of people, the leadership is said to be formal. He is an individual made by the formal structure of the organisation, appreciates authoritative position and is responsible to the individuals who have chosen him in a proper manner. The formal leader has a two-fold duty. From one viewpoint, he needs to satisfy the requests of the association, while on the other he is additionally expected to help, control and direct his subordinates in fulfilling their necessities and aspirations.

Informal leaders are not formally recognized. As against formal, informal leadership has no formal authority, yet it is very effective in exercising its influence to direct the behaviour of people. The personality traits of a leader play a vital role in this type of leadership. 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 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.

Basis	Formal Leaders	Informal Leaders
Nature of Authority	They enjoy formal authority over subordinates	They do not enjoy formal authority over subordinates
Objective	They help to achieve the organisational goals	They help to satisfy the individual goals along with the organisational goals
Nature of	They are formally appointed	They are not officially appointed. They emerge out of interaction amongst



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appointment	by the managers	members of informal groups
Power	They exert legitimate power on employees and the employees comply with their orders	Such leaders are known for their charismatic characteristics and persuasive communication. Employees are committed to their orders
Morale	They do very little to increase morale and job satisfaction of subordinates	They increase morale and job satisfaction of subordinates

ACTIVITY

Discuss in the class about leadership and critically analyse the role of leadership in present scenario.

IN-TEXT QUESTIONS

- Leadership is rapidly expanding:
 - Plan of Action
 - Authority
 - Command
 - Inspiring others to follow
- Which of the following statements about leadership is false?
 - Leadership does not always take place within an organization's hierarchical structure.
 - When people act as leaders, their roles are always clearly defined and established.
 - Not every manager is a leader.
 - All of the Above
- Which of the following statements about leadership is correct?
 - Every manager is a leader.
 - Formal rights ensure effective leadership.
 - A formal appointment is required for the development of leaders.
 - Unofficial leadership is just as important as formal authority.

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4. Which of the following is a desirable quality in a leader?
 - a) Influence from the leader to the follower in only one direction
 - b) Authority and coercive power
 - c) Lack of liberty
 - d) Leadership and management coexistence
5. _____ is a trust dimension defined as honesty, truthfulness, and the ability to demonstrate consistency in one's words and actions.

14.7 LEADERSHIP STYLES

All leaders do not possess same attitude or same perspective. Leadership style is the manner in which leader supervises and directs members of the team. All of the leaders do not get the things done in the same manner. It is a relatively consistent pattern of behaviour, skills and practices that characterise one's interaction with others in a situation requiring influencing. Their style varies. The leadership style varies with the kind of people the leader interacts and deals with. A perfect/standard leadership style is one which assists a leader in getting the best out of the people who follow him. It reflects how one behaves while influencing the performance of others. It represents somewhat predictable actions of leaders which followers can predict in specific situations. Leadership style reflects different types of leaders. Leadership styles can be classified into three broad categories:

- **Autocratic Leadership Style:** In this style of leadership, a leader has complete command and hold over their employees/team. Autocratic leaders make decisions and issue orders by virtue of their position and authority. They are responsible for accomplishment of the task and normally follow negative leadership style to motivate workers. The team cannot put forward their views even if they are best for the team's or organizational interests. They structure the working circumstance for the employees. The danger of discipline and punishments causes individuals to comply with the orders. They hold the decision making control and don't assign authority and duty. They cannot criticize or question the leader's way of getting things done. The leader himself gets the things done. They may also offer rewards (positive motivation) for good performance. In such cases, they are called benevolent autocratic leaders. This style is utilised when the leader tells his employees what he needs and how he needs it done, without looking for the help of supporters. The major advantage of this style of leadership is that decision-making power is centralised, decisions are taken quickly. Moreover Less competent and skilled employees can be hired as they have to

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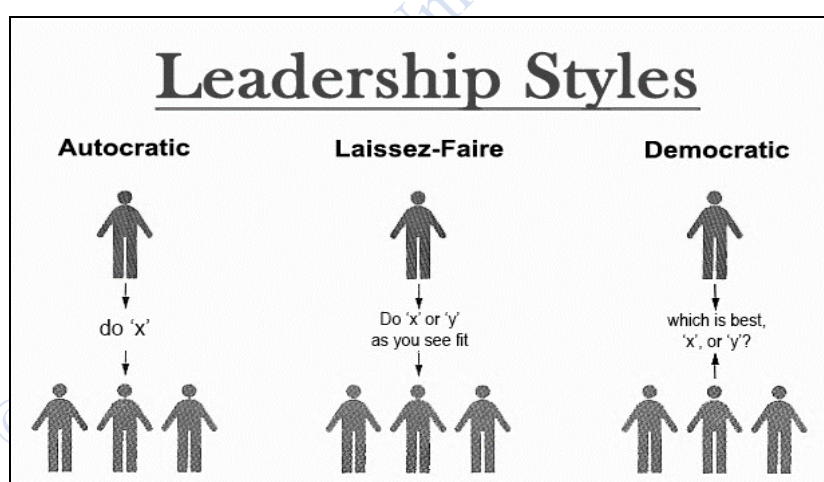


only carry out instructions of the leaders and not initiate actions on their own. This style of leadership can be successful in the short-run. In the long-run, it may lead to dissatisfaction and frustration amongst workers. It also inhibits the innovative power of workers as they do not participate in the decision-making processes and their potential remains unexploited. This style of leadership may also be considered negative because Workers do not get job satisfaction and they may not be willing to work. Autocratic style is suitable in a situation that demands urgent action and where people are familiar with this style and have less problems in adopting it. It may be appropriate for unskilled, inexperienced and submissive employees.

- **Participative or Democratic Leadership style:** The Leaders welcome and urge the colleagues to assume a significant part in decision making process, however the ultimate decision making rests with the leader. The leader manages the workers on what to perform and how to perform, while the workers/ employees impart to the manager their experience and the suggestions if any. This style is normally used when leaders have part of the information and employees have other parts. A leader is not expected to know everything that is why he employs knowledgeable and skilled employees. Using this style provides mutual benefit on one hand it allows employees to become part of the team and allows the leader to make better decisions. The democratic leader values group discussion and inputs from his team and draws from a pool of team members' strong points in order to obtain the best performance from his team. He motivates his team by empowering them and guides them with a loose reign. He encourages participation and delegates wisely, but bears the responsibility of leadership. The main merits of this style of leadership makes the followers to contribute to organisational goals not only because they are committed to do so but also because they are mentally and psychologically involved in attainment of these goals. They also feel motivated to participate in the decision-making processes. When followers bestow confidence in leaders, leaders' expert and referent power increases which further increases interaction between them and the followers. It reduces turnover and absenteeism of the employees and increases their job satisfaction and cooperation with the management. However this style suffers from drawbacks too. Consulting subordinates every time a decision is made is time consuming. Decisions may, therefore, be delayed. Suggestions given by subordinates may sometimes be better than what leaders can think of. In such cases, leaders do not frequently invite suggestions. Sometimes employees may not always be willing to offer suggestions as they want minimum interaction with superiors. This style is suitable when employees are considered part of the system.
- **Laissez faire leadership style:** Here, the manager absolutely confides in their representatives/group to perform the actual work. He simply focuses on the erudite person/objective part of his work and doesn't focus on the management part of his work. The group/workers are invited to share their perspectives and give ideas which

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are ideal to authoritative interests. This initiative style works just when the employees are talented, faithful, experienced and scholarly. The laissez-faire manager exercises little control over his group, leaving them to figure out their jobs and tackle their work, without taking part in this interaction himself. When all is said in done, this methodology leaves the group with little bearing or inspiration. The laissez-faire technique is suitable when leaders lead a team of highly motivated and skilled people, who have produced excellent work in the past. Once the leader believes that his team is confident, capable and motivated, he often steps back and lets them get on with the task. By handing over ownership, the leader can empower his group to achieve their goals. The major advantages of this style is that employees are responsible for framing and achieving the group goals so it increases their morale and they strive for higher job satisfaction. Employees' potential is exploited to the fullest extent. Their creative and innovative capacities are, therefore, explored. It also leads to Subordinates training the group members and motivating them to work. This develops their decision-making abilities and increases organisational productivity. However leaving everything to subordinates may be detrimental to effective attainment of organisational goals. As Leaders do not participate in the group working. They only clear the doubts of group members. The efficiency of work activities is generally low.



(Source: Wordpress.com)

14.8 COMPARISON OF LEADERSHIP STYLES

Basis	Autocratic style	Participate style	Laissez-faire style
Decision making	Decisions are made by leaders (centralised	Followers participate in decision making process(decentralised	Decisions are made by the subordinates



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	decision making)	decision making)	(decentralised decision making)
Authority	Leadership retain the authority for decision making	It is partly delegated to subordinates	It is completely delegated to subordinates
Motivation	Negative motivation in the form of threats and punishment	Positive motivation in the form of rewards	Self- motivated to work
Behaviour orientation	Task oriented behaviour	Relationship- oriented behaviour	Relationship- oriented behaviour
Basis	Autocratic style	Participate style	Laissez-faire style
Need satisfaction	Lower order needs	Lower order needs and partly higher order needs	Higher order needs
Communication	Vertical one way , top to bottom	Vertical two way , top to bottom and bottom to top	Vertical and Horizontal
Scope for development	No scope for development of employees	Employees' innovative and creative skills are developed	Full scope for employees' development

Researches have revealed that performance in terms of quantity of work is the least in laissez-faire leadership style and it is almost the same in autocratic and democratic styles of leadership. So far as the quality is concerned, it is found better when democratic style of leadership is adopted.

Thus, while quantity of performance was sometimes higher in autocratic style and sometimes in democratic style, the quality (reflected in job satisfaction) was always higher in democratic style of leadership. Democratic style of leadership provides the most effective results in terms of quality and quantity of performance, followed by autocratic and free-rein styles of leadership.



ACTIVITY

Visit all the department such as commerce, management, sciences, arts and others of your university and analyse the leadership style practised by the head of the particular department to run that smoothly. Prepare a tabular data of the information collected by you and present in the form of lecture in your class.

IN-TEXT QUESTIONS

6. Leadership trait theories are centred on .
 - a) The unique relationship that leaders form with a select group of their followers
 - b) The personal characteristics and qualities that distinguish leaders from non-leaders
 - c) The manner in which the leader makes decisions
 - d) The willingness and ability of followers to complete a specific task
7. Contingency theories are concerned with the _____ that influence leadership success.
 - a) Personality traits
 - b) The ability of a leader to inspire and transform followers
 - c) Situational variables
 - d) Ethics and values
8. Which of the following leadership theories is based on situational variables?
 - a) Theory of Attribution b) Personality theories
 - c) The charismatic leadership model d) The path-goal theory



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9. The leader-participation model is concerned with .
 - a) Leadership personality traits
 - b) The leader's charismatic presence
 - c) The manner in which the leader makes decisions
 - d) The leader's mere projection of successful leadership
10. Leaders who are charismatic .
 - a) Engage in traditional norm-following behaviours
 - b) Prioritise their own responsibilities while ignoring employees' needs and feelings
 - c) Avoid personal danger
 - d) Propose a better future vision than the current one.

14.9 SUMMARY

Leadership is the capacity to develop certainty and energy among individuals and to make an inclination in them to be driven. To be a fruitful pioneer, a manager should have the characteristics of premonition, drive, activity, fearlessness and individual respectability. A strong leadership contributes towards the effectiveness of the organisation. Leadership is the capacity of an individual to influence and direct group effort towards the achievement of organizational goals. CEO Howard Schultz's compassion and incredible leadership helped heal those closest to the tragedy in the Starbucks D.C. store after three employees were killed in a bungled robbery. Leadership is the function of stimulating and inspiring the followers to strive willingly to attain organizational objectives. A leader is considered to be successful when he is able to inspire and integrate an individual's interest with common goals of the organisation. Leadership pulls up the group to a higher level of performance through its work on human relations. A leader can be a morale booster by achieving full co-operation so that they perform with best of their abilities as they work to achieve goals. A good leader influences the behaviour of an individual in such a manner that he voluntarily works towards the achievement of enterprise goals.

14.10 GLOSSARY

- **Charismatic Leadership:** It is a type of professional guidance or management based on strong communication skills, persuasiveness, and perhaps even a little bit of charm to help them get the most out of everyone who works for them.



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- **Followers:** These are subordinates who have less power, authority, and influence than their superiors and thus, more often than not, fall in line.
- **Formal Leadership:** A situation in which an individual is the officially recognised leader of a group or organisation is referred to as formal leadership.
- **Influencer:** Influencers are people who have specialised knowledge, authority, or insight into a particular subject. Their pre-existing presence in a niche makes them a good starting point for brands looking for credibility.
- **Informal Leadership:** It occurs when an individual does not have official status as the leader of a group, but other members see and consider them to be a leading force. People look to informal leaders for answers and guidance because they are experienced and knowledgeable.
- **Leader:** Leaders must manage their employees, keeping them on track to achieve their objectives and providing structure for their work. They are, however, charged with visionary thinking, creating work that feels purposeful and meaningful, and inspiring long-term commitment in each of their team members, in addition to managerial duties.
- **Leadership:** The ability of an individual or a group of individuals to influence and guide followers or other members of an organisation is referred to as leadership.
- **Subordinate:** A subordinate is someone in a lower rank. A subordinate in a business setting is simply an employee who is not in management and reports to either a manager or a group of managers.

14.11 ANSWER TO IN-TEXT QUESTIONS

1. (d) Inspiring other to follow	6. (b) The personal characteristics and qualities that distinguish leaders from non-leaders
2. (b) When people act as leaders, their roles are always clearly defined and established	7. (c) Situational variables
3. (d) unofficial leadership is just as important as formal authority	8. (d) The Path-Goal Theory
4. (d) Leadership and management coexistence	9. (c) The manner in which the leader makes decisions
5. Integrity	10. (d) Propose a better future vision than the current one.



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14.12 SELF-ASSESSMENT QUESTIONS

1. Define "Leadership". How is it different from management?
2. What is leadership? Distinguish between Formal leaders and informal leaders.
3. Define leadership. What is the role and importance of leadership in modern business?
4. "Leadership is the essence of management". Comment
5. "A good leader is not necessarily a good manager". Discuss the statement and clearly bring out the difference between leadership and management.
6. Write a short note on effective style of leadership in the Indian context.
7. Discuss the different leadership styles.
8. "No one leadership style is best". Do you agree? Comment and elaborate.
9. What are three different styles of Leadership? Compare and contrast.
10. Distinguish between Autocratic style and Laissez-faire style

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LESSON 15

LEADERSHIP THEORIES

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Revised by : **Dr. Virender Kaushal**

STRUCTURE

- 15.1 Learning Objectives
- 15.2 Introduction
- 15.3 Likert's System of Management
- 15.4 Management Grid: Blake and Mouton
- 15.5 Fred E. Fielders Contingency Approach
 - 15.5.1 Implications and Criticism
- 15.6 House Path Goal Theory
- 15.7 Transformational Leadership
 - 15.7.1 Criticisms of Transformational Leadership
- 15.8 Transactional Leadership
 - 15.8.1 Assumptions of Transactional Theory
 - 15.8.2 Implications of Transactional Theory
- 15.9 Difference between Transactional and Transformational Leadership
- 15.10 Transforming Leadership
- 15.11 Summary
- 15.12 Glossary
- 15.13 Answer to In-Text Questions
- 15.14 Self-Assessment Questions
- 15.15 References
- 15.16 Suggested Readings

15.1 LEARNING OBJECTIVES

After studying this chapter students may able to understand: -

- Gain insight about major leadership theories like Likert system of management, Blake and Mouton's Managerial Grid, Fiedler's Contingency theory and House's Path Goal theory.



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- Understand the contemporary perspective on leadership like Transformational, Transactional and Transforming Leadership.
- Know the difference between Transactional and Transformational leaders.

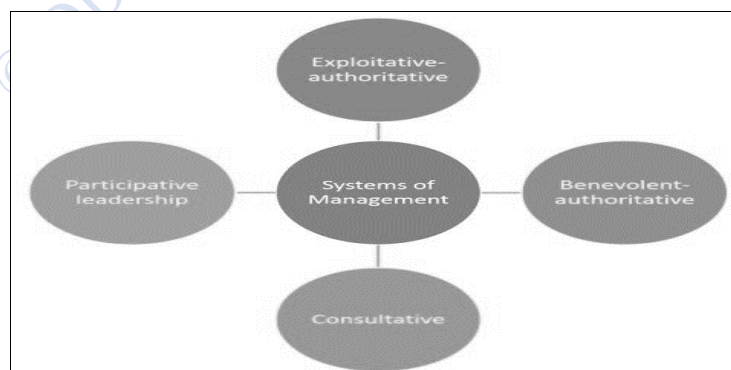
15.2 INTRODUCTION

What is it that makes some people excel in leadership roles? Leadership theories seek to explain how and why certain people become leaders. Such theories often focus on the characteristics of leaders, but some attempt to identify the behaviours that people can adopt to improve their own leadership abilities in different situations. Earlier there used to be debates on the psychology of leadership that often implied that such skills were simply abilities that people were born with. In other words, these theories proposed that certain people were simply "born leaders." Some more recent theories propose that possessing certain traits may help make people natural leaders, but their experience and situational variables also play a critical role

15.3 LIKERT'S SYSTEM OF MANAGEMENT

Rensis Likert and his associates from the University of Michigan studied the patterns and styles of managers for three decades and developed certain concepts and approaches important to understanding leadership behaviour. The model was developed on the basis of a questionnaire administered to managers in over 200 organizations and research into the performance characteristics of different types of organizations. He gave numbers 1 to 4 to his conceptual models to indicate the stages of evolution in the patterns and styles of management in organization. The four systems of management system or the four leadership styles identified by Likert are:

Figure: Likert System of Management



Source: toppr.com



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System -1: Exploitative Authoritative: In this system the managers/supervisors are highly autocratic. They decide the performance goals and the means of achieving them unilaterally. The superior has no trust and confidence in subordinates. The decisions are imposed on subordinates and they do not feel free at all to discuss things about the job with their superior. The work gets done from subordinates by issuing those orders. The relationship among managers and subordinates are characterized by distrust and ill-will. The teamwork or communication is very little and the motivation is based on threats.

System -2: Benevolent Authoritative: The responsibility lies at the managerial levels but not at the lower levels of the organizational hierarchy. In this system the managers are also autocratic as in system I but they are not fully authoritarian. They sometimes give liberty to subordinates to carry out their tasks within the prescribed limits. The superior has condescending confidence and trust in subordinates (master-servant relationship). The subordinates who exceed their targets are rewarded but are harsh to those who do not perform well. The teamwork and communication is very little and motivation is based on a system of rewards.

System -3: consultative Authoritative: management set goals in consultation with their subordinates. All important decisions are taken at managerial level but work-related decisions are left to the subordinates. Some of discussion about job related things takes place between the superior and subordinates. There is a two-way communication among seniors and subordinates. The subordinates are free to discuss their problems with superiors. There is decent amount of cooperation and communication takes place vertically and horizontally. The motivation is based on rewards and involvement in the job.

System -4: Democratic Authoritative: The subordinates are involved in goal setting and decision making under this system. The communication systems tends to be open and effective. Managers adopt liberal humanistic leadership process and are supportive in their attitude towards subordinates. There is a high level of confidence that the superior has in his subordinates. There is a high level of teamwork, communication, and participation. This is an ideal management system. It is like democratic style of leadership.

Likert recommended that system 4 is the ideal form of management system as it helps in effective utilization of human assets. This will lead to long-term improvement in staff turnover and high productivity, low scrap, low costs, and high earnings

Table: Comparison of Likert's Systems of Management Leadership

Leadership styles	System1	System 2	System 3	System 4
Confidence and trust in	Manager has no trust and	Has condescending	Manager has substantial but	Manager has complete trust



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subordinates	confidence in subordinates	trust in their subordinates just like master has in his servant	not complete trust and confidence in subordinates	and confidence in subordinates
Subordinates' feeling of freedom	Subordinates do not feel free to discuss things about the jobs with their superior	Subordinates do not feel free to discuss things about the jobs with their superior	Subordinates rather feel free to discuss things about the jobs with their superior	Subordinates feel completely free to discuss things about the jobs with their superior
Superiors seeking involvement with subordinates	Gets ideas and opinions of subordinate's seldomly in solving job problems.	Managers sometimes gets ideas and opinions of subordinates in solving job problems	Managers usually gets ideas and opinions of subordinates and tries to make constructive use of them	Managers always asks about ideas and opinions of subordinates and tries to make constructive use of them

15.4 MANAGERIAL GRID: BLAKE AND MOUTON

This approach to deal with Leadership style was created in 1960s by Robert Blake and Jane Mouton. As per them, leadership style, employee-oriented or production- oriented relies upon where the leader positions himself on the managerial grid. Managerial grid is a two dimensional framework with points going from 1 toward 9 on one or the other hub. Horizontal axis represents concern for production and vertical axis represents concern for people. There are two dimensions in the managerial grid:

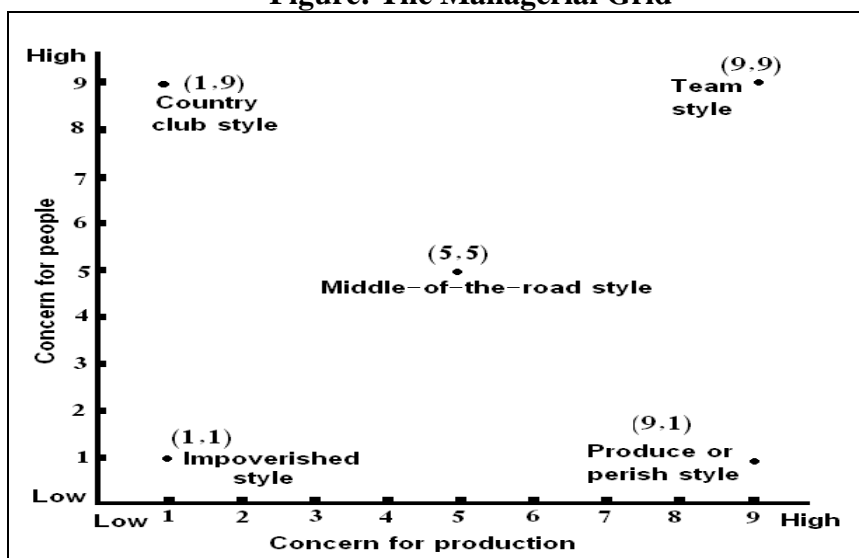
- **Concern for People:** this refers to the degree to which a leader takes into consideration the needs and interests of team members, areas of their personal development when deciding how best a task can be accomplished.
- **Concern for Production:** this refers to the degree to which a leader stresses upon concrete objectives, efficiency of the organisation and high productivity when deciding how best a task can be accomplished. The grid depicts two dimensions of leader behaviour, concern for people on Y axis and concern for production on X-axis

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with each dimension going from low to high that is from 1 to 9, thus creating 81 different positions in which the leader's style may fall.

Figure: The Managerial Grid



Source: toppr.com

- Impoverished Management (1, 1):** (1, 1) Impoverished Leadership is a delegate-and-disappear management style and a lazy approach. This represents a style where leader has low concern for both people and production. It is more of a laissez faire management style. Interference of leader in task accomplishment is minimum. He exercises minimum efforts to get the work done and group members perform the work themselves. Managers use this style to preserve job and job seniority, protecting themselves by avoiding getting into trouble. This leader is mostly ineffective. He or she has neither a high regard for creating systems for getting the job done nor for creating a work environment that is satisfying and motivating. This results in disorganization, dissatisfaction, and disharmony in the organisation.
- Task management: (9, 1)** Produce or Perish Leadership management style is characterized by a concern for production as the only goal. Employees are viewed as obstacles to performance results unless obedience to the manager's wishes is explicitly granted. In this style, the manager is authoritarian or compliance. A task-oriented manager, he has a high concern for production and a low concern for people. Leaders maximise output by setting structured work environment He finds employee needs unimportant and simply a means to an end. He provides his employees with money and expects performance back. There is generally negligible no allowance for cooperation or collaboration. He pressures his employees through rules and



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punishments to achieve the company goals. This type of leader is very autocratic, has strict work rules, policies and procedures, and views punishment as the most effective means to motivate employees.

- **Middle –of- the road (5, 5):** (5, 5) Middle-Of-The-Road Leadership is a kind of realistic medium without ambition. It is a balanced and compromised style. They maintain balance between work and employee satisfaction. The manager tries to balance the competing goals of the company and the needs of the workers. Manager gives some concern to both people and production, hoping to achieve acceptable performance. He believes this is the most anyone can do. As a result, compromises occur where neither the production nor the people's needs are fully met. This is the most practical management technique. It is also a result when production and people issues are seen as in conflict.
- **Country club (1, 9):** (1, 9) Country Club Style Leadership style of leader which values the needs and the feelings of members of his or her team. In this environment, the relationship-oriented manager has a high concern for people but a low concern for production. Leaders' attitude is employee-oriented. They show concern, love, affection and friendliness towards the followers, satisfy their needs and motivate them to accomplish group goals. This develops cordial and friendly atmosphere in the organisation. The (1, 9) boss mainly uses reward power to preserve discipline and to support his subordinates in accomplishing their goals. Conversely, this manager is virtually incapable of employing more disciplinary coercive and legitimate powers. This inability results from his fear that using such powers could jeopardize his relationships. Employees in this type of work environment do their work at their own pace.
- **Team management (9, 9):** At (9, 9) Team Leadership, the manager pays high concern to both people and production. Motivation is high. This soft style is based on the propositions of Theory Y of Douglas McGregor. The manager provides encouragement to their employees for teamwork and commitment. This stresses upon making employees feel part of the company-family and involving them in understanding the organizational objectives and determining production needs. This method relies heavily on making employees feel they are constructive parts of the company. This creates an environment of trust and respect which leads to high satisfaction and motivation and, as a result, high production. The manager is not afraid to use the ideas which are different from his. Emotions and thoughts are used to solve problems through teamwork. A (9, 9)-oriented manager is capable of maintaining consistency and acting prudently to bring about effective results, but finding innovative solutions to fit unique problems and situations. Another of the manager's primary goals in this system is to identify barriers that his subordinates may be encountering and then finding a way to remove them.



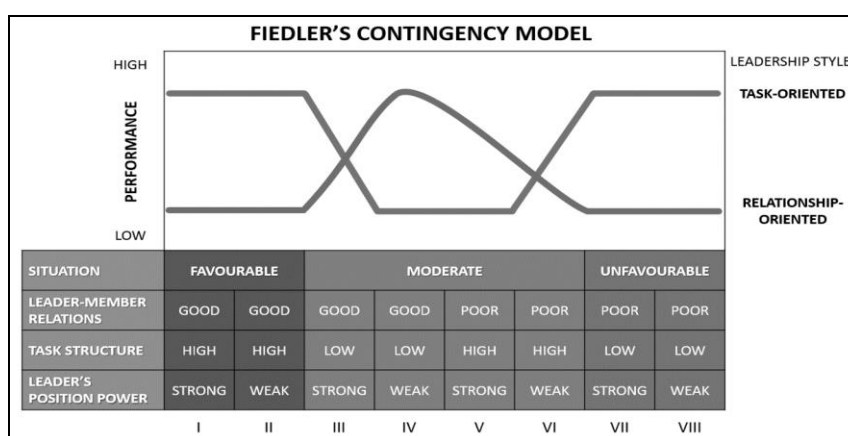
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It helps managers in identifying the combination of people and task reflected in their leadership style. It helps them understand the behaviour of subordinates relevant to their leadership style. Accordingly, it helps them move to a desirable style which subordinates appreciate to feel committed to the organisation. The model ignores the importance of internal and external limits, matter and scenario. There is some more aspect of leadership that can be covered but are not. Though it reflects five leadership styles, there can be other combinations also like 6.4, 7.3, 8.2 etc. Positions on the grid are not the only situations reflecting the leadership styles. These are the extreme situations which may not always be found in the real business world.

15.5 FRED E. FIEDLERS CONTINGENCY APPROACH

Neither the trait nor the behavioural approaches provided satisfactory explanations of leadership in organisations, causing the researchers to look for alternate theories. The situational theories believe that leadership is greatly affected by a situation and to maintain that leadership pattern is the product of a situation at a particular time. The situational theories stresses upon not only the personal qualities or traits of a leader, but also on the situation in which he operates. A good leader is one who moulds himself according to the needs of a given situation. Fred E. Fiedler's contingency theory of leadership effectiveness was based on investigations of a wide scope of gathering viability, and focused on the connection among leadership and organizational performance. This is one of the earliest situation-contingent leadership theories given by Fiedler. According to him, in the event that an association endeavours to accomplish to achieve group effectiveness through leadership, then there is a need to assess the leader according to an underlying trait, survey the situation faced by the leader, and build an appropriate match between the two.

Figure: Fiedler's Contingency Model of Leadership



Source: toppr.com



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According to Fiedler, a leader's behaviour depends on the favourableness of the Leadership situations. This theory connotes that a manager may be successful in one situation but unsuccessful in another. It suggested that leadership is a function of three factors: the leader, the followers and the situations. The fielder model consists of leadership styles, situational variables and situational control which are discussed below:

- a) **Situational variables:** According to Fiedler, a leader's behavior is dependent upon the favourability of the leadership situation. Three factors work together to determine how favourable a situation is to a leader. These are:
- **Leader Member Relations:** This refers to the degree to which the leaders is trusted and liked by the group members, and the willingness of the group members to follow the leader's guidance. This is the level of trust and confidence that a team has in a leader. A leader who is more trusted and has more influence within the group is in a more favourable situation than a leader who is not trusted. Fiedler identifies leader-member relations as either good or poor.
 - **Task structure:** The degree to which the group's task has been described as structured or unstructured, has been clearly defined and the extent to which it can be carried out by detailed instructions. This refers to the type of task followers are supposed to be doing. Tasks can for example be clear and structured or vague and unstructured. There is an unfavourable situation if tasks are unstructured or if the team and the leader have little knowledge of how to achieve a certain task. Fiedler identifies task structure as either high or low.
 - **Position power:** This is the amount of power a leader has to direct the group and provide reward or punishment. The more power a leader has, the more favourable the situation. The power of the leader by virtue of the organizational position and the degree to which the leader can exercise authority on group members in order to comply with and accept his direction and leadership. Fiedler identifies a leader's position power as either strong or weak.
- b) **Leadership styles:** By consolidating the previously mentioned situational factors, you can make an assortment of leadership situations ranging from highly favourable to highly unfavourable. An ideal situation would typically be one where the leader-member relations are good, the tasks are clear and well organised, and the leader has a strong power position. While looking at the connection between various circumstances and leadership styles, Fiedler identified two major styles of leadership:



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- **Task oriented:** Task oriented leaders are directive, structure situations, set deadlines and make task assignments. These leaders' direct followers towards goals, give instructions, spend time planning, emphasize deadlines and provide explicit schedules of work activities. They simply want to get the job done.
 - **Relationship oriented:** Relationship oriented leaders focus on people, are considerate and are not strongly directive. These leaders are mindful of followers, respect their ideas and feelings, establish mutual trust, are friendly, provide open communication, develop teamwork, and are oriented toward their followers' welfare.
- c) **Leadership Effectiveness:** The leader's effectiveness is decided by the collaboration of the leader's style of behavior and the favourableness of the situational attributes. The most favourable situation is when leader-member relations are good, the task is highly structured, and the leader has a strong position power. Research on the contingency model has shown that task-oriented leaders are more effective in highly favourable (1, 2, 3) and highly unfavourable situation (7, 8), whereas relationship-oriented leaders are more effective in situations of intermediate favourableness (4, 5, 6). Fiedler also implied that leaders may behave differently in different situations. Relationship-oriented leaders generally display task-oriented behaviours under highly favourable situations and display relationship-oriented behaviours under unfavourable intermediate favourable situations. Similarly, task-oriented leaders frequently display task-oriented in unfavourable or intermediate favourable situations but display relationship-oriented behaviours in favourable situations.

15.5.1 Implications and Criticisms:

One of the other major implications of the contingency theory for managers is that it provides them with much discretionary power. Whether the organisation is top-down or a flat in structure, the manager's play an important role for implementing decisions and ensuring that the employees remain committed to specific goals. There are some criticisms of the Fiedler Contingency Model. One of the biggest is lack of flexibility. Fiedler believed that because our natural leadership style is fixed, the most effective way to handle situations is to change the leader. He didn't allow for flexibility in leaders

15.6 HOUSE PATH GOAL THEORY

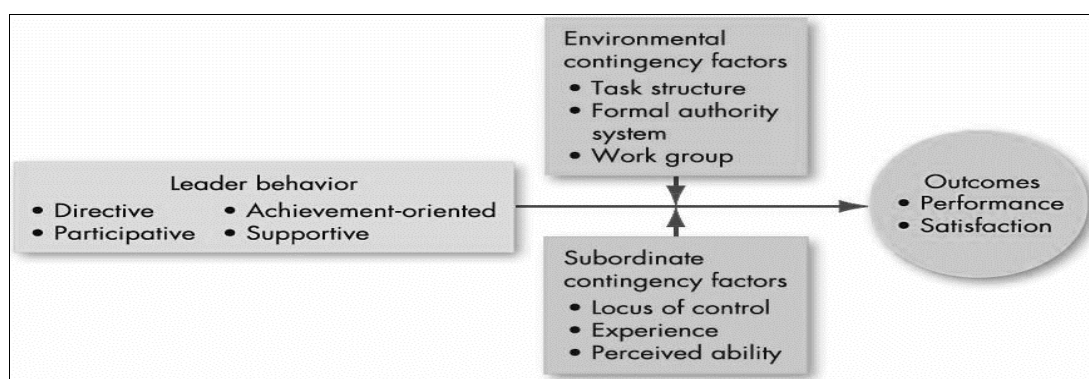
The theory was developed by **Robert House** and has its roots in the expectancy theory of motivation. The theory is based on the premise that an employee's perception of expectancies between his effort and performance is greatly affected by a leader's behavior. The leaders help group members in attaining rewards by clarifying the paths to goals and removing



obstacles to performance. They do so by providing the information, support, and other resources which are required by employees to complete the task.

House's theory propounds servant leadership. As per servant leadership theory, leadership is not viewed as a position of power. Rather, leaders act as coaches and facilitators to their subordinates. According to House's path-goal theory, a leader's effectiveness depends on several employee and environmental contingent factors and certain leadership styles. It is important to know why this theory is named path-goal theory. House explains it in this way: "According to this theory, leaders are effective because of their impact on (followers') motivation, ability to perform effectively and satisfactions. The theory is called Path-Goal because its major concern is how the leader influences the (followers') perceptions of their work goals, personal goals and paths to goals attainment. The theory suggests that a leader's behaviour is motivating or satisfying to the degree that the behaviour increases (followers') goal attainment and clarifies the paths to these goals. "

Figure: House's Path Goal Theory



Source: toppr.com

Path-goal theory proposed the four types of leader behaviours as explained below:

- a) **Leadership styles:** as per the demand of various situations the leadership styles can be of four types. These styles affects the subordinate's paths and goals.
 - **Directive leadership:** In House's Directive style, the leader clarifies the path to the goal by giving clear direction and guidance on goals, tasks, and performance standards. The work will normally be complex and unstructured, and followers will usually lack experience and accept a high degree of outside control. Here the leader gives rules, tells subordinates what is anticipated from them, sets execution guidelines for them, and controls conduct when execution norms are



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not met. He utilizes rewards and disciplinary activity. The style is the same as task-oriented one. There is little or no emphasis on personal needs (for example emotional or financial) in striving for and achieving the goal because the work is considered (by the leader and organisation) to be sufficiently satisfying and rewarding in its own right.

- **Supportive leadership:** The leader is cordial towards subordinates and shows individual worry for their requirements, welfare and prosperity. This style is the same as people-oriented leadership. House's Supportive style puts more accentuation on improving the working atmosphere (outstandingly making it all the more agreeable and accommodating) and safeguarding followers' welfare. This leadership approach is appropriate where followers can perform their tasks skillfully, and believe they have a high degree of control over the outcome. In this Supportive style, the leader removes or reduces the effects of emotional obstacles on the path to the goal.
- **Participative leadership:** Followers of House's Participative leadership style are similar to followers of the Supportive style. They are **confident and experienced, they believe they largely control the outcome, and doesn't like close control.** Work is much less structured, repetitive and predictable. The leader believes in group decision-making and shares information with subordinates. He consults his subordinates on important decisions related to work, task goals, and paths to resolve goals.
- **Achievement oriented leadership:** The leader sets challenging goals and encourages employees to reach their peak performance. The leader believes that employees are responsible enough to accomplish challenging goals. This is the same as goal-setting theory.

b) **Situational factors:** The theory states that each of these styles will be successful in certain circumstances yet not in others. It further expresses that the connection between a leader's style and effectiveness is reliant on the following factors:

- **Characteristics of Subordinates:** These include factors such as employees' needs, locus of control, experience, perceived ability, satisfaction, willingness to leave the organization, and anxiety. For example, if followers are high inability, a directive style of leadership may be unnecessary; instead a supportive approach may be suitable. Personal characteristics of employees partially determine how they will react to a leader's behaviour. Internal locus of control refers to the perception of an individual that their rewards are contingent on their own efforts. Thus employees who have an internal locus of control may be more



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satisfied with a participative leadership style whereas employees who have an external locus of control (who believe awards are beyond their reach) may be more satisfied with a directive style. The employees who are internally oriented and believes that they can control their own behaviours, prefer a supportive leader. But externally oriented employees prefer a directive leader as they believe that fate controls their behaviour. Finally, individuals who feel that they have high levels of task related abilities may not prefer directive leader behaviour. Instead, they may prefer an achievement oriented style of leadership.

- **Characteristics of work environment:** There are three aspects related with the work environment: nature of task-structured or unstructured, Formal authority system and Primary work group-its characteristics and stage of development. These work related characteristics influences the subordinate's behaviour in relation to a particular leadership style. For example, for employees performing simple and routine tasks, a supportive style is much effective than a directive one. Similarly, the participative style works much better for non-routine tasks than routine ones. At the point when group cohesiveness is low, a supportive administration style should be utilized though in a circumstance where execution situated group standards exist, a directive style or potentially an accomplishment oriented style works better. Managers ought to apply directive style to neutralize group standards that contradict the group's proper targets.

Although, the results of the empirical research testing path-goal theory have shown some promise, many of the findings are questionable because the theory itself contains some deficiencies. For example, the theory does not suggest how different situation variables are likely to interact. In addition, the theory considers the effects of four leader behaviours separately even though it is likely that interactions among the various behaviours exist. Despite criticism, however, house's path-goal theory has made a significant contribution to the topic of leadership because it specified important leadership behaviours and situation variables that should be considered in almost any organisational setting.

15.7 TRANSFORMATIONAL LEADERSHIP

The concept of transformational leadership was introduced by **James M. Burns**. He defined transformational leadership as a process where *"leaders and their followers raise one another to higher levels of morality and motivation."* It was further expanded by Bernard M. Bass. According to Bass this kind of leader is the person of integrity and fairness, sets clear goals, have high expectations from the subordinates and always encourages them. A transformational leader makes people to look beyond their self- interest and motivates people to reach for the improbable. Transformational leadership may be found at all levels of the



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organization: teams, departments, divisions, and organization as a whole. Such leaders are daring, risk-takers, visionary, inspiring, and thoughtful thinkers. Their appeal is charismatic. There are four factors which are exhibited by such leaders:

- **Inspirational Motivation:** The basis of transformational authority is the advancement of reliable vision, mission, and a bunch of qualities of members. Their vision is convincing to such an extent that they understand what they need from each interaction. Transformational leaders guide followers by providing them feeling of importance and challenge. They work enthusiastically and optimistically to foster the spirit of teamwork and commitment.
- **Intellectual Stimulation:** Such leaders motivate their followers to be innovative and stimulate their creative. They encourage their followers to provide new ideas and never criticize them publicly for the mistakes committed by them. The leaders focus on the “what” in problems and do not focus on the blaming part of it. They are not reluctant in discarding an old practice set by them if it is found ineffective.
- **Idealized Influence:** They have confidence in the philosophy that a leader can influence followers only when he practices what he preaches. The leaders act as role models that followers seek to imitate. Such leaders consistently win the trust and regard of their supporters through their activity. They ordinarily place their followers needs over their own, sacrifice their personal gains for them, and demonstrate high standards of ethical conduct. The utilisation of power by such leaders is aimed at influencing them to strive for the common goals of the organization.
- **Individualized Consideration:** Leaders act as mentors to their followers and reward them for creativity and innovation. The followers are treated differently according to their talents and knowledge. They are enabled to settle on choices and are constantly furnished with the required help to actualize their choices.

The current environment portrayed by vulnerability, worldwide disturbance, and organizational instability calls for transformational leadership to prevail at all levels of the organization. The followers of such leaders exhibit significant degree of job satisfaction and organizational commitment, and engage in organizational citizenship behaviours. With such a dedicated workforce, it will be valuable to think about putting forth attempts towards creating methods of changing association through authority.

15.7.1 Criticisms of Transformational Leadership Theory:

- Transformational leadership utilizes the impression of management and therefore lends itself to a moral self-advancement by leaders
- As it is a combination of many leadership theories it is difficult to be trained and taught.



- Followers might be manipulated by leaders and there are chances that they lose more than they gain.

15.8 TRANSACTIONAL LEADERSHIP

The transactional style of leadership was introduced by Max Weber in 1947 for the first time and then it was expanded by Bernard Bass in 1981. Managers use this style most of the times. It centres on the essential process of controlling, organizing, and short-term planning. The famous leaders who have used this transactional technique include McCarthy and de Gaulle.

15.8.1 Assumptions of Transactional Theory:

The following are the assumptions of the theory:

- Transactional leaders decide the goals for the subordinates and encourages them to accomplish these goals.
- They establishes the standards for evaluating the performance of subordinates.
- Employees are motivated by reward and punishment.
- The subordinates have to obey the orders of the superior.
- The subordinates are not self-motivated. They have to be closely monitored and controlled to get the work done from them.

Transactional leadership includes persuading and coordinating followers primarily through appealing to their own self-interest. The power of transactional leaders comes from proper position and duty in the organisation. The principle objective of the follower is to comply with the directions of the leader. The style can also be mentioned as a 'telling style'. Here the leaders believe in motivating the followers through rewards and punishments. If the subordinate performs as per the wishes of the manager then he is rewarded. If he doesn't perform as per the wishes of his manager then the punishment follows. Here the exchange between leader and follower takes place through four dimensions:

- **Contingent Rewards:** Transactional leaders connects the goal to rewards, explain assumptions, give essential assets,, set mutually agreed upon goals, and provide various kinds of rewards for successful performance. They set SMART (specific, measurable, attainable, realistic, and timely) objectives for their subordinates.
- **Active Management by Exception:** Transactional leaders effectively screen the work of their subordinates, watch for deviations from rules and norms and taking remedial action to prevent mistakes.



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- **Passive Management by Exception:** Transactional leaders intervene only when standards are not adhered to or when the performance is not as per the expectations. They may even use punishment as a response to unacceptable performance.
- **Laissez-faire:** The leader provides an environment for the subordinates so that they can get as many opportunities to make decisions. The leader himself abdicates responsibilities and avoids making decisions and therefore the group often lacks direction.

15.8.2 Implications of Transactional Theory:

The transactional leaders overemphasize detailed and transient objectives, and standard principles and strategies. They don't put forth an attempt to upgrade followers' imagination and generate novel thoughts. This sort of an authority style may function admirably where the hierarchical issues are basic and unmistakably characterized. Such leaders tend to not reward or ignore ideas that do not fit with existing plans and objectives. The transactional leaders are found to be quite powerful in taking efficient decisions which are aimed at reducing costs and improving productivity. The transactional leaders tend to be highly directive and action oriented and their relationship with the followers tends to be momentary and not based on emotional bonds. The theory assumes that subordinates can be inspired by simple rewards. The solitary 'exchange' between the leader and the followers is the money which the followers get for their consistence and exertion.

15.9 DIFFERENCE BETWEEN TRANSACTIONAL AND TRANSFORMATIONAL LEADERSHIP

Basis	Transactional leadership	Transformational Leadership
Foundation	It is based on the exchange relationship between the leader and the followers	It is based on the values and beliefs of the leader and also depends on the needs of followers
Basis	Transactional leadership	Transformational Leadership
Organisation culture	Leaders work within the organisation culture	Such leaders work towards changing the culture of the organisation
Orientation	Task orientation	Goal orientation
Source of inspiration	Followers are motivated for good performance through rewards and recognition	The subordinates are motivated to achieve the goals through leader's charisma, vision and energy.
Approach	Positive and static	Active and dynamic
Main functions of leaders	Determining the objectives, clarifying tasks and helping	Such leaders provides vision, mission, instilling pride, gaining respect and



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	subordinates in achieving objectives	trust and also inspiring people.
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15.10 TRANSFORMING LEADERSHIP

James MacGregor Burns first introduced the concept of transforming leadership in 1978 in his descriptive research on political leaders, but this term has found its utilization in organizational psychology as well. According to Burns, transforming leadership is a process in which *"leaders and followers help each other to advance to a higher level of morale and motivation"*. It can create a significant impact on the lives of the people of the organisation. Transforming leaders nurture and value relationships. They understand that building relationships takes time, and that during that time there will inevitably be hard times. Transforming leaders give credit when things go right, and they take the blame when things go wrong. They have the courage to accept personal accountability for failures, even if it was not directly their fault. They are selfless and try to build bridges and not walls. A transforming leader is the one who was initially propelled by the quest for his individual recognition but then ultimately advances for collective purpose by taking the needs and aspirations of his or her followers.

Burns made a clear distinction between transactional and transforming leader. A transactional leader is the one who initiates the contact with the other person for an exchange of valued things. In short the relationship is based on give and take. Whereas a transforming leader functions on moral dimensions and redesigns the perceptions and values. Such leaders are intellectual and revolutionary. They work towards the common goals and are moral exemplar.

ACTIVITY

Discuss in the class about the different leadership theories to know about their effectiveness.



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IN-TEXT QUESTIONS

1. A transactional leader will most likely .
 - a) Recognise accomplishments by rewarding employees for their efforts.
 - b) Assist followers in developing trust in the leader and loyalty to the common vision
 - c) Encourage others in the organisation to think about what the organisation is all about.
 - d) Pay attention to others' emotional needs and take into account individual differences.
2. _____ are approaches to leadership research that emphasise the leader's personality:
 - a) Theories of contingency
 - b) Group theories
 - c) Trait theories
 - d) Motivating theories
3. _____ described leader behaviour as "employee-centered" and "production-centered":
 - a) McCansse and Blake
 - b) Fiedler
 - c) McGregor
 - d) Likert
4. Leadership contingency theories are based on:
 - a) There is no single leadership style that is appropriate for all situations.
 - b) That there is a single leadership style that is appropriate for all managers.
 - c) That there is a single leadership style that is appropriate for all situations.
 - d) None of the Above
5. A cost-leadership competitive strategy reduces the threat of entry by erecting cost-based entry barriers. (True/False)



15.11 SUMMARY

Leadership theories explain how and why certain individuals become leaders. They concentrate on the characteristics and behaviours that people can adopt to improve their leadership abilities. Some of the top qualities that leaders say are essential for effective leadership include high moral and ethical standards; excellent self-organization abilities; effective learner; encourages employee development; and encourages connection and belonging. According to research, these characteristics are the most important to leaders all over the world. And leadership theories explain how leaders can harness and develop these characteristics. Leadership theories have recently become more formalised, making them easier to understand, debate, and analyse in action. "The function of leadership is to produce more leaders, not followers," says Ralph Nader. This is referred to as transformational leadership.

15.12 GLOSSARY

- **Contingency Approach:** The contingency approach is a management theory that contends that the best management style is determined by the context of the situation and that adopting a single, rigid style is inefficient in the long run.
- **Likert's System of Management:** According to Likert, responsibility and authority are distributed widely throughout the organisation in this system. Different responsibilities are assigned to subordinates at various organisational levels. Employees and subordinates collaborate on certain decisions.
- **Managerial Grid:** The managerial grid model is a self-assessment tool that can help individuals and organisations identify the style of a manager or leader. The grid was created in the 1960s by Robert R. Blake and Jane S. Mouton and has evolved over the years.
- **Path Goal Theory:** In 1971, Robert House introduced the Path-Goal theory, his version of a contingent theory of leadership. According to House's theory, leaders' behaviour is determined by their subordinates' satisfaction, motivation, and performance.
- **Servant Leadership:** It is a leadership style and philosophy in which an individual interacts with others to achieve authority rather than power, whether in a management or fellow employee capacity. The system is organised in a decentralised manner.
- **Transactional Leadership:** This theory holds that managers give employees what they want in exchange for getting what they want. It asserts that workers are not self-



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motivated and that they require structure, instruction, and monitoring to complete tasks correctly and on time.

- **Transformational Leadership:** It is a management philosophy that encourages and inspires employees to innovate and create new ways for a company to grow and improve its future success. Using this method, executives delegate decision-making authority to trusted employees and encourage new problem-solving approaches.

15.13 ANSWER TO IN-TEXT QUESTIONS

1. (a) Recognise accomplishments by rewarding employees for their efforts.	3. (d) Likert
2. (c) Trait Theories	4. (a) There is no single leadership style that is appropriate for all situations.
	5. True

15.14 SELF-ASSESSMENT QUESTIONS

1. “Leadership is situational”. Comment on the statement and discuss the significance of leadership in management.
2. Discuss Rensis Likert approaches to Management. Which of these styles is effective according to you? Why?
3. Comment on the following :
 - a) Transformational Vs. Transactional Leadership.
 - b) Transforming Leadership.
4. Describe the Fred E Fiedler situational theory of leadership
5. Elaborate the Blake and Mouton theory of Leadership.
6. Critically evaluate the House Path Goal theory of Leadership
7. Which style of leadership is considered appropriate by Robert Blake and James Mouton in their managerial grid and why?
8. Explain the main features of Rensis Likert system of Management. Also discuss their contribution.
9. Compare and contrast Transformational and Transactional Leadership.
10. What implications could be drawn for organisation from path Goal theory of Leadership? Discuss.
11. Critically examine managerial grid theory of leadership.



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12. Do you think that most managers use a contingency approach in real life to increase their leadership effectiveness? Discuss.
13. Explain the meaning of managerial grid and discuss the various leadership styles under this approach.
14. What do you mean by the term “Transforming Leadership”
15. Discuss the main elements of path goal theory.

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LESSON 16

COMMUNICATION

Written by : Dr. Vipin Aggarwal
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STRUCTURE

- 16.1 Learning Objectives
- 16.2 Introduction
- 16.3 Nature of Communication
- 16.4 Purpose of Communication
- 16.5 Process of Communication
- 16.6 Channel of Communication
- 16.7 Formal Communication
- 16.8 Informal Communication or Grapevine
 - 16.8.1 Advantages of Informal Communication
 - 16.8.2 Disadvantages of Informal Communication
- 16.9 Rumor
- 16.10 Dealing with Rumor
- 16.11 Distinction between Formal and Informal Communication
- 16.12 Communication Networks
 - 16.12.1 Formal Communication Networks
 - 16.12.2 Informal Communication Networks
- 16.13 Communication Media
 - 16.13.1 Oral Communication
 - 16.13.1.1 Advantages of Oral Communication
 - 16.13.1.2 Disadvantages of Oral Communication
 - 16.13.2 Written Communication



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16.13.2.1 Advantages of Written Communication

16.13.2.2 Disadvantages of Written Communication

16.13.3 Non-Verbal Communication

16.14 Barriers to Communication

16.15 Suggestions to Make Communication Effective

16.16 Summary

16.17 Glossary

16.18 Answers to In-Text Questions

16.19 Self-Assessment Questions

16.20 References

16.21 Suggested Readings

16.1 LEARNING OBJECTIVES

After studying this chapter students may be able to understand: -

- Understand the Concept and Nature of Communication
- Understand the purpose and process of communication
- Comprehend channels of communication and networks
- Gain understanding of the barriers to communication and the ways to overcome them.

16.2 INTRODUCTION

Louis Allen has defined Communication as “the sum-total of all things one person does to create understanding in the mind of another. It involves interchange of information and thoughts to create mutual understanding. It involves a continuous process of telling, listening and understanding”. Communication is primary to the existence and survival of humans as well as to an organization. It is a process of creating and sharing ideas, information, views, facts, feelings, etc. among the people to reach a common understanding. The key driver for directing function of management is communication. A manager may be highly qualified and skilled but if he does not possess good communication skills, all his ability becomes irrelevant. A manager must communicate his directions effectively to the subordinates to get the work done from them properly.



Some popular definitions of communication are given below:

“Communication is a way that one organisation member shares meaning and understanding with another.” -**Koontz and O'Donnell**

“Communication is the process of passing information and understanding from one person to another.” -**Keith Davis**

According to **Leland Brown**, “communication is the transmission and interchange of facts, ideas, feelings or course of action”

Chester Barnard believes that “in the exhaustive theory of organization, communication would occupy a central place because the structure, extensiveness and scope of organizations are almost entirely determined by communication techniques”

According to **Katz and Kahn** “communication is the exchange of information and the transmission of meaning. It is the very essence of a social system of an organization”

According to **MW Gumming**, “the word communication describes the process of conveying messages from one person to another so that they are understood”.

16.3 NATURE OF COMMUNICATION

The following are the characteristics of Communication:

- Communication involves exchange of facts and thoughts from one person to another.
- It is a two-way process involving sending of a message and receiving the reaction to that message.
- It is a continuous process. An organisation would cease to exist if there is no flow of information. Just like the circulation of blood is necessary for human life, so is the continuous flow of ideas, facts and information in the organisation.
- It is a pervasive function i.e. performed at all levels of management.
- It aims at creating mutual understanding. The correct interpretation and understanding of the message is also important.
- Feedback is the most important feature of communication. It refers to the reaction or response provided by the receiver to the sender.

16.4 PURPOSE OF COMMUNICATION

The basic purpose of communication is to create understanding in the minds of people who are involved in the exchange of information. The main objectives of communication are as follows:



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- **Basis of Coordination:** The manager explains to the employees the organizational goals, modes of their achievement and also the interpersonal relationships amongst them. This provides coordination between various employees and also departments. Thus, communications act as a basis for coordination in the organization.
- **Decision making:** Proper communication provides information to the manager that is useful for decision making. No decisions could be taken in the absence of information. Thus, communication is the basis for taking the right decisions.
- **Increases managerial efficiency:** The manager conveys the targets and issues instructions and allocates jobs to the subordinates. All of these aspects involve communication. Thus, communication is essential for the quick and effective performance of the managers and the entire organization.
- **Information and feedback:** The basic purpose of communication is to provide information about the company's policies, programmes to the lower level through the middle level. In turn the lower level communicates their reaction in the form of feedback to the top level of management through middle level.
- **For influencing:** A complete communication process helps in influencing or persuading others and being influenced by them.
- **Increases cooperation and organisational peace:** The two-way communication process promotes co-operation and mutual understanding amongst the workers and also between them and the management. This leads to less friction and thus leads to industrial peace in the factory and efficient operations.
- **For Image building:** Business is a part of the society. There exists an interrelationship and interdependence between the business and society. Thus it is important to have good image or goodwill in the eyes of the public. Effective communication is unnecessary to build this relationship of trust and confidence.
- **Boosts employee morale:** Good communication helps the workers to adjust to the physical and social aspect of work. It also improves good human relations in the industry. An efficient system of communication enables the management to motivate, influence and satisfy the subordinates which in turn boosts their morale and keeps them motivated.

16.5 PROCESS OF COMMUNICATION

Communications is a continuous process which mainly involves three elements viz. sender, message, and receiver. The elements involved in the communication process are explained below:

- **Sender:** The sender or the communicator generates the message and conveys it to the receiver. He is the source and the one who starts the communication. The sender initiates

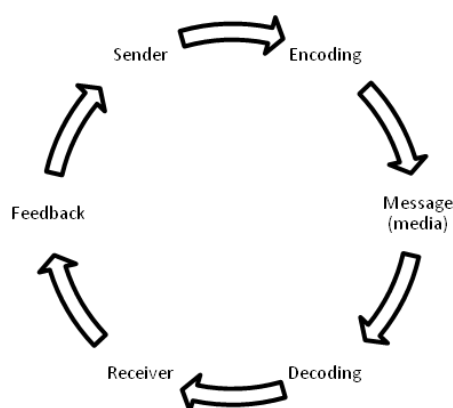


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the communication because of a specific purpose. For example production manager communicating information to his team regarding an important production deadline.

- **Message:** It is the idea, information, view, fact, feeling, etc. that is generated by the sender and is then intended to be communicated further. The message can be in any form that is oral written or non-verbal.
- **Encoding:** The subject matter of communication is the message which involved ideas, facts, information etc. The message generated by the sender is encoded symbolically such as in the form of words, pictures, gestures, etc. before it is being conveyed. The symbols used for encoding depends on the communication skills of the sender and his ability to understand the comprehending skills of the receiver.
- **Channel:** It is the manner in which the encoded message is transmitted. The message may be transmitted orally or in writing. The medium of communication includes telephone, internet, post, fax, e-mail, etc. The choice of medium is decided by the sender.
- **Receiver:** He is the person for whom the message was sent by the sender. Once the receiver receives the message and understands it in proper perspective and acts according to the message, only then the purpose of communication is successful.
- **Decoding:** The process by which receiver translates the message into meaningful information is known as decoding. It is affected by the receiver's past experiences, education, his perception level, expectations and his mutuality level with the sender.
- **Feedback:** Once the receiver confirms to the sender that he has received the message and understood it, the process of communication is complete. Feedback is important in order to ensure that the receiver has understood the message in the same sense as intended by the sender.

Figure: Process of Communication



Source: Toppr.com



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16.6 CHANNEL OF COMMUNICATION

A communication channel refers to the medium, mean, manner or method through which a message is sent to its intended receiver. The basic channels are written (hard copy print or digital formats), oral or spoken, and electronic and multimedia. Within those channels, business communications can be formal, informal, or unofficial.

16.7 FORMAL COMMUNICATION

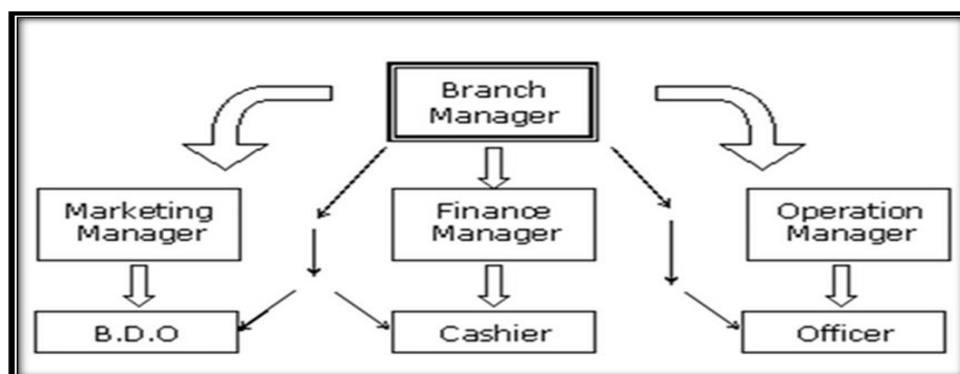
Formal communication is the one which flows through the official channels designed in the organizational chart. It may take place between a superior and a subordinate, a subordinate and a superior or among the same cadre employees or managers. In other words it takes place in an enterprise, in a formal manner via the scalar chain or the line of command. These communications can be oral or in writing and are generally recorded and filed in the office. The bottlenecks in formal communication is that it tends to be slow and rigid. Moreover organisational distance, screening and narrow routes creates further problems in the free flow of information. The authority cannot function without a formal channel of communication as it is the authentic route. There are few chances of distortion of communication as the records are maintained. Formal communication can be divided into vertical and horizontal communication.

- a) **Vertical Communication:** Vertical communication refers to the flow of information vertically upwards or downwards through formal channels of command. It can be bifurcated into upward and downward communication.
- b) **Downward Communication:** Downward communication moves downwards in an organisation, from the top management to middle and lower level managements travelling via various links in the scalar chain. Such communication is imperative for organisational purposes. Mostly it consists of communicating goals, values strategies, task responsibilities, plans and policies of the enterprise to lower level managers; and in particular, issuing orders and instructions to subordinates, for initiating action according to these for execution of assigned jobs. It doesn't encourage feedback from the subordinates. There are chances of distortion as if the information has to flow to a longer distance. Sometimes managers withhold information in order to make their subordinates dependent on them. Downward communication performs several functions like initiating, influencing and controlling activities of the members of organisation. It also helps in getting things done from people at lower level. It prepare employees for any change and remove misunderstanding with regards to goals, policies, procedures and other task responsibilities.



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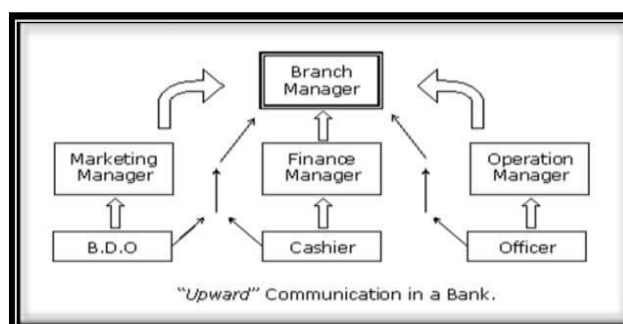
Figure: Downward Communication in a Bank



Source: Toppr.com

- c) **Upward Communication:** This type of formal communication provides a feedback to downward communication. Upward communication proceeds upwards in an organisation from the lower level management to middle and upper levels of management, travelling via various links, in the scalar chain. The flow of information is upward to the higher authority. Application for grant of leave, submission of a progress report, request for loans etc. are some of the examples of upward communication. The subordinates use upward communication to express their performances and problems to their superiors. The subordinates also use upward communication to tell how well they have understood the downward communication. It can also be used by the employees to share their ideas and opinions and also to take part in the process of decision-making. This type informational flow includes subordinates routine work progress, feedback of understanding orders and instructions, appeals, grievances etc. Upward communication performs various functions like measuring the effectiveness of downward communication. It relieves the employees from pressures and frustration they face at work and creates a sense of belonging towards the company.

Figure: Upward Communication in a Bank.



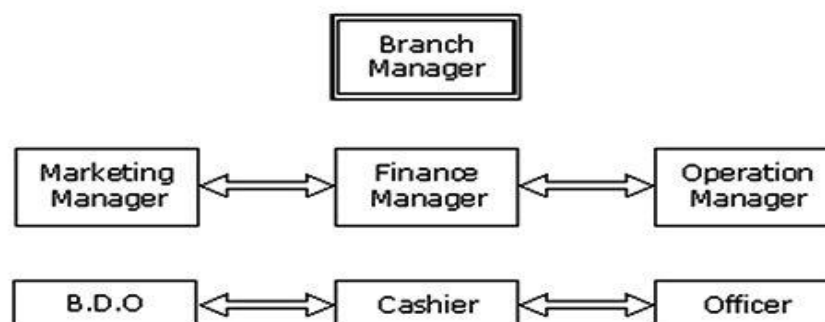
Source: toopr.com



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- d) **Horizontal Communication:** This type of formal communication takes place among managers, placed at the same rank, in the organisation. It is necessary for achieving co-ordination of actions of individuals, doing the similar type of work, under managers of equal ranks. For example, a communication between two assistant production managers is an instance of horizontal communication. It promotes collaborations between employees with different skill sets and abilities. It can be carried out through memos, meetings etc. It may be impeded by the rivalry amongst the individuals or working units. Horizontal communication coordinates the activities effectively and also speeds up the information flow.

Figure: Horizontal Communication in a Bank.



Source: toppr.com

16.8 INFORMAL COMMUNICATION OR GRAPEVINE

Any communication that takes place without following the formal channels of communication is said to be informal communication. It is also called grapevine communication which takes place through informal groups, existing inside or outside the formal organizational structure. This communication has no formal manner of routing. It might spread from any person to any person, in any manner and in any direction, like the structuring of a grapevine. It doesn't regard to the levels of authority.

The informal communication spreads rapidly, often gets distorted and it is very difficult to detect the source of such communication. It also leads to rumours which are not true. People's behaviour is often affected by the rumours and informal discussions which sometimes may hamper the work environment. However, sometimes these channels may be helpful as they carry information rapidly and, therefore, may be useful to the manager at times. Informal channels are also used by the managers to transmit information in order to know the reactions of his/her subordinates.



16.8.1 Advantages of Informal Communication:

- Under the informal system the employees disclose their needs, sentiment and their emotions to others authority without feeling any hesitation.
- Informal system covers the gaps in the formal system.
- Any problem between the workers and the management can be solved by informal system. So it makes good relationships among the employees and the management.
- In this system the employees inform their superior about their demands, problem and the way to develop the implementation system of the work. As a result it creates an opportunity to send the recommendation to their management.
- Informal communication is more flexible than formal communication because it is free from all types of formalities.
- It increases the efficiency of the employees.
- It facilitates rapid communication.
- Cooperation and coordination in informal communication leads to improve interpersonal relationship which is very much essential to carry out the business activity smoothly.

16.8.2 Disadvantages of Informal Communication:

- Something the meaning and the subject matter of the information is distorted in this system.
- In this system, the miss-information or rumour spread rapidly. The original information may be transformed to wrong information.
- The employees may not obey the formal authorization system. So it creates the opportunity to develop misunderstanding.
- In informal communication system maximum communication is made by open discussion. So it is impossible to maintain the secrecy of the information.
- Under informal communication system no established rules or policy is obeyed. So it is very much difficult to control the information.
- Informal communication system sometimes develops the adversary culture among the employees. So they are not to be cooperative with each other and their efficiency may be reduced.
- It provides partial information which may not be reliable as there is no documentary evidence



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16.9 RUMOR

The most undesirable feature of grapevine is Rumour and it has given a bad reputation to grapevine. Rumour is the unverified and untrue part of the grapevine. It is generally incorrect and, hence undesirable. Rumours arise with ambiguity and conditions which create anxiety. It can build a sense of community with shared interests and information. It results in loss of productivity and time. There is loss of trust and morale. It grows divisiveness among employees as people “take sides”. People form groups and promote the group goals. It hurts the feelings and reputations of people high in the hierarchy. It obstructs career advancement opportunities of the gossipers as they are perceived as unprofessional. It increases labour turnover as good employees leave the company due to unhealthy work atmosphere. Therefore the most important problem before the management is how to deal with rumours.

16.10 DEALING WITH RUMOR

Since rumour is generally incorrect, a major outbreak of it can be damaging for an organisation. Rumour should be dealt with firmly but how and what to attack must be known. It is a serious mistake to strike at the whole grape-vine because it is the agent that carries rumour. The best way to control rumour is to get at its causes, rather than trying to stop it after it has already started. Most of the rumours are harmless and soon die out. Some rumours tend to be harmful. The best way to stop rumour is to release the facts. Ambiguity is reduced, so there is less reason for rumour and the truth tends to prevail.

Serious rumours should be attacked as soon as possible because once the general theme of a rumour is known and accepted employees distort future happenings to confirm the rumour. A strong communication system can help to reduce rumours. Repeated rumours may lead to confirmation of that information. Managers should spread true information in writing before the rumours are repeated. Managers should discuss facts with employees, interact face-to-face, remove their grievances and avoid spreading of false information. Some organisations have established rumour clinics to provide instant answers to objectionable rumours. Managers sometimes ask union leaders to help combat rumour. Since rumours are worst when management and labour are in conflict, any reduction of conflict should reduce rumours.

16.11 DISTINCTION BETWEEN FORMAL AND INFORMAL COMMUNICATION

Basis	Formal communication	Informal communication
Origin	Deliberately structured	Sponsored and unstructured



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Nature	Well planned, systematic and authorised	unplanned, unsystematic and unauthorised
Flow	Prescribed chain of command	Unofficial channels
Flexibility	Rigid	Flexible
Authority	Official channel	Unofficial channel
Purpose	To achieve business objectives	To satisfy personal needs
Accuracy	Accurate, legal and authentic	Often distorted , may be rumours and gossips
Form	Oral and written	Usually oral
Speed	Time consuming	Fast
Source	Can be traced	Cannot be traced

ACTIVITY

Organise a class seminar on the topic, “Communication play an Important role in establishing peace in organisation.” Prepare an assignment on the same and submit it to the subject teacher.

IN-TEXT QUESTIONS

- ___ denotes communication without the use of words.
 - Object interaction
 - Communication in writing
 - Interpersonal communication
 - Non-verbal communication
- The person who sends the message is referred to as .
 - Channelling
 - The sender
 - The receiver
 - Reaction



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3. There is the possibility of interference at each stage of the communication process, which may impede the process. This type of interference is known as_____.
4. Communication is typically ____, in which information or messages are passed from one person to another.
 - a) Detached
 - b) Interpersonal communication
 - c) Individual
 - d) Crucial
5. A __ links the sender and the receiver.
 - a) Channel
 - b) Loudness
 - c) Interaction
 - d) Comments

16.12 COMMUNICATION NETWORKS

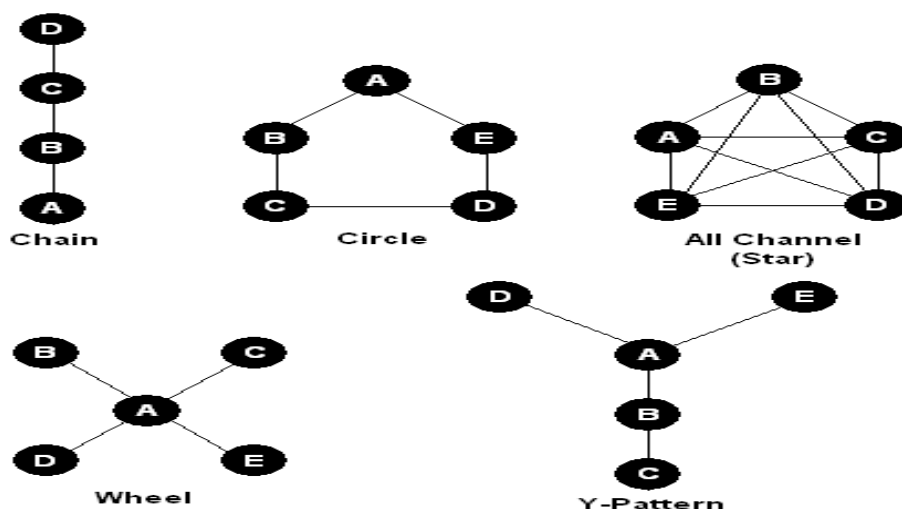
A communication network is the pattern of directions in which information flows in the organization. Channels of communication (networks by which information flows) are either formal networks or informal networks. Formal networks follow the authority chain and are limited to task-related communications. The informal network (grapevine) is allowed to move toward any path, skip authority levels, and is as prone to fulfil bunch individuals' social requirements all things considered to encourage task accomplishments.

16.12.1 Formal Communication Networks:

The communication in which the flow of information is already defined is termed as Formal Communication. The communication follows a hierarchical chain of command which is established by the organisation itself. In general, this type of communication is used exclusively; in the workplace, and the employees are bound to follow it while performing their duties. Depending upon the nature of channels and the number of people involved there are several types of formal communication network.



Figure: Formal Communication Network



Source: businessjargons.com

- **Circle Network:** In this type of network, the communication moves in a circle in a circle network, employees communicate only with adjoining members of the organization. The circle network is analogous to a group working in a physical arrangement such that workers can communicate with their immediate neighbour but not with others in the group.
- **Chain network:** In this type of network communication flows from every superior to his subordinate through a single chain. Communication travels up and down through the hierarchy. Each person communicates with only the person directly above or below in terms of reporting relationships. The chain network rigidly follows the formal chain of command.
- **Wheel network:** In a wheel network, information flows to and from a single person. Employees in the group communicate primarily with that person rather than with each other. Such a communication network is a fast means of getting information to employees, since the person at the hub of the wheel can do so directly and efficiently. The wheel network relies on the leader to act as the central conduit (channel) for the entire group's communication. In this network, all subordinates under one superior communicate through him only. They are not allowed to talk among themselves.
- **All channel network:** In an all-channel network, communications flow upward, downward and laterally among all members of the group. This pattern of communication supports an egalitarian, (equal, unrestricted) participative culture and



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fosters (promote, cultivate) cross-functional efforts. The all-channel network is best if you are concerned with having high member satisfaction.

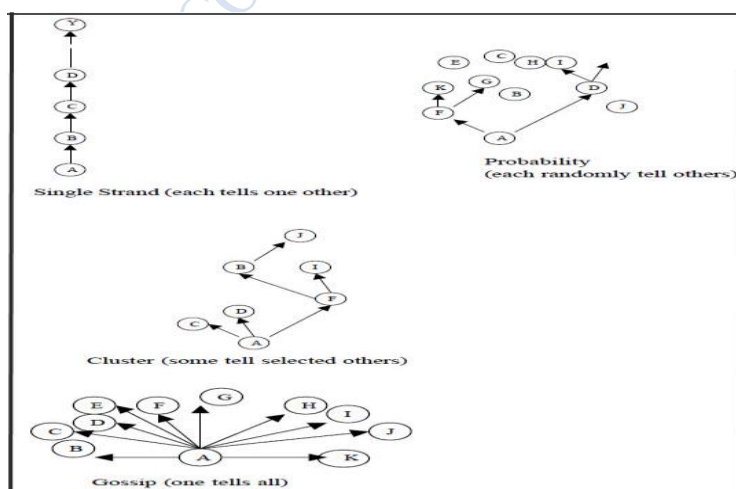
- **Y Network:** In the Y network, the flow of communication resembles an upside down Y; information flows upward and downward through the hierarchy, widening to encompass the number of employees reporting to a supervisor. In the Y network, the member at the fork of the "Y" usually becomes the central person in the network.

16.12.2 Informal Communication Networks:

Informal communication is communication outside the organization's formally authorized channels. Informal communication includes all messages transmitted in the work setting other than those that are generated specifically to fulfil work-related assignments. Formal communication systems do not describe the nature of such informal communication but the organization could not survive without it. The following are the types of grapevine networks:

- **Single strand network:** In this network, each person communicates with the other in a sequence. In the single-strand chain, communication moves serially from person A to B to C and so on.
- **Gossip network:** each person communicates with all other persons on a non-selective basis in this network. With gossip chain, person A seeks out and tells others.
- **Probability network:** In this network, the individual communicates randomly with other individuals. When following the probability chain, person A spreads the message randomly as do individuals F and D.

Figure: Informal Communication Networks



Source: businessjargons.com



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- **Cluster network:** In this network, the individual communicates with only those people whom he trusts. Out of these four types of networks, the Cluster network is the most popular in organizations. In cluster chain, person A tells three selected individuals and then one of these tells three others.

16.13 COMMUNICATION MEDIA

The ways and means or channels of transmitting message from sender to the receiver is known as communication media. It indicates the use of verbal or non-verbal language in the process of communication. Without language, none can communicate. Whenever communication takes place, media are used there. In telecommunication, these means are transmission and storage tools or channels for data storage and transmission. So communication media are regarded as an integral part of communication process. There are three basic forms of communication:

16.13.1 Oral Communication:

The transmission of orders, message or suggestions through the spoken words is known as Verbal or Oral Communication. Oral communication is the process of communication in which messages or information is exchanged or communicated within sender and receiver through the word of mouth. It can be done in two ways that is speaking and listening. The exchange of ideas, facts, feelings or seeking of any clarity takes place between the parties either face to face or some mechanical device.

16.13.1.1 Advantages of Oral Communication:

The following are the advantages of oral communication:

- In oral communication the contact being direct, feedback is immediate.
- It saves time and money as communication is direct.
- Oral communication is very much flexible.
- Explanation may be sought and misunderstanding may be removed immediately through discussion.
- Parties interested in oral communication are in a better position to maintain secrecy of messages.
- Errors in oral communication can be easily rectified on the spot or within a short period of time.
- No formalities need to be adhered to in oral communication. It is easy and helpful for an organisation.

16.13.1.2 Disadvantages of Oral Communication:

The disadvantages of oral communication are as under:



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- It is expensive to communicate orally with the persons at distant places by telephone.
- Communication of long message or statistical data is not suitable for it.
- Uniformity of work procedure cannot be maintained in oral communication.
- No record is kept generally unless audio or video tape- recording is made.
- It is also expensive media of communication as the audience might have to be provided with the travelling allowances. Moreover the technological devices are costly.
- Unless recorded in tapes, videos, etc. verbal communication can-not be considered as legal evidence.
- Oral communication can also create misunderstanding if the speaker fails to organise the message.

16.13.2 Written Communication:

Written communication is the process of communication in which messages or information is exchanged or communicated within sender and receiver through written form. It can be divided into two ways that is writing and Reading. Written communications include e-mails, texts, memos, letters, documents, reports, newsletters, spreadsheets, etc. (Even though e-mails are electronic, they are basically digital versions of written memos.) With written communications, the writer must provide enough context that the words can be interpreted easily. The receiver should be alert for ambiguity and ask for clarification if needed. Formal business communications, such as job offer letters, contracts and budgets, proposals and quotes, should always be written.

16.13.2.1 Advantages of Written Communication:

The advantages of the written communication are as follows:

- The documents of written communication are easy to preserve.
- Written messages are effective in transmitting large messages.
- Humans are limited in the amount of data they can absorb at one time. Written information can be studied over time.
- Written communications can be carefully crafted to say exactly what the sender means.
- Reports can include supporting data and detailed explanations when it is important to persuade the receiver about a course of action.
- There are less chances of distortion as the communication is recorded in the system permanently.



- It can be used as a tool for controlling.
- It can be used by the managers to delegate the authority and power to the subordinates.

16.13.2.2 Disadvantages of Written Communication:

The disadvantages of the written communication are as follows:

- Written communication is comparatively expensive as it involves pen, paper, ink, typewriter, computer etc. It is expensive to maintain the record of such documents.
- It is time consuming.
- Written documents cannot be changed so easily at any time. They lack flexibility.
- Immediate response is not possible in written communication
- Sometimes sender uses complex words which may be difficult for the reader to comprehend.
- It leads to delay in decision making
- It is not always to maintain business secrecy in written communication. Since everything is discussed in black and white.

16.13.3 Non-Verbal Communication:

Nonverbal communication is the expression or exchange of information or messages through gestures or postures without using any spoken or written word. Some of the forms of non-verbal communications like Facial expression, Body language, Proximity, Touch, Appearance, anger, fear, humour, respect, acceptance and Silence, etc. non-verbal communication is often used to add content to the oral form of communication but sometimes it may create confusion in the minds of the employees. For example employees might not be able to understand gestural communication of the managers.

16.14 BARRIERS TO COMMUNICATION

The process of communication has multiple barriers. The intended exchange of information will often be disturbed and distorted leading to a condition of misunderstanding and failure of communication. The communication barriers may prevent communication or carry incorrect meaning due to which misunderstandings may be created. Therefore, it is essential for a manager to identify such barriers and take appropriate measures to overcome them. The barriers to communication in organizations can be broadly grouped as follows:

- **Organisational Structure Barriers:** The factors related to organizational structure, rules and regulations authority relationships, etc. may sometimes act as barriers to effective communication. In an organization with a highly centralized pattern, people may not be encouraged to have free communication. Also, rigid rules and regulations and



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cumbersome procedures may also become a hurdle to communication. Big companies have complex layers in their structure which further hinders the communication flow.

- **Semantic Barriers:** semantic is the science of meaning. These are concerned with the problems and obstructions in the process of encoding and decoding of a message into words or impressions. Many times words doesn't convey the same meaning to two persons normally, such barriers result due to use of wrong words, faulty translations, different interpretations, etc. The language barrier is one of the main barriers that limit effective communication. Language is the most commonly employed tool of communication. For example, a manager has to communicate with workers who have no knowledge of the English language and on the other side, he is not well conversant with the Hindi language. Here, language is a barrier to communication as the manager may not be able to communicate properly with the workers. Another example can be of the word "Profit" which means efficiency to the management and to the employees it might denote excess funds of the company left after paying inadequate wages.
- **Status Barrier:** Everyone holds some position in the organisation which depicts their status. The attitude of a senior is indifferent towards their juniors or to the people at the lower levels in the organisation. Often juniors or subordinates don't take up their problems properly to superiors. The status symbol exists in terms of lavish furniture, separate cabins, etc.
- **Perceptual Error:** Different people perceive the same things differently. This is a fact which we must consider during the communication process. Knowledge of the perception levels of the audience is crucial to effective communication. If people make up their minds regarding something then they would hardly pay attention to what is being said and thus the information exchange would be ineffective.
- **Information overload:** there are various sources through which a manager might be receiving information. They might not be able to share the entire information in time with subordinates. In other words they might not be able to handle the informational overload and may ignore mails or letters without sharing it with others.
- **Inattention Barrier:** People sometimes fail to read memos, notices, bulletin, reports etc. Lack of attention on the part of the receiver hinders the flow of communication. As a result communication loses its purpose. Generally people do not pay attention to a message when they consider it to be uninteresting.
- **Premature Evaluation:** the communication becomes ineffective when the receiver evaluates the message prematurely. In such case people jumps to the conclusion without any logical reasons or deduction from the situation, thus defeating the purpose of communication.
- **Channel Distortion:** The messages are transmitted over a channel that links sender and receiver. The exchange can be through telephone, computer, telegram, television etc. . . .



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There might be disturbances or breakdown of channel transmitting the message and leading to distortion.

- **Resistance to change:** There is a tendency in human beings to maintain status quo. If there are any changes in the organisation which affects the employees or people of the company then they take time to adapt or understand the message of change. Thus such resistance becomes barrier.
- **Miscellaneous Barriers:** Besides above factors there might be some more factors hindering the communication like unclassified assumptions of sender and receiver, emotional reactions, irrelevant messages and lack of trust.

16.15 SUGGESTIONS TO MAKE COMMUNICATION EFFECTIVE

The following points should be taken into consideration to make the communication more effective:

- **Clarity:** The person sending the communication should be very clear in his mind about what he wants to say. He should know the objective of his message and, therefore, he should arrange his thoughts in a proper order. Managers should be able to communicate the organisational plans, policies in an unambiguous and clear way.
- **Objectivity:** the communicator must know the objective of communication clearly before transmitting the message to receiver. The purpose can be giving information, obtaining information, initiate action, and confirm planning and so on.
- **Consistency:** The information sent to the receiver should not be self- contradictory. It should be in accordance with the objectives, policies, programmes and techniques of the organisation in order to grant credibility to it. When a new message has to be sent in place of the old one, it should always make a mention of the change otherwise it can create some doubts.
- **Timeliness:** Right timing is an important factor in communication. The message should reach the receiver at the right time otherwise it might be useless for him.
- **Completeness:** The message to be communicated must be complete in all the aspects. An incomplete message will result in confusion and chaos. Therefore the message must be comprehensive, adequate and proper for an effective communication.
- **Empathy:** Sender must be able to empathise with the receiver's problem by putting himself in his place before communicating in order to avoid any problem or resistance.
- **Good listening:** For the communication to be effective both the sender and the receiver needs to be a good listener. Sender must pay attention to whatever receiver is saying and vice versa.



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- **Feedback:** communication is a two way exchange of ideas and messages. The reaction of the receiver must be able to reach the sender then only the communication is said to be complete. The communicator must put in efforts in order to get response from the receiver.
- **Proper channel:** the message must flow through a proper channel. It depends on the requirement of information to be transmitted.
- **Communication skills:** The sender must possess good communication skills while exchanging information with seniors, peers and juniors. This improves the working relationship and ensures greater productivity.

ACTIVITY

Tell your coordinator to arrange for a resource person who can deliver special lecture on the topic, “Significance of Soft Skills in Personality Development.”

IN-TEXT QUESTIONS

- The communication between members of an organisation is referred to as .
 a) Outside b) Official
 c) Casual d) Internal
- Oral communication guarantees___ and___.
 a) Fluency & quickness
 b) Adequate focus & prompt response
 c) Quick interaction & prompt response
 d) Quickness & focus
- Verbal communication refers to communication via __ and _____.
 a) Written content and gestures
 b) Body language and spoken words
 c) Spoken words and written communication
 d) Gestures and body language



B.Com. (Hons.)

9. ___ is the study of nonverbal communication through touches.
10. Communication enables managers to use _____ and _____ in the most effective and efficient way possible.
 - a) Employees, company b) Performance evaluation and control
 - c) Plans and objectives d) Personnel and resources

16.16 SUMMARY

Communication is primary to the existence and survival of humans as well as to an organization. It is a process of creating and sharing ideas, information, views, facts, feelings, etc. among the people to reach a common understanding. The key driver for directing function of management is communication. Communication is a continuous process which mainly involves three elements viz. sender, message, and receiver. An efficient system of communication enables the management to motivate, influence and satisfy subordinates which in turn boosts their morale and keeps them motivated. It also improves good human relations in the industry. Message: It is the idea, information, view, fact, feeling, etc. that is generated by the sender and intended to be communicated further. The subject matter of communication is the message which involved ideas, facts, information etc. The medium of communication may include telephone, internet, fax, e-mail, or any other medium.

16.17 GLOSSARY

- **Communication:** The exchange of information between people via speech or letter.
- **Communication Barrier:** It is anything that prevents one from receiving and comprehending messages sent to another to convey ideas, thoughts, or any other type of information. These various communication barriers obstruct or interfere with the message that someone is attempting to send.
- **Communication Media:** The methods, means, or channels by which messages are transmitted from sender to receiver. Communication media denote the use of verbal or nonverbal language in the communication process. Nobody can communicate without language. Media is used whenever there is communication.
- **Communication Network:** The structure and flow of communication and information between individuals within a group is referred to as a communication network.



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- **Receiver:** The listener, reader, or observer is the individual (or group of individuals) to whom a message is addressed. The receiver is also referred to as the "audience" or "decoder."
- **Sender:** The sender is the person, group, or organisation who initiates communication. This source is initially responsible for the message's success. The message is influenced by the sender's experiences, attitudes, knowledge, skill, perceptions, and culture.

16.18 ANSWER TO IN-TEXT QUESTIONS

1. (d) Non-Verbal communication	6. (d) Internal
2. (b) The sender	7. (b) Adequate focus and prompt response
3. Barriers	8. (c) spoken words and written communication
4. (b) Interpersonal communication	9. Haptics
5. (a) Channel	10. (d) Personnel and resources

16.19 SELF-ASSESSMENT QUESTIONS

1. Define communication. Explain the process of communication.
2. What is communication? What is the basic purpose of communication?
3. 'Communication is sharing of Understanding'. Comment.
4. What is informal communication? How can grapevine be used by the management for efficient working?
5. "Good communication is the foundation of sound management". Comment.
6. Write a note on Grapevine
7. Define communication. State the common barriers to effective communication in an organisation.
8. What is oral communication? Explain its merits and demerits.
9. Discuss the barriers to communication. How can these barriers be overcome?
10. Distinguish between oral and written communication



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11. What is written communication? Explain its merits and demerits.
12. What is communication network? State the formal and informal communication networks in details.
13. What is formal communication? Explain the importance of formal channel of communication.
14. What do you mean by communication? Discuss various channels of communication.
15. “Communication is a two way process”. Comment.

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LESSON 17

CONTROL

Written by : Dr. Vipin Aggarwal
Revised by : Dr. Virender Kaushal

STRUCTURE

- 17.1 Learning Objectives
- 17.2 Introduction
- 17.3 Meaning and Definitions of Control
- 17.4 Characteristics of Control
- 17.5 Objectives of Control
- 17.6 Significance of Control
- 17.7 Limitations of Control
- 17.8 Process of Control
- 17.9 Essentials of Effective Control
- 17.10 Types of Control
- 17.11 Summary
- 17.12 Glossary
- 17.13 Answers to In-Text Questions
- 17.14 Self-Assessment Questions
- 17.15 References
- 17.16 Suggested Readings

17.1 LEARNING OBJECTIVES

After studying this chapter students may be able to understand: -

- Definitions of Managerial Control
- Characteristics of Control



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- Objectives of Controlling
- Relationship between Planning and Controlling
- Significance of Control
- Limitations of Control
- Control Process
- Management by Exception
- Essentials of an Effective Control
- Kinds of Control

17.2 INTRODUCTION

Once the strategies are set and plans are made, management's primary task is to take steps to ensure that these plans are carried out, or, if conditions warrant, that the plans are modified. This is the critical control function of management. Since management involves directing the activities of others, a major part of the control function is making sure other people do what should be done. Control is a significant function of management which enables to check errors in order to take corrective actions. This is done to minimize deviation from standards and ensure that the stated goals of the organization are achieved in a desired manner. Controlling is required to be performed by managers at all the levels. In order to achieve organisational objectives, a manager is required to exercise effective control over the activities of his subordinates. Thus, controlling can be defined as a managerial function to ensure that activities in an organisation are performed according to the plans. Controlling also ensures efficient and effective use of organisational resources for achieving the goals. Hence, it is a goal-oriented function.

Often, controlling and management control are considered same. However, there is a vast difference between the two. Controlling is one of the managerial functions while management control can be defined as a process which the managers follow to perform the controlling function. Management control refers to setting of predetermined standards, comparing actual performance with these standards and, if required, taking corrective actions to ensure the achievement of organisational goals. According to modern concepts, control is a foreseeing action; earlier concepts of control were only used when errors were detected. Control in management includes setting standards, measuring actual performance and taking corrective action in decision making



17.3 MEANING AND DEFINITIONS OF CONTROL

Controlling involves measuring and correcting the actions of subordinates to assure that events conform to plans. Managerial control is a process that evaluates the performance and takes corrective measures when the performance differs significantly from the company's plan. Thus, it measures performance against goals and plans, shows where negative deviations exist, and, by putting in remedial action to correct deviations, helps assure accomplishment of plans.

In 1916, Henri Ford formulated one of the first definitions of control as it pertains to management:

Control of an undertaking consists of seeing that everything is being carried out in accordance with the plan which has been adopted, the orders which have been given, and the principles which have been laid down. Its objective is to point out mistakes in order that they may be rectified and prevented from recurring.

According to Koontz and O'Donnell "The managerial function of controlling is the measurement and correction of the performance of activities of subordinates in order to make sure that enterprise objectives and the plans devised to attain them are being accomplished."

According to Theo Haimann and William G. Scott "Controlling is the process which checks performance against standards. It makes sure that organisational goals and objectives are being met."

According to EFL Brech "Control is checking current performance against pre-determined standards contained in the plans, with a view to ensure adequate progress and satisfactory performance."

According to Stafford Beer "Management is the profession of control."

According to Robert J. Mockler "Management control can be defined as a systematic torture by business management to compare performance to predetermined standards, plans, or objectives in order to determine whether performance is in line with these standards and presumably in order to take any remedial action required to see that human and other corporate resources are being used in the most effective and efficient way possible in achieving corporate objectives."

According to Dale Henning "Control is the process of bringing about conformity of performance with planned action."

Controlling function is performed in all types of organizations whether commercial or non-commercial and at all levels i.e., top, middle and supervisory levels of management. Thus, it is a pervasive function. Controlling should not be considered as the last function of the management.

The controlling function compares the actual performance with predetermined standards, finds out deviation and attempts to take corrective measures. Eventually, this process helps in



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formulation of future plans too. Thus, controlling function helps in bringing the management cycle back to planning.

17.4 CHARACTERISTICS OF CONTROL

The characteristics of control are as follows:

- **Management Process:** It is a follow up action to other management functions. Effective control is required to be exercised in the organisation to get better results and to achieve organisational objectives.
- **Continuous Process:** Control is a continuous and dynamic process. Management must continuously review the performance and suggest corrective actions in order to achieve the predetermined objectives.
- **Forward Looking:** Control is forward looking as it seeks to regulate the future events based on the experiences of the past. It also helps in making improvements in the set standards.
- **Action Oriented Process:** The essence of control is the corrective action which aims at adjusting the performance to the predetermined standards. A good system of control facilitates timely action to minimise the wastage of time and energy.
- **Dynamic Process:** Control is flexible and not a rigid process. It involves taking corrective actions to adjust the performance according to predetermined standards whenever deviations occur.
- **Based on Planning:** Planning is a pre-requisite for control. Plans serve as standards of desired performance. Planning sets the objectives which have to be accomplished and the policies and procedures to attain them. Control ensures action in accordance with plans.
- **Information:** Availability of adequate information serves as a guide to control. Information or feedback about the actual performance enables the manager to take corrective action.
- **Pervasive Function:** Managers at all the levels irrespective of the position have to control and guide the activities of the subordinates to produce desired results.

17.5 OBJECTIVES OF CONTROL

Controlling has the following objectives:

- To ensure that activities are performed in accordance with the predetermined standard that is to see that activity is achieving the desired result.
- To determine the corrective action, if any, required for the achievement of goals with a minimum of time, effort and expense.
- To know what is happening or what has actually happened in the organisation.



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- To coordinate the diverse activities and efforts.
- To improve the efficiency of operations by minimizing unnecessary & wasteful actions.

17.6 SIGNIFICANCE OF CONTROL

Controlling is a basic function of management. It ensures that actions proceed according to plans. A well-designed system of control permits top management to delegate authority, free itself of unnecessary detail, and ensure achievement of plans. Management control serves as a yardstick for allocating resources and evaluating performance. It provides a guide to future action. It provides order and discipline in the organisation. Realistic control simplifies supervision by pointing out only significant deviations. Realistic control helps the management in achieving the enterprise objectives in the most efficient manner. The significance of control is given as under:

- **Achievement of organisational goals:** The control function guides the management in achieving the pre-determined goals. Management cannot get the things done without the process of control.
- **Facilitates coordination in action:** In controlling, an effort is made to find out whether the performance is being carried out in accordance with plans. It guides the workers and motivates them to work for the common objectives through coordination.
- **Decentralisation of authority:** Control helps the superiors to evaluate the performance of their subordinates. It permits the management to delegate the authority to the lowest level. Therefore, the management is relieved of unnecessary burden and concentrates on the important tasks.
- **Expansion of business:** The large size and complexity of modern business organisations require proper policies and procedures and variety of quality goods. Therefore, large scale organisations always need a sound system of control to monitor the performance and take corrective measures.
- **Effective supervision:** A systematic control mechanism helps in finding out the deviations existing in the organisation. It simplifies the task of supervisor in managing his subordinates.
- **Basis of planning:** Control provides the information to the management about the deviations and helps keep planning on the right track. It helps in taking corrective action and checks the repetition of mistakes in future and formulate new and improved plans.
- **Judging Accuracy of Standards:** An efficient control system helps in judging the accuracy of standards. It further helps in reviewing & revising the standards according to the changes in the organisation and the environment.



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- **Making Efficient Use of Resources:** Controlling checks the working of employees at each and every stage of operations. Hence, it ensures effective and efficient use of all resources in an organisation with minimum wastage or spoilage.
- **Improving Employee Motivation:** Employees know the standards against which their performance will be judged. Systematic evaluation of performance and consequent rewards in the form of increment, bonus, promotion etc. motivate the employees to put in their best efforts.
- **Ensuring Order and Discipline:** Controlling ensures a close check on the activities of the employees. Hence, it helps in reducing the dishonest behaviour of the employees and in creating order and discipline in an organization.

17.7 LIMITATIONS OF CONTROL

The limitations of control are as follows:

- **Difficulty in setting quantitative standards:** Control system loses its effectiveness when standard of performance cannot be defined in quantitative terms and it is very difficult to set quantitative standard for human behaviour, efficiency level, job satisfaction, employee's morale, etc. This makes measuring performance and comparing it to benchmarks a difficult task. It is not an easy task to set principles for human work and set standards for competence and how to maintain one's level of satisfaction. In such cases judgment depends upon the discretion of manager.
- **Resistance from employees:** Employees often resist control and as a result effectiveness of control reduces. Employees feel control reduces or curtails their freedom. Employees may resist and go against the use of cameras or CCTV (Close Circuit TV), to observe them minutely.
- **No control on external factors:** An enterprise cannot control the external factors such as government policy, technological changes, change in fashion, change in competitor's policy, etc.
- **Costly affair:** Control is an expensive process it involves lot of time and effort as sufficient attention has to be paid to observe the performance of the employees. To install an expensive control system organisations have to spend large amount. Management must compare the benefits of controlling system with the cost involved in installing them. The benefits must be more than the cost involved then only controlling will be effective otherwise it will lead to inefficiency.
- **Over control can leads to employ turnover:** When an employee becomes upset by overcontrolling he might get irritated and moves to another company. In the current situation, managers often keep their employees under control several times to monitor their behaviour on the ground. This can be a hands-on example, especially in the case



of new members and facilitates a variety of organizational changes. With too much control, employees feel their freedom is being violated. They do not want to work for the organization who do not let them work according to their preferences. That is why they go to other companies that do give them freedom. It takes a lot of time and effort to manage the system.

17.8 PROCESS OF CONTROL

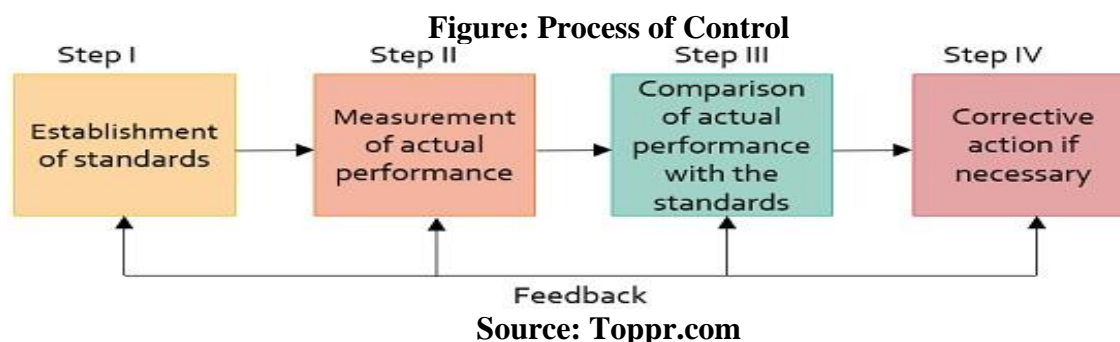
The basic control process involves three steps: (1) establishing standards, (2) measuring performance against these standards, (3) comparison of performance against standards and (4) taking correcting deviations from standards and plans. Let us discuss these steps one by one:

Step-1-Establishment of Standards: Because plans are the yardsticks against which controls must be devised, it follows logically that the first step in the control process would be to establish plans. However, since plans vary in detail and complexity and since managers cannot usually watch everything, special standards are established. Standards are by definition simply criteria of performance. These standards may be stated in physical terms, such as qualities of products, units of service, man hours, or speed, or they may be expressed in monetary terms, such as volume of sales, cost, capital expenditure, or profit. They may also be expressed in qualitative terms or in any other way that can give a clear indication of performance. No matter how these standards are expressed, these are the selected points against which actual performance is compared so as to give managers signals as to how things are going without their having to watch every step in the execution of plans.

Step-2-Measurement of performance: The second step in the control process is the measurement of the performance of the subordinates. The measurement of performance may be quite simple if it is to be compared against man-hour standards for the production of a mass production item. But it may be very difficult task if the item is made according to the likes and dislikes of individual customers. Similarly, appraisal of performance may be very difficult in the less technical kinds of work. Thus, we can say that appraisal depends upon standards—if they are definite, performance will be easy to measure; if they are vague, performance will be difficult to measure.

Step-3-Comparison of performance against standards: After measuring the performance, the manager compares the actual performance with the established standards. The actual performance may be higher than, lower than or identical to the standards. The higher performance may mean that the standards determined are too low and need to be higher in future. If performance is lower than the standards, the manager needs to find out the extent and causes of such deviations. Only the exceptional differences should be reported to the top management and the subordinates can deal with less significant deviations. This is also known as control by exception.

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Step-4-Correction of deviations: This is the fourth step in the control process. Correction of deviations clearly brings out the relation between control and other functions of management. Managers may correct deviations by redrawing their plans or by modifying their goals. Or they may correct deviations by exercising their organising function through reassignment or classification of duties. They may correct it by additional staffing, by better selection and training of subordinates. Or again, they may correct it through better or fuller explanation of the job or by more effective leadership techniques.

17.9 ESSENTIALS OF EFFECTIVE CONTROL

All alert managers want to have an adequate and effective system of controls to assist them in making sure that events conform to plans. The following requirements should be kept in mind for designing an effective control system:

- **Control should Reflect Plans and Positions:** All control techniques and systems should reflect the plans these are designed to follow. Every plan has unique features. Managers require information on how well the various plans are working. The information required to evaluate the progress of different plans varies from one plan to another. The controls should be so designed that they provide different types of information for evaluating different plans. In the same way, control should be tailored to positions. Different controls are required for different persons in charge of different departments. What may be suitable for one in charge may not be suitable for another in charge. Therefore, effective controls are those which best serve the specific requirements of different heads of departments or sub-departments.
- **Controls must be Tailored to Individual Managers and their Personalities:** Controls must be tailored to the personalities of individual managers. If they are not of a type that a manager can or will understand, they will not be useful. Some people, such as statisticians and accountants, like their information in forms of complex tables of data or bulky computer print-outs. In such cases, let them have it that way. The important thing is that various controls should provide the managers with the information they need in a manner that they will understand and use.



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- **Control should Point out Exceptions at Critical Points:** Controls should point out exceptions so that managers may concentrate on them for remedial measures. They should also indicate which deviations are more important and which are less. A manager, for example, might be concerned if the cost of labour deviated from budget by 5 per cent, but he is unworried if the cost of postage stamps deviated from budget by 20 per cent. Therefore, controls should point out exceptions only at critical points. It is true that more the managers concentrate their control efforts on exceptions, the more efficient their control mechanism will be. But this principle is best understood in the light of the fact that effective control requires managers to pay primary attention to those things which are most important.
- **Controls should be Objective:** Effective control requires objective standards. Whether a subordinate is doing a good job should ideally not be a matter of subjective determination because in that case judgements of performance will be inaccurate. But if the standards are objective and measurements are kept upto-date through periodic review, controls would be more effective.
- **Controls Should be Flexible:** Controls should remain workable in the face of changed plans, unforeseen circumstances, or outright failures. If controls are to remain effective, despite failure or unexpected change of plans, they must be flexible. The need for flexible control can readily be illustrated. A budget system may project a certain level of expenses and grant authority to managers to hire labour and purchase materials and services at this level. If this budget is based on a forecast of a certain level of sales, it may become meaningless as a system of control if the actual sales volume is considerably above or below the forecast. The inflexibility of such a budget would disqualify it from being an effective control technique. What is needed, therefore, is a budget that will reflect sales variations as well as other deviations from plans. This requirement is provided by the flexible budget.
- **Controls should be Economical:** Controls must be worth their cost. Although this requirement is simple, it is often difficult to accomplish in practice. It is difficult to undertake a cost-benefit analysis of a control system. However, controls should ideally bring to light the causes of actual or potential deviations from plans with the minimum of costs.
- **Controls should Lead to Corrective Action:** An adequate system will disclose where failures are occurring and who is responsible for them, and it will ensure that some corrective action is taken. Control is justified only if deviation from plans is corrected through appropriate planning, organizing, staffing and leading.



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- **Controls should be forward-looking:** There is usually a time lag between the measurement of performance and correction of deviations. This time lag is undesirable. What managers really need for effective control is a system of control that will tell them in advance that problems will occur if they do not do something about now. Effective controls are those which are directed towards the future

17.10 TYPES OF CONTROL

The various types of control are as follows:

- **Feed forward control:** It is also called preventive or preliminary control. It is done before the beginning of the production activity. The feed forward is aimed to foresee the potential problems and prevent them from occurring. It focuses on human, material and financial resources and ensures that right resources are available to accomplish the work. Feed forward controls are future directed. They are designed to detect and anticipate deviations from standards at various points. Such preventative controls focus on establishing conditions that makes it difficult or impossible for deviations from norms to occur. Examples include safety equipment, safety procedures, job descriptions, job specifications, inductions and orientation training etc.
- **Concurrent control:** It is also known as steering control as the control is exercised during the work process. It aims to identify the problems as they occur and take immediate corrective action. It is actually the real time control as it deals with the present rather than the past or future. Concurrent controls are sometimes known as 'in-process' controls, these controls apply to processes as they happen. Audible warnings mark this type of control.
- **Feedback control:** It is the act of control that takes place when the work is complete. It is also known as Post Action Control. The main drawback of this system is that the damage is already done at the time of control. Feedback control permits the manager to use the data on past performance to correct the future performance. Feedback controls are post-performance controls and they focus upon the end results of the process. The information obtained is used for corrective purposes. Adjustments and/or corrections follow the feedback input.

Control systems are the composite feed forward, concurrent, and feed-back controls. Control system can consist of a combination of any two or more controls. Any combination of these controls is used to accommodate various management control needs.



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Further controls can be grouped according to three general classifications namely (i) the nature of the information flow designed into the system (open- or closed-loop control), (ii) the kind of components included in the design (man or machine control systems), (iii) the relationship of control to the decision process (organizational or operational control). The control process is generally a three step process of measuring actual performance, comparing it against a standard, and taking managerial action to correct deviations or inadequate standards.

The manager exercises all three types of control in the complex organisations. Feedback control helps them to avoid mistakes; concurrent control enables them to correct mistakes as they occur, feedback control stops them from repeating the same mistakes in the future.

ACTIVITY

Organise a seminar for the small entrepreneurs of your area on the topic, “Need and Significance of Control Function in Management,” In the end inform all the participants to prepare an assignment on the same topic and try to implement this function for the smooth functioning of their businesses.

IN-TEXT QUESTIONS

1. The controlling function determines how far _____ deviates from the norm.
(a) Actual results (b) Enhancement
(c) Corrective measures (d) Cost
2. Which of the following is not a control limitation?
(a) Limited influence over external factors
(b) Expensive affair
(c) Maintaining order and discipline
(d) Difficulty in establishing quantitative benchmarks
3. "Planning is a theoretical process, whereas controlling is a practical one."
(a) True (b) Untrue (c) Unable to say



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4. Which of the following is not a control process?
- (a) Examining deviations (b) Complements employee efforts
(c) Taking corrective action d) Establishing performance standards
5. In _____, there is a need for the controlling function.
- a) Commercial enterprises b) Political organisations
c) Social organisations d) All of these

17.11 SUMMARY

After strategies are set and plans are made, management's primary task is to take steps to ensure that these plans are carried out, or, if conditions warrant, that the plans are modified. This is the critical control function of management. And since management involves directing the activities of others, a major part of the control function is making sure other people do what should be done. The basic control process, involves three steps: (1) establishing standards. (2) measuring performance against these standards. and (3) correcting deviations from standards and plans. A good management control system stimulates action by spotting the significant variations from the original plan and highlighting them for the people who can set things right. Controlling helps in detecting irregularities, identify opportunities, handle complete situations, decentralize authority, minimize costs, and cope with uncertainty.

17.12 GLOSSARY

- **Control:** It is a management function that aids in the detection of errors and the implementation of corrective actions.
- **Controlling:** It is the management function that assists in obtaining planned results from subordinates, managers, and employees at all levels of an organisation. The controlling function aids in measuring progress toward organisational goals, identifying deviations, and recommending corrective action.
- **Controlling Process:** It is a method for ensuring that standards are met within an organisation. It entails carefully gathering information about a system, process, person, or group of people in order to make informed decisions about each.
- **Financial Controls:** These are the procedures, policies, and methods that an organisation uses to monitor and control the direction, allocation, and utilisation of its



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financial resources. Financial controls are at the heart of any organization's resource management and operational efficiency.

- **Non-financial Controls:** These are controls that measure nonfinancial performance outcomes.

17.13 ANSWER TO IN-TEXT QUESTIONS

1. (a) Actual results	4. (b) Complements employee efforts
2. (c) Maintaining order and disciplines	5. (d) All of these
3. (a) True	

17.14 SELF-ASSESSMENT QUESTIONS

1. Explain managerial control and its elements.
2. What are the basic requirements of an effective control system? Discuss limitations of control system.
3. Explain the significance of control in business enterprise. Discuss the process of managerial control.
4. "Planning is looking ahead and control is looking back." Do you agree? Comment
5. Write a short note on "Management by Exception". Discuss its benefits and limitations.
6. Why do people resist control in business organisation? What measures should be adopted to overcome people's resistance to control?
7. Explain the types of control depending on the time at which corrective action is required.
8. "Trying to control everything may end up in controlling nothing". Examine critically.
9. What are the essentials of an effective control system?
10. Is the function of control important in management? Comment. Explain the steps in control process.

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LESSON 18

MANAGERIAL CONTROL TECHNIQUES

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STRUCTURE

- 18.1 Learning Objectives
- 18.2 Introduction
- 18.3 Traditional Control Techniques
- 18.4 Budgetary Control
- 18.5 Characteristics of Budget
- 18.6 Benefits of Budgetary Control
- 18.7 Types of Budget
- 18.8 Limitations of Budgetary Control
- 18.9 Essentials of Effective Budgetary Control
- 18.10 Statistical Data Analysis
- 18.11 Special Reports and Analysis
- 18.12 Internal Audit
- 18.13 Personal Observation
- 18.14 Break-Even Analysis
- 18.15 Non-Budgetary Control or Modern Techniques
- 18.16 Return on Investment Control (ROI)
- 18.17 Ratio Analysis
- 18.18 Classification of Accounting Ratios
- 18.19 Management Audit
- 18.20 Objectives of Management Audit
- 18.21 Importance of Management Audit



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- 18.22 Advantages of Management Audit
- 18.23 Disadvantages of Management Audit
- 18.24 Responsibility Accounting
- 18.25 PERT
- 18.26 Uses of PERT
- 18.27 Advantages of PERT
- 18.28 Limitations of PERT
- 18.29 Critical Path Method (CPM)
- 18.30 Objectives of Critical Path Method Analysis
- 18.31 Advantages of CPM Analysis
- 18.32 Limitations of CPM Analysis
- 18.33 Comparison of PERT and CPM
- 18.34 Economic Value Added
- 18.35 Importance of Economic Value Added
- 18.36 Measurement of Economic Value Added
- 18.37 Measures for Making Economic Value Added More effective
- 18.38 Advantages of Economic Value Added
- 18.39 Limitations of Economic Value Added
- 18.40 Market Value Added
- 18.41 Steps Followed to Derive Market Value Added
- 18.42 Advantages of Market Value Added
- 18.43 Disadvantages of Market Value Added
- 18.44 Summary
- 18.45 Glossary
- 18.46 Answers to In-Text Questions
- 18.47 Self-Assessment Questions
- 18.48 References
- 18.49 Suggested Readings



18.1 LEARNING OBJECTIVES

After studying this chapter students may able to understand: -

- Budgetary Control
- Ratio Analysis
- Return on Investment
- Network Analysis: PERT and CPM
- Economic and Financial Measures

18.2 INTRODUCTION

A variety of tools and techniques have been used to help managerial control. Some of these techniques may be classified as traditional in the sense that they have been used for long by the managers. Some of the traditional techniques of control are: budget, statistical data, special reports and analyses, operational audit and personal observation. Other techniques like Programme Evaluation and Review Technique (PERT) etc. represent newer generation of planning and control tools.

18.3 TRADITIONAL CONTROL TECHNIQUES

The essence of control function is to confirm whether the actions are going according to plans or not. If they are not accordance with the plans then management should take a corrective action to overcome such deviations. For this purpose, management should determine standards so that they can easily be compared with them. For this purpose, many techniques have been developed. Among them traditional such as Budgeting and Budgetary Control, Cost Control, Production Planning and Control, Inventory Control etc. are the best examples. Though modern techniques have been developed to improve the quality of controlling process but still today these techniques are being used extensively in the organizations.

18.4 BUDGETARY CONTROL

A widely used tool for managerial control is the budget. A budget is a plan showing how resources will be acquired and used over a specified time interval. The act of preparing budgets is called budgeting, and the use of budgets as a means for controlling activity is called budgetary control. It is a quantitative expression of plan of action. It refers to the plan of an organization expressed in financial terms. It determines financial estimations relating to



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various activities of an organization for a fixed period of controlling actual performance. The following are the important definitions of a budget:

According to J. L. Brown & L.R. Howard “A budget is pre-determined statement of management policy during a given period provided a standard for comparison with the results actually achieved”.

According to I. C. W. A England “A budget is a financial or quantitative statement prepared prior to a defined period of time of the policy to be pursued during that period for the purpose attaining a given objective.”

18.5 CHARACTERISTICS OF BUDGET

From the above definitions the following characteristics can be summarized:

- A budget generally relates to a given future period.
- It should be flexible.
- It differs from objectives or policies because it is set down in specific numerical terms.
- It is fundamental to the organization and hence, it receives the attentions and support of the top management.

18.6 BENEFITS OF BUDGETARY CONTROL

Budgetary control leads to maximum utilization of resources with a view to ensure maximum returns because it provides aid to managerial planning and control. Following are some specific advantages of budgetary control:

- Budgets are the outcome of planning function and as such they direct every action of the organisation towards goal achievements. Budgets also provide a basis for coordination and integration of various activities in the organisation.
- Budgetary control involves measuring performance and comparing it against budgeted figures. Through this process, the variations are struck out and responsibilities fixed. In this light, reports are prepared and presented to management and suitable actions are taken. Thus, budgetary control is used as an effective and integrated control tool.
- It is somewhat a democratic way of managing and control. In the organisation where budgetary control is exercised, generally more authority for preparing budgets is delegated to subordinates. Thus, there is no undue centralisation of authority. The delegation of authority is a condition precedent to the success of budgetary



programme. Moreover, there is a participation in management at all levels of the organisation in the preparation of budgets.

- Budgetary control makes people in the organisation conscious about cost and performance. This leads to effective utilisation of organisational resources such as labour, machines, and materials.
- Budgetary control can be defined as such technique of managerial control in which all operations which are necessary to be performed are executed in such a manner so as to perform and plan in advance in the form of budgets & actual results are compared with budgetary standards.
- Therefore, the budget can be defined as a quantitative statement prepared for a definite future period of time for the purpose of obtaining a given objective. It is also a statement which reflects the policy of that particular period.

18.7 TYPES OF BUDGET

There are many types of Budgets which are generally used in an organization. These are as follows:

Sales budget – It represents the plan of sales for a given period.

Cash budget – It is a statement of the anticipated receipts and payments for a given period along with the resulting surplus or deficit.

Purchase budget – It presents the quantities of raw materials and other consumable items to be purchased by a manufacturing company.

Expense budget – It lays down the estimates of the standard or norm of operating expenses of an enterprise for a given period.

Capital budget – This type of budget outlines the anticipated expenditure on plant, machinery, equipment and other items of a capital nature.

Revenue budget – It indicates the income or revenue expected to be earned from sale of goods produced or purchased for re-sale.

Production budget – It shows the volume of production to be undertaken for a given period together with the material, labour and machinery requirements sometimes production budgets also show the anticipated cost of production.

Labour budget – It indicates the types of skills of labourers and the numbers in each category estimated to be required in a given period along with the standard wages payable.



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Master budget – This is prepared for the whole enterprise by compiling the different sectional budgets which is finally adopted and worked upon.

Research & development budget- this estimates the spending for the development or refinement of products & processes.

18.8 LIMITATIONS OF BUDGETARY CONTROL

The limitations of the budgetary control are as under:

- The future uncertainties reduce the utility of budgetary control system.
- The lack of co-ordination among different departments results in poor performance.
- Budgetary control may lead to conflicts among functional departments.
- The cost of employing additional staff for budgeting increases the expenditure of an organization which generally cannot be afford by small enterprises.

18.9 ESSENTIALS OF EFFECTIVE BUDGETARY CONTROL

The following points are essential to make the budgetary control effective:

- **Sound forecasting:** The estimates for the future needs of business should be precise and accurate.
- **Proper recording system:** Sound accounting procedures should be allowed for proper recording of actual operations. Unless the actual performance is accurately recorded and quickly reported; the whole structure of budgeting will fall. Budgeting is greatly helped if there is also the system of standard costing in use.
- **Participation:** All individuals responsible for achieving results should be consulted in the formulation of budgets. No system of budgetary control can succeed without the mutual understanding of superiors and subordinates. Participation assures full co-operation and commitment for making budgets successful. Participation also makes budgets realistic and workable.
- **Top Management Support:** Since budgeting highlights inefficiencies there is bound to be resistance. This makes it more necessary that top management should believe in the importance of budgetary control. Thus the overall budgets must be set and approved at the chief executive level.
- **Flexibility:** Budgets should be flexible. If actual business conditions differ from what was expected, it should be possible to recast the budget quickly.



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- **Enforce timeliness:** Budgets must be prepared so as to be ready before the period to which they relate. Moreover sufficient time should be allowed for the budget programme to develop and reach near perfection.
- **Efficient organization:** A good organisation structure is necessary for success in budgeting. There should be fixed responsibility centres, budget committee and budget controller.
- **Goal orientation:** Budgets must directly flow from objectives of the enterprise, and goals of budgetary control must be clearly defined.
- **Proper Co-ordination:** The budget plans must be properly co-ordinated in order to eliminate bottlenecks. Individual budgets should be co-ordinated with one another.
- **Sound administration:** Budgets cannot replace good management. Budgets should be administered efficiently by responsible executives.
- **Constant Review:** Constant review of the budgets is necessary so as to prevent them from degenerating into license for spending the full budgeted amount even though it may not be necessary.
- **Reward and punishment:** The concerned employees should be suitably rewarded for performance as per the budget. But slack employees should not be allowed to go unpunished.
- **Results take time:** The budgetary control is an efficient tool to control performance. But it requires time to show results. Those who administer budgetary control should have high degree of knowledge and experience in the field.

18.10 STAISTICAL DATA ANALYSIS

Statistical analysis of the innumerable aspects of business operation is important to control. Analysis in terms of averages, percentages, ratios, correlation, etc. provides help for control. Such areas of control are production, planning and control, quality control, inventory control etc. Various tools indicate the deviations from the standard and suitable managerial actions in respect of these. It is an important control technique. This method is applicable 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. If variations go beyond limitations then immediate steps are taken to correct them. Statistical control charts are prepared with the help of collected data and permissible limits



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are plotted. This chart will give an idea whether everything is going as per the plans or not. Hence, analysis of data is important device of control.

18.11 SPECIAL REPORTS AND ANALYSIS

For control purposes reports and analysis help only in some particular problem areas. While routine accounting and statistical reports provide necessary information for control in general, there may be some areas where these may fall short of requirements, particularly in the case of specific problems of contingency. For this purpose, an investigating group may be assigned the job to go into details of the problem and to prepare a report for this purpose. The problem in this case is generally of non-routine type.

ACTIVITY

Discuss in the class on the topic, “Budgetary Control and Its Significance in Management.”

IN-TEXT QUESTIONS

1. Budgeting aids in the management of resources.
 - a) Production costs b) Availability of liquids
 - c) Capital Spending d) All of the preceding
2. Plant utilisation budgets and manufacturing overhead budgets are two examples of budgets.
 - a) Budget for production b) Sales forecast
 - c) Cost budget d) None of these
3. Examples include R&D budgets and capital expenditure budgets.
 - a) Short-term financial plan b) Present budget
 - c) Long-term Budget d) None of these
4. A budgeting process that requires each manager to justify his entire budget in detail from the start is _____.
5. Fixed budget costs are classified based on their nature. (True/False)



18.12 INTERNAL AUDIT

Internal audit, now largely called operational audit is an effective tool of managerial control. Internal audit is carried out by managers themselves or by special staff appointed for this purpose. In contrast to external audit which remains unconcerned with the operational aspects of the organisation, internal audit is much broader in scope and encompasses the whole range of activities of the organisation. Thus, internal audit, in addition to ensuring that accounts properly reflect the facts, also appraises policies, procedures, use of authority, quality of management, effectiveness of methods, special problems, and other phases of operations; the latter aspects being more emphasised in present day internal audit. However, there are certain problems in broadening the scope of internal audit in these areas because of the limited ability of an organisation.

Internal audit provides managers with a perennial or everlasting supply of control information. By measuring performance and evaluating results in the light of the standard, internal audit makes suitable recommendations for managerial actions. It also scrutinizes the applicability and relevance of policy, procedure, and method which have a tendency to become obsolete. Such a scrutiny helps in choosing a suitable working procedure and methods. The introduction of internal audit tones up working efforts of all members in the organisation as it involves the risk of being exposed before the management and people try to avoid errors of omission and commission.

The internal audit is not free from its limitations. Its installation and operation require extra costs which may be too much for smaller organisations. Sometimes, the reports of internal audit team may not be acceptable to the manager because of some deficiency. The audit people have a tendency to look at every aspect of business operation from accounting point of view. This not only affects the scope of internal audit, but also leads to faulty conclusions. However, in recent years, the system of internal audit has been raised to new heights by organising a centralized audit unit for the purpose of supplying greater and wider control information to managers. In managing such a unit, accounting qualification alone are not adequate, but the greater emphasis is being given to managerial skill and experience. To avoid accounting bias, internal auditors in many organisations are selected from the rank of line managers.

18.13 PERSONAL OBSERVATION

Though various devices of managerial control such as budgets, standard cost, statistical tools, audit reports and recommendations are quite helpful in managerial control, managers should not forget the importance of control through personal observation. Managers need to hold

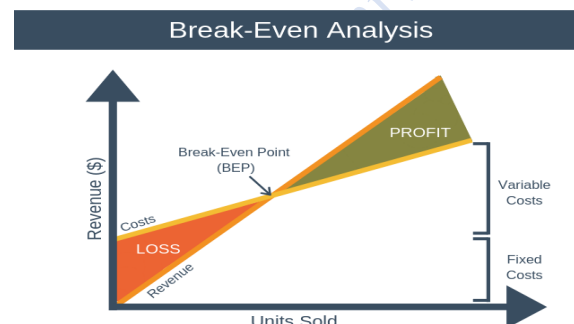


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discussion with the persons whose work is being controlled and they should visit the actual operations. There are certain kinds of impressions and information that can be conveyed only through face-to-face contact, personal observation and conversation. When a man is new to the job, a supervisor will like to watch his work more closely than that of an experienced operator. Managers, after all, have responsibility of achieving organisational objectives, whatever control devices they may use. This largely involves measuring of human performance. Thus, the success of personal observation as a control method depends upon how much information a manager can collect through this process.

18.14 BREAK-EVEN ANALYSIS

It is mainly concerned with the effect which changes in fixed costs, changes in variable costs, changes in sales volume, changes in the sales prices and changes in sales mix will have on profits. Therefore, it establishes a relationship between cost of production, sales at which total cost is fully covered and beyond which profits will be earned and below which there will be a loss. The volume of sales at which sales revenue exactly equals total cost or there is no profit or loss is known as 'break-even point'.



Break even analysis presents information regarding total cost, revenues, profit/loss at various levels of production in such a manner that it is easily understandable. It is based on the division of total costs into fixed and variable. Some examples of fixed cost are represented by depreciation, insurance charges, property taxes, cost of maintaining office, etc. Variable costs may include direct material costs, labour costs and commission rates on sales. The management can't have control over the fixed costs, but it can exercise control over the variable costs. The assumption of this analysis is that it is possible to identify fixed and variable components of cost but this is not very true in actual practice. Moreover, fixed costs remain fixed only upto a certain level of production after which they will rise considerably. Another difficulty with this analysis is that the break-even point is not fixed. It changes with



every management decision that is when selling price changes, while operating efficiency changes, when product-mix changes and so on.

18.15 NON-BUDGETARY CONTROL OR MODERN TECHNIQUE

Besides the traditional techniques which were discussed above, there are many other techniques which have been evolved in modern times. These techniques are also called non-budgetary techniques. Network analysis is a means of planning and controlling the project activities. Under this, a project is broken down to small activities or operations which are arranged in a logical sequence. After this, the order in which the various operations should be performed is decided. A network diagram may be drawn to show the relationship between all the operations involved. So it will reveal the gaps in the flow plan. The network drawn thus shows the interdependence of various activities of a project and also points out the activities to be completed before the others are started. The object of network analysis is to help in planning, organizing and controlling the operations to enable the management in accomplishing the project economically and efficiently. The most popular network techniques are return on investment control, ratio analysis, management audit and others.

18.16 RETURN ON INVESTMENT CONTROL (ROI)

One of the most successfully used control technique of measuring both the absolute and the relative success of a company is by the ratio of net earnings to investment the company has made. This approach often referred to a ROI. If the rate of return on investment is satisfactory, it will be considered as good performance. The return on investment can be compared over a period of time as well as with that of other similar concerns. The return on investment can be computed with the following formula:

$$\text{Return on investment} = \frac{\text{Net Profit before interest and tax}}{\text{Capital employed}}$$

18.17 RATIO ANALYSIS



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Ratio Analysis was perhaps the first financial tool developed to analyse and interpret the financial statements and is still used widely for this purpose. A financial ratio is a relationship between two variables drawn from the financial statements of a business enterprise. Such variables are normally taken either from the Profit-and-Loss Account or from the Balance Sheet of the undertaking. Since it represents a relationship between numbers, a ratio can be formed by taking any two figures from the financial statements. However, such an approach would be futile from the point of view of financial analysis unless the variables chosen are significantly related to each other. Financial analysts have identified some ratios as significant and important, since they throw considerable light on the financial affairs of a business. Such important ratios which are widely used are discussed here. According to J. Batty “the term accounting ratio is used to describe significant relationships between figures shown on a Balance Sheet, in a Profit and Loss Account, in a Budgetary Control System or in any part of the accounting organisation.” In simple words, it is an assessment of significance of any figure in relation to another. The accounting ratios indicate a quantitative relationship which is used for analysis and decision-making. It provides basis for inter-firm as well as intra-firm comparisons. Besides, in order to make the ratios effective, they are compared with ratios of base period or with standards or with the industry average ratios.

18.18 CLASSIFICATION OF ACCOUNTING RATIOS

Under this classification, ratios are grouped as:

- a) **Liquidity Ratios:** The terms liquidity and short-term solvency are synonymously used. The liquidity ratios indicate the liquidity position of the enterprise. These ratios analyse the ability of the firm to meet its current liabilities out of current assets. Liquid ratios are of help in ascertaining the effectiveness of the working capital management. Examples of these ratios are: Current ratio, Quick ratio, Inventory turnover ratio, Debtors turnover ratio, Creditors turnover ratio etc.
- b) **Leverage Ratios:** It refers to those financial ratios which measure the long-term solvency and capital structure of the firm. They show the mix of funds provided by the owners and lenders and also the risk involved in debt financing. Examples of these ratios are: Debt-Equity ratio, Capital gearing ratio, Fixed assets to Net worth ratio, Interest coverage ratio etc.
- c) **Turnover or Activity Ratios:** These ratios measure the efficiency with which the funds have been employed in the business. They indicate frequency of sales with respect to its assets. These are computed with reference to sales or cost of goods sold and expressed in terms of times or rates. Examples of these ratios are: Stock Turnover ratio, Debtors Turnover ratio, Creditors Turnover ratio, Fixed Assets Turnover ratio, etc.



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- d) **Profitability Ratios:** Profitability is an indication of the efficiency with which the operations of the business are carried on. Profitability ratios show the effect of business transactions on the profits. A lower profitability ratio may arise due to lack of control over business expenses. Examples of these ratios are: Gross profit ratio, Net profit ratio, Operating ratio, Operating profit ratio, Return in capital employed, etc.

ACTIVITY

Discuss with your teacher about the accounting ratios in the class. Analyse that why these ratios are important in business management? Also visit the small scale manufacturer of automobile industry, who acts as subsidiaries to the large scale automobile industry. Ask those about these accounting ratios, whether they are using these in managing their businesses or not?

IN-TEXT QUESTIONS

6. The liquid ratio is calculated by dividing liquid assets by .
a) Current Obligations b) Liabilities in total.
c) Liabilities that are contingent d) Past-Due Liabilities
7. Which of the following transactions will have the greatest impact on the Current Ratio?
a) Cash Purchase of Goods b) Payment to Trade Payables
c) Purchase of Goods on Credit
d) Revenue from trade receivables.
8. The _____ is a measure of liquidity that excludes the least liquid asset in general.
a) Liquid ratio and receivables b) Inventory and current ratio.
c) Inventory and liquid ratio
d) Accounts receivable, current ratio



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9. There are two basic measures of liquidity: .
 - a) Current and Quick ratios
 - b) The gross profit and operating ratios.
 - c) Current collection ratio and average collection period
 - d) Inventory turnover and the current ratio
10. Inventory ratio refers to the relationship between .
 - a) Purchased goods cost and average inventory cost
 - b) Cost of goods sold and average inventory cost, as well as cost of goods purchased and average inventory cost
 - c) Cost of goods sold and average inventory cost
 - d) None of the choices are correct.

18.19 MANAGEMENT AUDIT

This audit reveals irregularities and defects in the working of management. It also suggests the ways to improve the efficiency of the management. It examines and the reviews various policies and functions of the management on the bases of certain standards. It emphasis to evaluate the performance of various management processes of an organization.

According to Taylor and Perry, “Management audit is the comprehensive examination of an enterprise to appraise its organizational structure, policies and procedures in order to determine whether sound management exists at all levels, ensuring effective relationships with the outside world”.

According to the Institute of Internal Auditors, Management audit is a “future oriented, independent and systematic evaluation of the activities of all levels of management for the purpose of improving organizational profitability and increasing the attainment of the other organizational objectives”.

Hence, from the above two definitions it can be concluded that management audit concentrates on the examination of policies and functions of the management on the basis of certain standards and norms.



18.20 OBJECTIVES OF MANAGEMENT AUDIT

The following are the main objectives of management audit:

- It assists management in achieving co-ordination among various departments of the organization.
- It detects any irregularity in the process of management and also it suggests improvement to achieve best results.
- It assists all levels of management through constant watch of all activities of the organization.
- It suggests changes in the policies and procedures for a better future.
- It ensures most effective relationship with the outsiders and the most efficient internal organization.
- It concentrates on performance of the management through close observation of inputs and outputs.
- It ensures the establishing good relations with the employees and to elaborate duties, rights and liabilities of the entire staff.
- It recommends better human relation approach, new management development and overall organizational plans and objectives.

18.21 IMPORTANCE OF MANAGEMENT AUDIT

Management audit is very important for its usefulness and is outlined as follows:

- It assesses the soundness of plans adopted and the adequacy of control system for making plans successful.
- It is useful in giving advices to the prospective investors.
- It is very much useful in reviewing plans and policies.
- It gives proper advice to the management to perform their functions well.
- Financial institutions may get management audit conducted to ensure that their investment in the company would be safe and secured in the hands of the management.



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18.22 ADVANTAGES OF MANAGEMENT AUDIT

It provides us following advantages:

- It helps the management in preparing plans, objectives and policies and suggests the ways and means to implement those plans and policies.
- Proper management audit techniques help the business to stop capital erosion.
- Management audit increases the overall profitability of a business through constant review of solvency, profitability and efficiency position of the concern.
- Management audit eradicates the inefficiencies and ineffectiveness on the part of the management.
- The techniques of management audit are not only applicable to all factors of production but also to all elements of cost.
- It helps the top management to take effective decisions in time.
- It helps the management in strengthening its communication system within and outside the business.
- It helps management in preparation of budgets and resources management policies.
- It helps management in training of personnel and marketing policies.

18.23 DISADVANTAGES OF MANAGEMENT AUDIT

The disadvantages of management audit can briefly be stated as follows:

- The installation of this audit technique involves heavy expenditure.
- Due to ineffectiveness and inefficiency of the management auditor, management audit cannot provide result-oriented service.
- Management auditors may be engaged in some activities detrimental to social objects of auditing for example evasion of tax.



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18.24 RESPONSIBILITY ACCOUNTING

It can be defined as a system of accounting in which overall involvement of different sections, divisions & departments of an organization are set up as 'Responsibility centres'. The head of the centres is responsible for achieving the target set for his centres. Responsibility centres may be of the following types: **Cost centre; Revenue centre; Profit centre; and Investment centre.**

ACTIVITY

Organise a brainstorming session in the class and think why management audit has been used by the managers in the business houses they are running and is it beneficial to use this concept in management field.

IN-TEXT QUESTIONS

11. Management auditors should be well-versed in:
 - a) Monetary accounting
 - b) Production methods
 - c) Costing methods
 - d) All of these
12. A management auditor can recommend the best information flow system .
 - a) Internally
 - b) Externally
 - c) Internally and Externally
 - d) None of these
13. Which of the following statements about management auditing is true?
 - a) Management auditing is made mandatory and statutory.
 - b) Management auditing is a one-year programme.
 - c) An independent person cannot conduct a management audit.
 - d) There is no time limit for submitting the report under management audit.



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14. Management auditing is beneficial for
 - a) Targets suggestions
 - b) Management assistance
 - c) Positive employee relations
 - d) All of these
15. According to Leslie R. Howard, a management audit is an investigation of a business from the _____ to determine whether sound management exists throughout.

18.25 PERT

The PERT means Programme Evaluation and Review Technique used for analysis. The success of organization depends on its activities for the accomplishment of an objective within stipulated time and cost. Management should determine activities to be performed and their inter-relationships so that estimated resources and time needed to complete these activities as per schedule and to monitor and control the time and cost of the project. Through network analysis technique the time can be minimized to complete the project and also overall project cost can be minimized. For this purpose, PERT and CPM are the two important types of network analysis used in modern management. It is an important technique in the field of project management. It involves planning, monitoring and controlling of projects. It specifies the techniques and procedures to assist project managers in:

- Planning schedules and costs.
- Determining time and cost status.
- Forecasting man power skill requirements.
- Predicting schedule slippages and cost plans.
- Developing alternate time cost plans.
- Allocating resources among tasks.

PERT uses probability and linear programming for planning and controlling the activities. Probability helps in estimating the timings of various activities in the project and linear programming is used to maximize the achievement of the project objectives. PERT is employed in the construction of ships, buildings and highways, in the planning and launching of new projects, in the publication of books, in the installation of computer system, etc.



18.26 USES OF PERT

It is a technique of project which is used in the following managerial functions:

- **Planning:** The planning of project includes the listing of different jobs that has to be performed to complete the venture. Here, requirements of men, material and equipment are determined along with the costs and duration for the various jobs, in the process of planning.
- **Scheduling:** It is the arrangement of the actual jobs of the project according to sequence of the time in which they have to be performed. At this stage calculation of manpower and materials required are calculated along with the expected time of completion of each job.
- **Control:** The process of control starts with comparison of the difference between schedules and actual results. They analyse of difference and the corrective action taken is the essence of control process.

The most important condition for implementing PERT is the breaking up of the project into activities and determining the order of occurrence of these activities i.e., deciding activities which are to be completed before. The next step is to draw graph, which explains the activities outlining the predecessor and successor relations among them. A thorough understanding of the steps associated with the construction of the graph is important for understanding of PERT.

18.27 ADVANTAGES OF PERT

The following are the important advantages of PERT are:

- It forces managers to chalk-out a plan to integrate all the activities as a whole.
- It is instrumental for concentrating attention on critical elements that may need modifications.
- It is helpful in solving problems of scheduling the activities of one-time projects i.e., the projects which are not taken on routine basis.
- It helps in completing a project on schedule by coordinating different jobs involved in its completion.



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18.28 LIMITATIONS OF PERT

The following are the limitations of PERT:

- The expected time for each activity of any programme cannot be determined with certainty.
- It is suitable for programmes where time is essential consideration.

18.29 CPM (CRITICAL PATH METHOD)

It is most widely used as a planning and control technique in business. Unlike PERT, it is applied in those projects where timing are relatively well known. It is used for planning and controlling the most logical sequences of activities for accomplishing a project. Under CPM, the project is analysed into different operations or activities and their relationships are determined and shown on the network diagram. The network is then used for optimizing the use of resources and time. CPM marks critical activities in a project and concentrates on them. Here assumption is that expected time is actually the time taken to complete the project. CPM requires a greater planning than required otherwise. Thus, it increases the planning cost, but this increase in cost is justified by concentrating on critical path only and avoiding expenses on the strict supervision and control of the whole project. Besides ascertaining time schedule, CPM provides a standard method of communicating project plans, schedules and costs. The technique is helpful in finding out the more strategic elements of a plan for the purpose of better designing, planning, coordinating and controlling the entire project. It was developed by Walker of Dupont Company in 1950s, under this technique a project is broken into different operations or activities and their relationships are determined. These relations are shown with the help of diagram known as network diagram. The network diagram may be used for optimizing the use of resources and time. This technique is based on the assumption that activity times are proportional to the magnitude of resources allocated to them and by making a change in the level of resources, the activity times and the project completion time can be varied.

18.30 OBJECTIVES OF CPM ANALYSIS

The following are the main objectives of critical path analysis in a network:

- To estimate a route or path between two or more activities which maximizes some measures of performance.



- To locate the points of hurdles and difficulties in the implementation of any project.
- To determine starting and ending times for each activity.
- To determine the slack associated with each non-critical activity.

18.31 ADVANTAGES OF CPM ANALYSIS

The application of CPM leads to the following advantages:

- It determines most critical elements and pays more attention to these activities.
- It results in the maximum utilization of resources and facilities.
- It provides standard method for communicating project plans, schedules and costs.
- It concentrates on the timely completion of the whole project.
- It improves the quality of planning and controlling.
- It eliminates waste of time, energy and money on unimportant activities.

18.32 LIMITATIONS OF CPM ANALYSIS

CPM is having two major limitations:

- It has limited use and application in routine activities for recurring projects.
- Time given for different activities may prove to unrealistic.

18.33 COMPARISON OF PERT AND CPM

PERT and CPM as techniques of planning and control have certain similarities as well as differences. The two techniques are similar in the following respects:

- Both CPM and PERT use the project network as their basis.
- The concept of critical paths and activity slack are common to both.
- Both the techniques are basically time-oriented. They are now used for cost control as well.

The differences between the two techniques are the following:

- PERT is used for new industries with rapidly changing technology having more uncertainties, while CPM is used for construction projects where uncertainties are limited.



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- CPM is activity-oriented while PERT is event-oriented.
- CPM lays stress on the element of costs whereas PERT is concerned essentially with the time factor.

18.34 ECONOMIC VALUE ADDED

Originally proposed by the consulting firm Stern Stewart & Co. (USA), a pioneer in the field, Economic Value Added (EVA) is currently a very popular idea. Stewart & Co. has got a registered trade mark by the name EVA – an acronym for Economic Value Added. The leading companies that have put EVA model into practice include Coca-Cola (which introduced it in 1981), Infosys, Hindustan Lever, Chemin or Drugs etc.

EVA is simply the operating profit after tax less a charge for the capital, equity as well as debt, used in the business. The idea behind EVA is that shareholders must earn a return that compensates for the risk taken. If EVA is zero; it is treated as a sufficient achievement on the ground that shareholders earned a return that compensated the risk.

18.35 IMPORTANCE OF ECONOMIC VALUE ADDED

Economic Value Added (EVA) is the after-tax cash flow generated by a business minus the cost of the capital it has deployed to generate that cash flow. Representing real profit versus paper profit, EVA underlies shareholder value, increasingly the main target of leading companies' strategies. Shareholders are the players who provide the firm with its capital; they invest to gain a return on that capital.

The concept of EVA is well established in financial theory, but only recently has the term moved into the mainstream of corporate finance, as more and more firms adopt it as the base for business planning and performance monitoring. There is growing evidence that EVA, not earnings, determines the value of a firm. The chairman of AT&T stated that the firm had found an almost perfect correlation over the past five years between its market value and EVA. Effective use of capital is the key to value; that message applies to business processes, too.

AT&T, Boise Cascade, Briggs & Stratton, Bank One, Centura Banks, Coca-Cola, Smith Kline Beecham, Telecom New Zealand, Quaker Oats, Wall-Mart Stores and Whirlpool are some of the nearly 300 companies that have successfully adopted EVA.

Investors like EVA because it is a running score showing how well managers are performing their primary task and creating wealth. When a company uses EVA to set compensation, it seems to be a powerful tool that gets managers to deploy capital for maximum gain.

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18.36 MEASUREMENT OF ECONOMIC VALUE ADDED

EVA is a measure of economic efficiency of a company. Profit is contributed by land, labour, capital and management. In industrial situation land may be excluded from the contributory factor – major contributory factors of profit are labour, capital and management.

Compensation to labour and management is charged in the profit and loss account. Cost of debt fund is also charged to the profit and loss account. Only dividend is treated as appropriation to profit. This is because of traditional ownership concept. In economic term profit is the clear surplus to the company after even meeting the cost of equity share capital.

EVA is a measure of corporate surplus. While conceptualizing EVA Stewart used NOPAT as a basis. As per Stewart NOPAT stands for Net Operating Profit After Tax. It is suggested to deduct depreciation while computing NOPAT since depreciation is an economic expense.

EVA is calculated as:

[Return on Operating Capital – Weighted Average Cost of capital] × Capital [ROOC – WACC] × Capital

The difference between ROOC and WACC is the spread. The spread is applied on total capital (both operating and non-operating) to find out EVA.

$$\text{ROOC} = \frac{\text{NOPAT} + \text{Finance Charge on Debt}}{\text{Operating Capital}} \times 100$$

EVA is regarded as a comprehensive measure of performance; the principles can be applied to each business segment within a company.

18.37 MEASURES FOR MAKING ECONOMIC VALUE ADDED MORE EFFECTIVE

EVA can be enhanced through taking the following measures:

- Increasing operating profits without adding further capital in the business.
- Ensuring that ROI on additional funds invested is more than weighted average cost of capital.
- Liquidating non-productive capital by releasing capital from those activities that do not cover even the cost of capital.

18.38 ADVANTAGES OF ECONOMIC VALUE ADDED



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Some outstanding advantages of EVA are:

- EVA is a tool which helps to focus managers' attention on the impact of their decisions in increasing shareholders' wealth.
- EVA is a good guide for investors; as on the basis of EVA, they can decide whether a particular company is worth investing money in or not.
- EVA can be used as a basis for valuation of goodwill and shares.
- EVA is a good controlling device in a decentralised enterprise. Management can apply EVA to find out EVA contribution of each decentralised unit or segment of the company.
- EVA linked compensation schemes can be developed towards protecting shareholders' wealth.

18.39 LIMITATIONS OF ECONOMIC VALUE ADDED

The EVA concept is criticized for the following reasons:

- EVA ignores inflation and it is biased against new assets. Whenever a new investment is made, capital charge is on the full cost initially, so EVA figure is low. But as the depreciation is written off, the capital charge decreases and hence EVA goes up. This problem existed with measures like ROI also.
- Since EVA is measured in rupee terms it is biased in favour of large, low return businesses. Large businesses that have returns only slightly above the cost of capital can have higher EVA than smaller businesses that earn returns much higher than the costs. This makes EVA a poor metric for comparing businesses.
- In the short-term, EVA can be improved by reducing assets faster than the earnings and if this is pursued for long it can lead to problems in the longer run when new improvements to the asset base are made. This new investment can have a high negative effect on EVA because the asset base would have been reduced to a large extent and improvements will involve huge investments.

18.40 MARKET VALUE ADDED

The market value added (MVA) is a performance measurement tool that computes for the increase in the value of the company's stock price. It is the difference between the current market value of a firm and the capital contributed by investors. It is a calculation that shows the difference between the market value of a company and the capital contributed by all

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investors, both bondholders, and shareholders. Essentially, it is used to determine exactly how much value the firm has accumulated over time. This concept drives the difference between the market value of a business and the cost of the capital invested in it. It is a term that refers to the currently very important valuation measurement of enterprise performance. If MVA is positive, the firm has added value. If a company has been performing well, it means that it has been retaining earnings. If it is negative, the firm has destroyed value. Also, a negative MVA signal to investors that the company is not using its capital effectively or efficiently. The amount of value-added needs to be greater so than the firm's investors could have achieved investing in the market portfolio, adjusted for the leverage (beta coefficient) of the firm relative to the market. It expresses the wealth of the owners (shareholders). The MVA is derived by comparing the total market value of the firm and the book value of the invested capital.

Basic formula – The formula for MVA is: $MVA = V - K$

where: MVA is a market value-added; V is the market value of the firm, including the value of the firm's equity and debt; and K is the capital invested in the firm.

MVA is the present value of a series of EVA values. MVA is economically equivalent to the traditional NPV measure of worth for evaluating an after-tax cash flow profile of a project if the cost of capital is used for discounting. The MVA is derived by comparing the total market value of the firm and the book value of the invested capital.

18.41 STEPS FOLLOWED TO DERIVE MARKET VALUE ADDED

To derive market value-added, follow these steps:

- Multiply the total of all common shares outstanding by their market price,
- Multiply the total of all preferred shares outstanding by their market price,
- Combine these totals,
- Subtract the amount of capital invested in the business.

Examples of Market Value Added: 1. Consider Company ABC whose shareholders' equity amounts to \$750,000. The company owns 5,000 preferred shares and 100,000 common shares outstanding. The present market value for the common shares is \$12.50 per share and \$100 per share for the preferred shares.

Market Value of Common Shares = $100,000 * \$12.50 = \$1,250,000$

Market Value of Preferred Shares = $5,000 * \$100 = \$500,000$



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Total Market Value of Shares = \$1,250,000 + \$500,000 = **\$1,750,000**

Using the figures obtained above: Market Value Added = \$1,750,000 – 750,000 = \$1,000,000

2. The investor relations officer of Cud Farms is preparing a press release that reveals the increase in market value added since the new management team was hired. The analysis is based on the following information:

Content	Prior Year	Current Year
Number of common shares outstanding	5,000,000	5,700,000
Common stock price	\$4.00	\$4.20
Number of preferred shares outstanding	400,000	375,000
Preferred share price	\$11.00	\$11.30
Book value of invested capital	\$18,000,000	\$20,625,000

The market value added for the prior year is calculated as follows:

(5,000,000 Common shares x \$4.00 price) + (400,000 Preferred shares x \$11.00 price) -
\$18,000,000 Equity book value
= \$6,400,000 Market value added

The market value added for the current year is calculated as follows:

(5,700,000 Common shares x \$4.20 price) + (375,000 Preferred shares x \$11.30 price) -
\$20,625,000 Equity book value
= \$7,552,500 Market value added

Based on this analysis, the investor relations officer can highlight an increase of \$1,152,500 in market value added since the new management team was hired.

18.42 ADVANTAGES OF MARKET VALUE ADDED

The advantages of market value added are as under:

- **Makes companies more attractive to potential investors:** Investors will always prefer companies with higher MVA because it shows the firm's ability to create wealth for its stockholders. Increasing MVA or increasing shareholder wealth is the primary goal of any business and the reason for its existence.
- **Boosts the survival chances of a company:** In the corporate world, nothing is 100% sure. A company could be making billions of profits one minute and declaring



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bankruptcy the next time. However, for a company to register a high MVA, its likelihood to thrive is certainly high. A high MVA means the company is generating enough wealth so it will continue to attract investors. It then means that it will continue to expand its operations, earn more profit, and stay ahead of its competitors.

- **High Returns for Investors:** Obviously, if a high MVA is attractive to prospective investors, there are benefits for those who have already invested their capital. A company with a high MVA has created significant returns and has proven to be profitable for current investors. With such a reputation among investors in the business world, a company can expect good press and great interest from investors in the future, guaranteeing a certain amount of life and prosperity. High returns for investors also can lead to even more capital from these investors, as they seek to continue reaping the rewards from their beneficial investment and it will mean that their original investments and shares will increase in value.
- **Good Management in Place:** In order for a company to experience the kind of success that brings positive market value added, there needs to be good leadership within the firm. This kind of leadership encourages confidence among investors and adds to the positive reputation that such a successful firm is likely already building. With good management that has already found formulas to produce success and profitable returns to investors, prospective investors will take notice, enabling the company to continue and to grow.

18.43 DISADVANTAGES OF MARKET VALUE ADDED

The following are the disadvantages:

- **Limited Feedback:** MVA defend their position in the system by not giving firms access/ relationship to their customers or their data., which means the firms does not have any idea who is buying product and why. The firms have a limited feedback loop and might not be getting a good sales forecast either until the firm has more leverage.
- **Reduced Usefulness:** MVA figure may be influenced by the market factors thus reducing its usefulness as an indicator for management performance. For instance, the firm may not be doing as well as a higher MVA may be suggesting if the stock has an overall bull market benefit.
- **Costly Channel:** The sales channel costs are bigger and larger and established channel are expensive. This makes an impact on the long-term strategy of the firm and as well as distorts the customer relationship. Sales channels conflict is common



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problem as most of the firm face in today business environment. If the firm has different resellers, they may collide on a deal. If the firm have own sales force, they may collide with MVA. Dealing with these issues can get tricky and affect the position of the firm in the market.

- **Ignorance of other issues and interests:** The other interests of the firm are totally sidelined and only the firm keeping on moving with the idea of increasing MVA. The firms main focus remains on increasing profitability and return, in turn of which the remaining issues relating to the firms are avoided.

ACTIVITY

Discuss in the class about PERT, CPM, EVA and MVA. Their uses and benefits for the bsuienss organisation and why these techniques have been inculcated for th managerial control.

IN-TEXT QUESTIONS

16. What is the foundation of PERT analysis?
 - a) Time to be optimistic
 - b) Pessimistic period
 - c) Most likely date and time
 - d) All of the preceding
17. What is the technical term for task performance in CPM?
 - a) Dummy
 - b) Event
 - c) Activity
 - d) Contract
18. What exactly is a critical path?
 - a) It is a path that connects the starting and ending nodes.
 - b) It combines all of the paths
 - c) It is the longest path
 - d) It is the shortest path
19. In a network diagram, the activity is represented by _____.
20. The _____ rule compares the end time of an activity to the end time of its predecessor.



18.44 SUMMARY

The essence of control function is to confirm whether the actions are going according to plans or not. Management should determine standards so that they can easily be compared with them. Modern techniques like Programme Evaluation and Review Technique (PERT) represent newer generation of planning and control tools. Budgetary control can be defined as such technique of managerial control in which all operations which are necessary to be performed are executed in such a manner so as to perform and plan in advance in the form of budgets & actual results are compared with budgetary standards. The process involves measuring performance and comparing it against budgeted figures. Budget is prepared for the whole enterprise by compiling the different sectional budgets which are then adopted and worked upon. The limitations of the budgetary control are as under: The cost of employing additional staff for budgeting increases the expenditure of an organization. Budgeting is greatly helped if there is also the system of standard costing in use. Budgets must be prepared so as to be ready before the period to which they are intended to apply.

18.45 GLOSSARY

- **Accounting Ratios:** It is a subset of financial ratios, are a set of metrics used to assess a company's efficiency and profitability using financial reports. They are the foundation of ratio analysis and provide a means of expressing the relationship between one accounting data point and another.
- **Break-Even Analysis:** It is a financial calculation that compares the costs of starting a new business, service, or product to the unit sell price to determine when you will break even. In other words, it indicates when you will have sold enough units to cover all of your expenses.
- **Budget:** It is a financial document that is used to forecast future earnings and expenses. Simply put, a budget anticipates future savings and spending as well as anticipated income and expenses.
- **Budgetary Control:** It is a financial term that refers to the management of income and expenditure. In practise, this entails comparing actual income or expenditure to planned income or expenditure on a regular basis to determine whether or not corrective action is required.
- **Internal Auditing:** It is a service provided by an independent party to evaluate an organization's internal controls, corporate practises, processes, and methods. An internal audit aids in ensuring compliance with the various laws that apply to a company.



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- **Manager:** A manager is someone who is in charge of supervising and motivating employees as well as directing an organization's progress. A manager is someone who is in charge of customer service, handles customer complaints, and oversees and supervises customer service agents.
- **Management Audit:** It evaluates how well an organization's management team implements its strategies and resources. A management audit determines whether the management team is acting in the best interests of the company's shareholders, employees, and reputation.
- **Managerial Control:** It means, in relation to any Person, the ability to direct or cause the direction of such Person's management or policies, whether through the ability to exercise voting power, by contract, or otherwise.

18.46 ANSWER TO IN-TEXT QUESTIONS

1. (d) All of the Above	11. (d) All of these
2. (c) Cost Budget	12. (c) Internally and externally
3. (c) Long-term budget	13. (d) There is no time limit for submitting the report under management audit.
4. Zero base budgeting	14. (d) All of these
5. True	15. Highest level downwards
6. (a) Current liabilities	16. (d) All of the preceding
7. (b) Paymen to trade payables	17. (c) Activity
8. (c) Inventory and liquid ratios	18. (c) It is longest path
9. (a) Current ratio and Quick ratios	19. Arrows
10. (c) Cost of goods sold and average inventory cost	20. Earlier start time rule

18.47 SELF-ASSESSMENT QUESTIONS

1. Explain Budgetary Control along with its objectives. Discuss its advantages and limitations to a business organisation.
2. What do you understand by Ratio Analysis? Discuss its importance.
3. Why ROI is considered as a useful technique of control?



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4. Explain Network Analysis Technique. Explain the concept of PERT and CPM in management planning and control.
5. What is Market Value Added? Explain its advantages and disadvantages.
6. What is Economic Value Added? How do you calculate the EVA?
7. Briefly explain the main types of financial ratios used for control purposes.
8. Differentiate between EVA and MVA
9. Why is Budgeting still considered to be the main technique of managerial control? Describe the main types of budgets.
10. Point out the merits and demerits of the techniques involved in control through ROI.

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UNIT V

LESSON 19
CONTEMPORARY CHALLENGES IN
MANAGEMENT

Dr. Virender Kaushal

STRUCTURE

- 19.1 Learning Objectives
- 19.2 Introduction
- 19.3 Management Challenges of the 21st Century
- 19.4 Factors Reshaping and Redesigning Management
- 19.5 Performance and Reward Management
 - 19.5.1 Herzberg Viewpoint
 - 19.5.2 Performance
 - 19.5.3 System of Rewards
 - 19.5.4 Types of Reward Systems
 - 19.5.5 Factors Affecting the Reward System
 - 19.5.5.1 External Factors
 - 19.5.5.2 Internal Factors
 - 19.5.6 Impact of Reward System on Employee Performance
- 19.6 Internationalization
 - 19.6.1 Purpose of Internationalization
 - 19.6.2 Motivations for Internationalization
 - 19.6.3 Factors Influencing Appeal of International Market
 - 19.6.4 Positive Impacts of Internationalization
 - 19.6.5 Negative Impacts of Internationalization
 - 19.6.6 Procedure of Internationalization
 - 19.6.7 Examples of Internationalization



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19.7 Digitalization

19.7.1 Role of Digitalization

19.7.2 Importance of Digitalization

19.7.3 Functions of Digitalization

19.7.4 Drawbacks of Digitalization

19.8 Summary

19.9 Glossary

19.10 Answers to In-Text Questions

19.11 Self-Assessment Questions

19.12 References

19.13 Suggested Readings

19.1 LEARNING OBJECTIVES

After studying this chapter students may able to understand: -

- Concept, meaning, purpose and other requisite aspects of management challenges.
- Concept, meaning, purpose and other requisite aspects of performance.
- Concept, meaning, purpose and other requisite aspects of reward system.
- Concept, meaning, purpose and other requisite aspects of internationalization.
- Concept, meaning, purpose and other requisite aspects of digitalization.

19.2 INTRODUCTION

People worked longer hours and harder throughout the 1980s, which was referred to as the decade of the "business culture," in order to succeed personally and receive cash benefits. Workplaces are becoming hothouse, free-market settings as a result of factors such as globalisation, privatization, process re-engineering, mergers and acquisitions, strategic alliances, joint ventures, and similar things. A significant transformation of the labour market, unlike anything we had seen since the industrial revolution, started to take place by the end of the 1980s and into the early 1990s. Organizations drastically "downsized," "delayed," "flattened," or "rightsized" throughout the Western world and even further afield. New technology, rather than being our saviour, has increased the burden of information overload, as well as quickening the pace of work at a quicker speed of reaction (e.g. e-mails) (e.g. e-mails). Additionally, as more businesses embrace a global viewpoint, organisations and the



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people who work for them are discovering that success in the global market necessitates fundamental adjustments to both organisational structures and employee competencies. Increased global competition, the impact of information technology, the re-engineering of business processes, smaller companies employing fewer people, the shift from making a product to providing a service, and the increasing disappearance of the job as a fixed collection of tasks are some of the dramatic changes affecting work and organisations. These forces have wreaked havoc on all industrialized economies. Employee diversity is also becoming more prevalent in the new workplace. Gender, age, marital status, parental status, race ethnicity, education, sexual orientation, job tenure and experience, and physical disability are some of the differences between employees. There is a perception that variety has both potential benefits and drawbacks. The advantages include a more inclusive and representative workforce and services, as well as additional benefits as a result of the presence of various perspectives. The disadvantages are expected to include increased conflicts between distinct subgroups and greater flexibility in satisfying their requirements.

19.3 MANAGEMENT CHALLENGES OF TH 21st CENTUARY

Each works independently and collaboratively, with a combination of local and global influences defining the unique experiences of individuals in various locations around the world.

- **Dissatisfaction of Civilization:** There is a wave of opposition to government institutions and social order tools. Changes in media technology have intensified unhappiness and increased the need for change. The immediacy of social media contrasts dramatically with the deliberate deliberation of political institutions, contributing to a sense of detachment from civic institutions.
- **Technological Disturbance:** Learning to live and work with AI is critical if we are to take advantage of these advancements. According to trends, the worldwide stock of robots will expand in the coming years, reaching up to 20 million by 2030. Simultaneously, estimations indicate that a similar number of manufacturing jobs will be lost.
- **Shift in Economic Forces:** Many Western corporations have parent companies from emerging nations, and this trend is spreading globally. Policy reforms and diplomatic arrangements are being driven by this shift in economic power. India, Russia, China, and the United States are shifting away from leadership of a rules-based international order.
- **Reducing Environmental and Ecological Impact:** We are depleting our most valuable resources, such as water, and contaminating the air we breathe. Ice loss is now being lost five times quicker than it was in the 1990s. We must address a wide range of climate change and environmental degradation challenges.



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- **Increasing Wealth and Income Disparity:** Rising social inequality is caused by unequal access to wealth (capital and assets) and income disparity (earned money). Since the 2008 financial disaster and Covid -19 Pandemic, recovery has been uneven. Wealth disparity is becoming more widespread as privileged groups consolidate control of assets and resources.
- **Changing Norms of the Society:** In the 21st Century we are seeing a return to traditional societal norms and values. People's chosen identities continue to inspire violence and abuse in some areas of the world. There is a risk of narrowing rather than broadening one's perspective as a result of increased access to more voices.
- **Disagreement and Confrontation:** Asymmetric confrontations will continue to develop and spread, resulting in many more civilian deaths. Countries are increasingly exporting their hostilities to other countries in order to play out domestic tensions. Meanwhile, as some countries withdraw from globalisation, inter-state global tensions are rising.
- **Lack of Vision and Insight:** We need a system leadership strategy that promotes local collaboration and greater engagement across society. Leadership cannot be held by a small group; it must be shared across organisations.
- **Interdependence of National Economies:** Millions of people around the world are feeling the effects of globalization, with many feeling alienated beyond their immediate communities. Some states' response has been inward-looking nationalism, jeopardising critical global collaboration to address challenges such as cyber security, pandemics, climate change and environmental sustainability.
- **Mobility and Relocation:** The world is more mobile than ever before, but mobility and relocation are unequally and unfairly distributed. Increased mobility results in an elite that is disconnected from their communities of origin. Because of the accessibility of travel, health pandemics could spread faster than we can manage them.
- **Communication:** Maintaining open lines of communication, understanding how to interact and successfully conveying goals and expectations are all skills that leaders need to develop as well as develop their leadership skills.
- **Micromanaging:** Managers must be able to decide which work they can complete on their own and which tasks they may delegate to subordinates. Knowing when to intervene or assist team members without micromanaging or taking over a task are all skills new managers need to develop in the modern workplace.



19.4 FACTORS RESHAPING AND REDESIGNING MANAGEMENT

Managers in present global scenario are coping with altering workplaces, a converting workforce, global financial and political challenges, and a converting generation. Delivering high-quality customer service, supporting innovative activities, using social media efficiently and effectively are four essential areas for managers. The following are the important factors:

- **Customer Orientation:** Managers should develop a customer-responsive organisation in which employees are polite and courteous, available and informed, prompt in responding to client wishes, and willing to go above and beyond to please the customer. Managers recognise that excellent customer service is critical for survival and success in today's competitive market.
- **Innovation:** Innovation isn't just for high-tech or other technologically advanced enterprises. Innovative activities can be seen in a wide range of organisations. For example, at Tata of India, chairman Ratan Tata instructed his employees to "Cut charges". Think outside the box.
- **Sustainability:** Sustainability issues are now occupying the agendas of business leaders and the forums of thousands of businesses. Running a company in a more sustainable manner requires managers to make knowledgeable business decisions. Managers must begin to factor monetary, environmental, and social factors into how they pursue their business objectives.
- **Ethical behaviour:** A manager's ethical behaviour is determined by his or her morality, values, personality, and experiences; the culture of the organisation; and the issue at hand. Managers can encourage ethical behaviour by hiring employees with high ethical standards, establishing an ethics code, leading by example and providing ethics training.

19.5 PERFORMANCE AND REWARD MANAGEMENT

Firms need to ensure that their employee benefits are founded on fairness principles. According to research, perceptions of fairness and equitable treatment are a key driver of retention, engagement, and performance. In fact, unfair treatment is damaging as it damages an individual's self-confidence and motivation to succeed at work. Even the perception of unjust treatment can be disastrous for a company since it:

- Fosters an environment of suspicion and animosity
- Reduces organisational performance and employee commitment
- Increases unproductive workplace behaviour
- Reduces employees' willingness to assist one another.



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- Boosts unionization activities.
- Enhancing absenteeism and voluntary turnover.

The factors that push people out of firms include in descending order are given as under: -

- a. Possibilities for professional advancement
- b. Remuneration
- c. Working environment
- d. Manager/supervisory rivalry
- e. Lack of challenging work
- f. Lack of acknowledgement

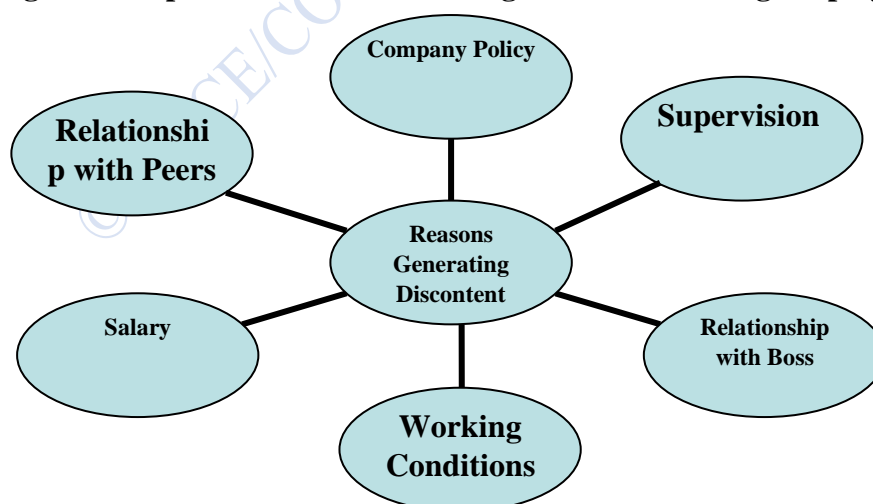
The majority of these entail views of unequal treatment in comparison to other employees.

19.5.1 Herzberg Viewpoint:

Organisations, whether private or public, always strive to achieve their corporate goals. The degree of productivity of any company is frequently used to determine its performance. Low productivity is a problem that flourishes in many developing countries around the world. Man is the element that uses other resources available within the organisation to produce commodities and services. Frederick Herzberg studied the motivation-hygiene theory of work to better understand employee attitudes and motivation. He found that the factors that cause job satisfaction differ from those that cause unhappiness. The satisfiers are motivators and the dissatisfiers are hygiene factors, he said.

Job Attitude Influencing Factors

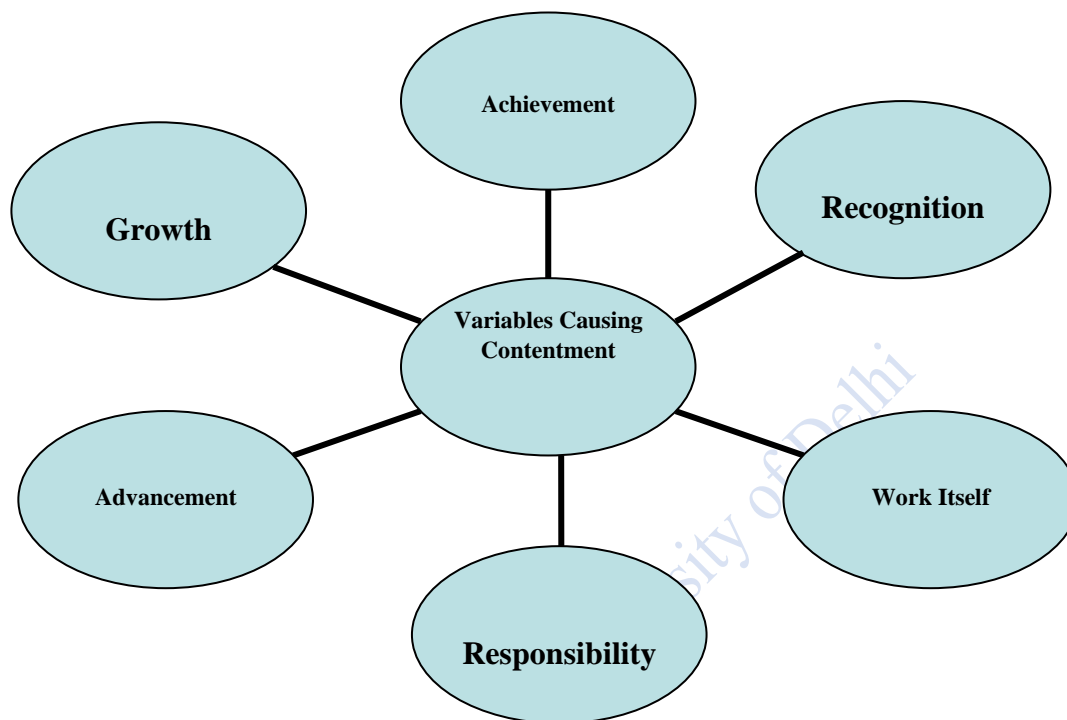
Figure 1: Top Six Reasons Generating Discontent among Employees



Source: Robbins, S. P., Judge, A. T. & Vohra, N. (2013). *Organizational Behavior*. Dorling Kindersley (India) Pvt. Ltd.



Figure 2: Top Six Variables Causing Contentment among Employees



Source: Robbins, S. P., Judge, A. T. & Vohra, N. (2013). *Organizational Behavior*. Dorling Kindersley (India) Pvt. Ltd.

Satisfaction and contentment are polar opposites - the inverse of contentment is no satisfaction, not unhappiness. There are two separate human needs portrayed: physiological demands that can be met with money and activities that promote growth. In the workplace, a two-stage procedure must be used to motivate individuals.

19.5.2 Performance:

Performance is a function of Abilities, opportunities and motivation and mathematically it is expressed as $P = f(A, O, M)$. It means performance is directly proportional to the abilities possessed by an individual, opportunities an individual may explore or have and the motivation level provided to them. Performance is a measure of successful role accomplishment. It is the result of aptitude mixed with motivation; aptitude is the product of aptitude such as innate abilities/acquired skills sharpened by training and resources; motivation is the result of desire and commitment in the right path. Productivity is a measure of worker performance. In other words, productivity can be quantified in terms of output per employee over a set period of time. When employees' performance is assessed to be high in terms of quantity and quality, the organization's productivity is regarded as high. Human performance is defined as the contribution of individuals to the organization's desired results.



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It is what people hired by the business are expected to accomplish in order to contribute to the collective efforts expected to be required to constantly give higher value to customers and stakeholders. These human performance factors include what the workforce should do (scope of the job), how they should do it (behaviours), how well they should do it (quality of the behaviours), when they should do it (timeliness of behavior- frequency, speed, and consistency), and ultimately how they can learn and change to do it effectively. If these targeted behaviours are implemented fully consistently and sustainably, with constant adjustment to the diverse conditions in the surrounding environment, the organisation is considered to be maximising performance.

19.5.3 System of Rewards:

The "reward system" refers to any forms of remuneration or awards given to employees at all organisational levels in exchange for their work. It is a system established by an organisation to reward and inspire employees, individuals, or groups for their good contributions to the organization's growth. It can also be defined as the procedures, rules, and standards that govern the distribution of benefits and remuneration to employees. Rewards are intended to drive specific behaviours, but they must be timely and related to effective performance in order to be effective. Promotion based on favouritism, for example, may have a negative effect as a motivator if the reward plan is perceived to be unjust and unreasonable. The reward system is the most important connection in the exchange process between individual employees and the business. Employees offer a variety of resources to the organisation, including time, effort, knowledge, skills, creativity, and energy. In exchange, the organisation provides people with both real and intangible benefits. Pay raises, bonuses, company automobiles, vacation benefits, well-furnished offices, jobs with higher responsibilities, sense of worth, recognition, health insurance plans, club privileges, child care support, job autonomy, wall plaques, nonverbal signals such as smiles, golden handshakes, profit sharing, incentive plans, developmental feedbacks, and so on are examples of reward system elements.

19.5.4 Types of Reward System:

The emphasis will be placed on financial and non-financial incentives in finding the type of reward system that improves work performance in the workplace. These are as under: -

- a) **Financial incentives** are monetary compensation made by an employer, either directly or indirectly. They include higher earnings and salaries, bonuses, profit-sharing, commissions, and increments, among others. Scientific management is an example of a management model based on financial rewards. The financial reward includes the following:
 - **Bonus:** A bonus is an extra payment given as an incentive or reward for hard work. It can be linked directly to performance, such as increasing sales or pushing a production line to meet or surpass a quota. Knowing there is a



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monetary incentive for higher productivity can be just what many employees require.

- **Allowance:** Allowance is money given to employees on a regular basis. It is distinct from the money that workers earn by working, which is referred to as wages.
- **Pensions:** A pension is, in general, a plan that provides people with an income after they are no longer generating a regular income from job.
- **Wages and salaries:** Wages are paid per hour worked, and employees are usually paid at the end of the week. Salaries are also paid monthly and are based on the previous year's labour.

b) **Non-Monetary Incentives:** These are non-monetary rewards. These are also crucial in terms of employee motivation. The non-monetary inducements give drive for: -

- **Job security:** Nothing motivates a temporary employee more than the promise of future employment. Even if a temporary worker works harder, the lack of job security is always a risk.
- **Challenging Work:** Workers with a lively personality do not prefer monotonous occupations and are more willing to take on difficult tasks. If a conservative individual is assigned a position that demands a dynamic approach, he or she may be unmotivated to accept it. A dynamic person will not feel induced if assigned a routine job.
- **Recognition:** Even a word of thanks from him will urge the personnel to maintain or improve their performance. Employees do not always need to be physically recognised in the form of physical benefits. It might be any gesture from the employer that comes at the perfect time.
- **Classification:** The designation of an employee is yet another motivating factor. Employees do show preference for certain designations. A salesman, for example, would like to be designated as a sales executive.
- **Career Growth and Development:** The Company should provide career ladder opportunities for the employees during his or her prime career. The company must always create possibilities for employees to perform effectively and advance in the hierarchy.
- **Workers Participation in Management:** Participation in important decisions is another non-monetary incentive that motivates every employee. For example, if management wishes to purchase new factory machinery, the workers' perspectives may be sought before making a final choice. Management should avoid making such judgments unilaterally.



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- **Creating a Sense of Healthy Competition:** Employees can benefit from healthy competition if management encourages it. This would almost probably motivate them to demonstrate their ability. Employees might also be ranked by management based on their performance. Employees who have performed very well may be awarded merit certificates.
- **Job Rotation:** By job rotation, we mean that employees will be exposed to a variety of jobs. Employees would undoubtedly benefit from this. In a bank, for example, an employee may work in the savings bank department for a while before being transferred to the cash sector. A shift like this not only stimulates employees to perform well, but it also prepares them to be adaptable.

19.5.5 Factors Affecting the Reward System:

There are a number of aspects as that influence the reward system payable to employees. There are external and internal elements which affects the reward system in an organisation.

1.5.5.1 External Factors

The following are the external elements influencing the reward system: -

- **Business Rivalry:** Global rivalry and globalisation play an important role in designing reward systems for many organisations. Traditional salary levels must be recognised as CEOs and professionals become more mobile. Those organisations who face significant competition from international competitors in the local market must match the pricing and quality of the local service or product.
- **Technological Advancement:** When organisations train and develop staff from within, it may result in compensation for the added competence in the form of competency-based pay or sharing in the benefits of enhanced organizational effectiveness. This has an impact on market positioning and pays mix and could lead to a shift in the current salary curve.
- **Labour Market:** A low wage may be fixed when the supply of labour exceeds the demand for it. A higher wage must be paid when demand exceeds supply, as in the case of skilled labour. However, exploitation of unskilled labour, such as providing pitiful wages, is unethical.
- **Living Cost:** Many employers include escalator language in their salary agreements, which states that temporary allowances will grow or decrease according to the fluctuation of the consumer price index (CPI). The living cost in society is also a determinant on how organisations set their wages. This can be regarded in the context of an increase in the cost of living, which may be offset by the provision of other allowances.



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- **Labour Unions:** The presence or absence of labour groups frequently influences the amount of salaries paid to employees. Employees in heavily unionized organisations have little wage and compensation fixation freedom. Employers in non-unionized factories have the freedom to set their own wages, salaries, and other reward systems.
- **Economic Health:** The health of the economy has an impact on the reward system. In most circumstances, an increasing economy raises the level of living. In a down economy, labour unions, the government, and society are less likely to or pay increases for many workers in the private sector.

19.5.5.2 Internal Factors

The internal elements that influence the reward system include the following: -

- **Corporate Policy:** Where an enterprise's objective is to achieve quick expansion, employees' pay should be higher than that of its competitors.
- **Performance Review and Job Assessment:** A job assessment is a systematic review of an individual's performance and development potential, which aims to establish acceptable compensation differentials between jobs. Employees who demonstrate increased performance benefit from a performance appraisal or performance review are entitled to a higher pay and benefits for the same amount of time.
- **Affordable:** The cost of doing business is affected by rising costs, inflation, currency fluctuations, and competition. Organizations are constantly looking for ways to be as cost effective as possible. This can occasionally lead to retrenchment, in which people left behind fill the void by working harder or smarter.
- **Executive Board:** In most organisations, the salary review process would be initiated by the executive board. They would also present the recommendations to the committee and shareholders. They most likely have the most influence on pay policy ideas.
- **Cultural Change:** The trade-off between risk absorption by the organisation and the supply of variable pay is a fundamental issue in establishing a compensation plan. Compensation design and organisational culture are intricately intertwined. Certain policies are 'allowed' by culture, while others are rejected.
- **Employee Related Factors:** There are several employee-related elements that influence employee compensation and these are as under: -
 - **Performance:** Performance is always rewarded with a raise in pay. Rewarding performance encourages employees to perform better.
 - **Seniority:** While management prefers performance to influence pay increases, unions view seniority as the most objective basis for pay increases.
 - **Experience:** Experience allows employees to get useful insights and should so be rewarded.



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- **Employee Potential:** Potential is meaningless if it is not realised. However, some individuals are compensated based on their potential by organisations. Young managers are paid more because of their ability to perform, even if they lack experience.
- **Fortune:** Some people have the good fortune to be in the right place at the right time.

19.5.6 Impact of Reward System on Employee Performance

The many situations or scenarios in which financial and non-financial incentives will encourage employees to achieve organisational goals and these are as under: -

- Employees from lower-income families are more likely to be motivated by cash benefits than non-monetary rewards.
- Employees with extended family members are more likely to be motivated by cash benefits than non-monetary rewards.
- Highly skilled workers in developing countries are more likely to be motivated by both monetary and non-monetary rewards.
- In underdeveloped countries, non-skilled/low-skilled employees are more likely to be motivated by cash benefits than non-financial rewards.
- Employees from less-developed countries are more motivated by monetary benefits than non-monetary rewards.

Motivation is both performance-oriented and catalyst that fuels employees' enthusiasm to work without stress. To motivate means to cause or provoke someone to act in a favourable or negative manner. Effective managers have utilised motivation to inspire ordinary individuals to achieve extraordinary results in all spheres of life.

ACTIVITY

Visit any industry situated near to your institution and ask the manager what challenges they are facing in managing their workforce at all level of management? Also discuss with the manager and supervisor of that particular industry about performance evaluation of the employees and reward system undertaken by them to promote their employees.



IN-TEXT QUESTIONS

1. The incentive for great collaborative effort improves _____
 - a) Cohesiveness and morale in the group
 - b) Mutual acceptance
 - c) New sources of inspiration in the group
 - d) The group's welfare
2. External rewards are _____
 - a) Received from someone other than the individual
 - b) Psychological benefits that originate within the individual
 - c) Psychological benefits gained from communicating with others
 - d) All of the above
 - e) None of the above
3. It is called _____ when goal planning, performance appraisal, and development are combined into a single, uniform system meant to guarantee that employee performance supports a company's strategy.
 - a) Organizational Strategic Development
 - b) Performance Management
 - c) Performance Evaluation
 - d) Human Resource Administration
- 4) Feedback works best as a tool in the _____ component of the Total Reward idea.
- 5) Except for the following, the worth and salary of a work should be determined by all of the following factors:-
 - a) The hazards and conditions under which the task is done
 - b) The amount of talent and effort required for the job
 - c) The level of accountability involved
 - d) The employee's gender



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IN-TEXT QUESTIONS

- 6) Which of the following is an example of a non-monetary incentive: -
 - a) Bonus
 - b) Commission
 - c) Employee Appreciation Program
 - d) Health Benefits
- 7) The awards offered by an organisation are _____ in nature.
- 8) Except for the above, the most typical incentive management objectives are:
 - a) To penalize staff for bad performance
 - b) To recognise and reward previous performance of personnel
 - c) To keep the budget intact
 - d) To attract fresh staff
- 9) An individual's actual performance is measured in terms of his or her _____.
- 10) Performance management is the practise of ongoing communication and feedback between a manager and an employee aimed at achieving _____.

19.6 INTERNATIONALIZATION

Internationalization has received a lot of attention in recent years as the globe has become more of a global village. What exactly is internationalization? How does a multinational corporation penetrate new markets? What are the benefits and drawbacks of expanding internationally? Internationalization is the process by which a corporation expands into international markets in order to get a larger market share. The trend toward internationalization leads to globalisation, which is the state in which economies around the world become integrated through cross-border trade and investment. Companies may be required to adjust their product features and branding to meet the cultural and technological needs of the local market as part of the internationalization.

19.6.1 Purpose of Internationalsalisation:

Being multinational means that a company has to be constantly aware of global market trends. This means learning about new consumer habits and then leveraging that knowledge to make the business more competitive. This can also be employed in the domestic market, as specialist markets have high development potential. Consider the following potential purposes of international trade before extending to the foreign market: -



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- **Expansion of Customer Base and Revenue:** Coca-Cola's global operations helped sales surge in China, India, and South Korea, helping Coca-Cola globally. You can pave the road for business and revenue growth by entering new markets. Companies can leverage international markets to promote new products and services that will help them maintain a solid revenue stream.
- **Managing Risk:** Market diversification is an important goal of international trade. Making a corporation less reliant on a single market can help it avoid hazards in its core market.
- **Increased Brand Awareness:** Entering new markets might provide businesses with access to better people, improved market conditions, and industry breakthroughs. Companies that enter new markets must innovate and improve their offerings in order to compete with local firms.
- **Cost Benefit:** When a corporation enters a new market, it opens up potential to benefit from international investments that may not be available in the home country. Many governments provide incentives to corporations who want to invest in their area. Foreign investment can be beneficial to their business by accelerating expansion and providing access to economic talent and other benefits.
- **Access to New Technology:** Worldwide growth can also assist businesses in gaining access to new technologies and ecosystems in the industry as well as the international workforce. These links and networks have the potential to greatly improve business operations.
- **Goodwill and Image:** International business can also help to improve a company's reputation and support future business scenarios. This is because brand awareness and trustworthiness have increased.

19.6.2 Motivations for Internationalisation:

There are four primary motivations for a company to expand its activities abroad and are given as follows: -

- **Market Growth:** Because the local market may have a restricted consumer base or get saturated over time, firms must expand internationally to improve their market share and continue to grow.
- **Higher Profitability:** To increase earnings, multinational enterprises can take use of marketing and technology advantages in the host country or introduce higher prices to new clients.
- **Smooth Survival:** By expanding internationally, the company can reduce its reliance on a single market or customer base. In the event of a market failure or a change in client behaviour, it can still rely on other activities to survive.



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- **Competitive Edge:** Companies that operate on a larger scale have greater economies of scale, allowing them to cut their costs and be more competitive. The company's global presence improves its reputation and allows it to attract more clients than local enterprises.

19.6.3 Factors Influencing Appeal of International Market:

The factors that influence the appeal of international marketplaces or foreign market are given as follows: -

- The market's size and projected growth
- The market's accessibility (geographical, political, legal, technological, social barriers)
- The compatibility of the company's portfolio's various markets
- The availability of resources and the distance to the target market
- Competitive setting
- Outside influences (PESTEL is an acronym for the names of the six general environment segments such as political, economic, social, technological, environmental, and legal).

19.6.4 Positive Impacts of Internationalization:

When a corporation relocates to another country, it may get access to modern technology. This allows it to produce more goods at reduced costs and grow its market share. With broader market penetration, the corporation has a higher reputation and retains its market position. Furthermore, experience in foreign markets assists the organisation in improving its domestic operations. There are several positive impacts to internationalization activities given as under: -

- Scale and scope economies
- Resource utilisation that is efficient
- Lower production costs
- Market growth
- Better reputation
- Activity diversification
- Increased knowledge
- Product creation
- Stability and operational flexibility



19.6.5 Negative Impacts of Internationalisation:

The natural disasters and plagues, for example, can have a negative ROI for internationalized businesses. There are also cost-related hazards, such as declining international market demand, which affects the company's revenues. Coordination of numerous markets into one cohesive ecosystem may pose hurdles for organisations that join multiple marketplaces. The following are the negative impacts: -

- Higher risks and transaction costs.
- Higher coordination and governance costs.

19.6.6 Procedure of Internationalization:

Before entering into the foreign market, the management of the company has to follow a proper procedure which is given as under: -

Step 1: Determine the Reasons for Internationalization: The first step is to determine the reasons why you want to enter into an international market. The organizational and environmental elements may act as the driving forces behind internationalization.

Step 2: Undertake a SWOT Analysis: Once the management of a company has defined the causes of entering international markets, the responsible team should conduct a SWOT analysis to determine the company's strengths, weaknesses, opportunities, and threats.

Step 3: Select an Offering for the Foreign Market: When selecting an offering to offer in a foreign market, look for the offerings with worldwide appeal, such as distinctive features, ingredients, unique and catchy names, or original designs and other requisite aspects to have the competitive edge.

Step 4: Select a Market to Enter: Once management has decided on what to offer? They need to figure out where (market) they have to sell it. This is accomplished by thorough market research as well as assessing the advantages and disadvantages of all potential markets.

Step 5: Determine the Type of Market Access: The next step is to determine how to enter a market. Exporting, licensing, franchising, and wholly-owned ventures are the four most common entry modes.

Step 6: Determine the Time and Channel of Entry: It is the final phase involves market entry time. When would the company enter the market, and how would they do so?

19.6.7 Examples of Internationalization:

- McDonald's began as a small brand selling hamburgers and has now developed into a thriving worldwide corporation with 39,000 outlets in over 100 countries. The internationalization strategy of the corporation is built on franchising, which is the



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process of allowing a business operator (franchisee) the right to market the company's products. Approximately 93% of restaurants are run by independent local company owners.

- Nike's initial foray into internationalization occurred in 1975, when it built its first office in Taiwan. It now has branches all around the world. Nike shoes, clothes, and other accessories, like those of other global corporations, are manufactured in lower-wage countries in Asia and Latin America. As of now, the firm operates approximately 700 factories in 42 countries.
- Starbucks is an international coffeehouse chain established in Washington, D.C. For the past 50 years, the corporation has effectively branded itself in 83 countries, opening 32,938 outlets. Starbucks' success stems in part from its ability to adapt to the culture and infrastructure of other regions. In Japan, for example, Starbucks' cafe is designed to seem like a traditional Japanese tea house. To appeal to local clients, they also offer matcha, Japan's holy drink.

ACTIVITY

Discuss in the class about the pros and cons of Internationalization. Whether it is beneficial for an organisation or not? Note down in the form of assignment the procedure and requirement of internationalization. Submit the assignment with the class teacher.

IN-TEXT QUESTIONS

11. Which is the correct order of Internationalization stages?
- a) Local, national, transnational, global, international, and multinational
 - b) Local, International, Multinational, Global, and Transnational
 - c) Local, National, Multinational, International, Transnational, and Global
 - d) International, Transnational, Multinational, and Global



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12. Domestic enterprises are forced to become more competitive in terms of _____ as a result of international trade.
 - a) The launch of new products
 - b) Product quality and design
 - c) Product cost
 - d) All of these
13. Internationalization factors include: -
 - a) Domestic motivations for foreign investment
 - b) Internal organisational elements that arise within an organisation and influence a firm's decision to launch, develop, and sustain foreign business activity.
 - c) The motivations of a multinational corporation for establishing an overseas venture.
 - d) Internal and external elements influencing a company's decision to begin, expand, and sustain international business activity.
14. _____ is the process of developing a product so that it may be easily consumed in many nations.
15. SWOT analysis is used to assess the _____, weaknesses, _____, and threats of a company.

19.7 DIGITALIZATION

The business world is shifting online. Project managers are rapidly abandoning the use of pen and paper, physical whiteboards with sticky notes, and "multifunctional" cubicle office walls to manage their tasks and processes. People in project management and other commercial fields are increasingly relying on the Internet and cell-phones in their pockets to do their tasks. People can also access and manage digital products. Project managers aim to bring their teams and processes online in order to produce products and services more quickly and effectively, and to keep up with the competition. It's all connected to the idea of digitization. Digitalization has transformed traditional business methods and altered people's perceptions of products and services. Online project management and collaboration tools, cloud platforms, and cutting-edge technologies all lead to improved business outcomes. Digital project managers are the new faces of modern management, and they understand how to leverage digitalization to rock their organisations and clients. The term "digitalization" refers to the digital change of society and the economy. This notion is about the transition from the



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industrial age of analogue technology to the age of information and creativity, which will be characterised by numerous digital business advances. Digitalization in project management enables team members to be more productive and add value from the first day on the job by allowing them to communicate with clients and team members. It results in the merging of online and offline. It has an impact on disruptive technology and radical shifts in several industries.

19.7.1 Role of Digitalization:

The procedure of transforming information from its original form to a digital (computerised) representation is known as digitization. This format displays data in the form of bits or bytes. Business process efficiency, consistency, and quality all benefit from digitalization. It helps in performing following tasks: -

- Convert traditional documents or files to digital format, removing redundancies and shortening the communications chain
- Enhance and allow greater information interchange
- Assist in the provision of customer service everywhere in the world
- Lower operational costs
- Avoid human mistake
- Make use of analytics and real-world user data
- Enhance business growth continuity

Innovative digital solutions provide a competitive advantage in the corporate world by improving quality, reinventing profitable approaches, and promoting consistency. As a result, many organisations' managements have embraced digitalization.

- Lowers costs
- Improves efficiency
- No human mistake
- More secure cloud data storage
- Lowers operational costs
- Allows data to be analysed

19.7.2 Importance of Digitalization:

- **Online Presence:** An online marketing agency may assist you in developing a website and registering your company on numerous Social Media Platforms. To make a favourable impression, it is also necessary to respond to comments and questions posted on internet platforms. Mobile technology allows consumers to obtain information about the items and services they need to acquire.



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- **Paid Promotion:** In order to increase business awareness, register the brand for paid advertising on Facebook, LinkedIn, Instagram, and other platforms, where users are looking for new and dependable items. According to a poll, 60% of internet purchases are influenced by social media evaluations and comments. These statistics show how Social Media may benefit your business.
- **PPC (Pat per Click):** It is a platform that generates desired sales and inquiries. To gain 10-15% of customers who click on sponsored Ads, the organisation must implement a PPC plan. This is critical because Google Adwords provides a variety of solutions for Display, Remarketing, Shopping, and Video. This platform provides possibilities for the business where they can reach millions of potential visitors and customers simply by following the PPC trend.
- **SEO (Search Engine Optimization):** It is a great approach that uses content to promote natural traffic and sales. It is the most cost-effective online marketing method for spreading business all over the world. When organisations start obtaining traffic for sales that result in a large profit, the relevance of digitization becomes clear. To be at the top of organic search results, the corporate houses must use SEO services.
- **Video Marketing:** End users devote a lot of time online watching video content before making purchasing decisions. Video marketing now accounts for a sizable amount of consumer traffic. Companies nowadays want to share their brand's message through video content rather than text communications since videos provide visuals and a personal interaction.
- **Content Creation:** The corporate must post relevant product-related content to increase brand visibility. This provides the customers with the necessary information. Depending on the type, the content can take the shape of a blog, video, testimonial, interview, and other Medias.
- **Digital Public Relations:** Using a Digital PR plan, the management may improve the reputation of the offering. The online marketing team contacts many media outlets to write a snappy story about the firm or to feature their responsible executive in a blog post. The more individuals who tweet about the company, the more exposure the company will receive.

19.7.3 Functions of Digitalization:

The use of digital technology to modify a corporate model in order to increase revenue and value-added prospects is known as digitalization. It encompasses the process of adapting traditional business models to new technologies. Digital technology can help companies to collect data, discover patterns, and make better business decisions. The following are the functions of the digitalization: -



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- **Process Improvements:** Every business is constantly looking for new ways to improve efficiency. Process automation and related business rules will assist the firm in achieving better openness and fairness. One of the most major benefits of digitization is that it reduces the amount of time it takes to perform a task, and the work required to complete it.
- **Increased Efficiency:** Businesses are freeing their employees from monotonous job tasks, allowing them to focus on more difficult and innovative initiatives. Process automation allows people to make better use of their work time. Tasks can be completed more quickly and with fewer errors with business process automation solutions.
- **Minimize Operating Expenses:** Inefficient operations can cost a company up to 30% of its annual income. Digitalization allows personnel to make the most efficient and cost-effective use of their primary resources. Manual tasks are performed one at a time, they are inherently slower than automated activities and processes.
- **Promote Accountability:** Process documentation and transparent workflow increase an organization's visibility. Managers don't have to worry about employees forgetting what they're supposed to do. Leaders who visualize processes can quickly spot bottlenecks and possibilities.
- **Reliability and Efficiency:** The most significant roles of digitalization is that it ensures that each activity is performed consistently, resulting in high-quality, trustworthy output. If company automates the customer service follow-up procedure, for example, the customers will always receive the same level of service from the organisation.
- **Reduced Error:** When procedures are automated, the possibility of human error is greatly reduced. Humans are more prone to error than machines when performing jobs. Machines never tired and may operate continuously 24 hours a day. So let us delegate what we don't want to do to computers and focus on more difficult things.
- **Increased Employee Confidence:** Employees' ability to learn, develop, and advance professionally is hindered when they are obliged to focus on manual repetitive duties. Employees gain from digitization since it automates these monotonous tasks, allowing them to focus on more important efforts and therefore improving morale.
- **Improved Decision Making:** Information management and digitalization go hand in hand; as information is analysed, it converts into knowledge, and knowledge results in fruitful decisions.

**B.Com. (Hons.)****19.7.4 Drawbacks of Digitalization:**

- The advantages of digitization have a disadvantage. We are putting all of our eggs in one basket by centralizing power over our wealth and personal information. While technology eliminates human mistake, it is not immune to failure, therefore we risk losing control of our assets if we rely on something that is not 100% trustworthy. Giving up control also exposes us to digital crime, such as hackers, who have unknown devastating potential.
- The efficient communication can have a detrimental impact on our real-life social skills and erode the industry's stability.
- Easily available information increases the likelihood of its misuse, such as improper self-diagnosis for health concerns, and permits the dissemination of misleading information that can be used to manipulate others.
- The quickly, superficial nature of digital communications may result in a more passive society unable to explore ideas on a deeper or more passionate level.

ACTIVITY

Organise a class seminar and discuss the necessity of digitalization for corporate world in the present scenario. Also analyse critically that what are the positive and negative impacts of digitalization on a company? In the end prepare an assignment on the same and submit it with the subject coordinator.

IN-TEXT QUESTIONS

16. The term digital comes from the _____ words Digitus or Digitalis.
17. _____ is the process of converting real items or qualities into digital representations.
18. The goal of _____ is to facilitate automation, improve data quality, and collect and arrange all of that data so that improved technology, such as better and smarter software, may be applied.



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19. Customers' experiences, operational processes, and _____ are all being digitally transformed by executives.
20. The digitization of corporate processes aids in the improvement of process efficiency, uniformity, and _____.

19.8 SUMMARY

Dramatic changes in work and organisations are affecting all industrialized economies. Employee diversity is also becoming more prevalent in the new workplace. There is a perception that variety has both potential benefits and drawbacks. The advantages include a more inclusive and representative workforce, and additional benefits as a result of the presence of various perspectives. Firms need to ensure that their employee benefits are founded on fairness principles. According to research, perceptions of fairness and equitable treatment are a key driver of retention, engagement, and performance. In fact, unfair treatment is damaging as it damages an individual's self-confidence and motivation to succeed at work. Motivation is both performance-oriented and catalyst that fuels employees' enthusiasm to work without stress. To motivate means to cause or provoke someone to act in a favourable or negative manner. Effective managers have utilised motivation to inspire ordinary individuals to achieve extraordinary results in all spheres of life.

Internationalization is the process by which a corporation expands into international markets. The trend toward internationalization leads to globalisation, which is the state in which economies become integrated through cross-border trade and investment. Companies may be required to adjust their product features and branding to meet the cultural and technological needs of the local market. No industry will be spared by the upheaval caused by digitalisation. Some of the benefits of digitalization in business include increased efficiency, cost savings, and increased output. To summaries, it is literally a matter of life or death for many businesses today as they seek to survive in a digital world.

19.9 GLOSSARY

- **Digitalization:** The use of digital technologies to modify a business model and generate new revenue and value-producing opportunities is known as digitalization.
- **International Market:** Any geographical place where a corporation conducts business that is outside the territorial boundaries of the company's native country is referred to as an international market.



B.Com. (Hons.)

- **Internationalization:** The practise of creating products, services, and internal operations to promote expansion into international markets is known as internationalization.
- **Management:** It is the process of accomplishing things through others and having them do so freely." It is a challenging art, not a science, as in the computer or manufacturing industries.
- **Reward:** It is provision of anything such as monetary or non-monetary in exchange for a service or accomplishment of objectives by the employees.
- **Performance:** The achievement of quantifiable goals could be used to determine performance. However, performance is not only about what people achieve, but also about how they achieve it. High performance is the consequence of proper behaviour and the efficient application of required knowledge, skills, and competences.
- **Performance Management:** It is a continuous process of communication between a administrator and an member of staff that takes place throughout the year in order to support the organization's strategic objectives.

19.10 ANSWER TO IN-TEXT QUESTIONS

1. a) Cohesiveness and morale in the group	11. b) Local, International, Multinational, Global and Transactional
2. a) Received from someone other than the individual	12. d) All of these
3. b) Performance Management	13. d) Internal and external elements influencing a company's decision to begin, expand, and sustain international business activity.
4. Reward and Acknowledgements	14. Internationalization
5. d) The Employee's Gender	15. Strengths and Opportunities
6. c) Employee Appreciation Program	16. Latin
7. Tangible	17. Digitization
8. a) To Penalize staff for bad performance	18. Digitalization
9. Efficiency and Effectiveness	19. Business Models
10. Organisational Goals	20. Quality

19.11 SELF-ASSESSMENT QUESTIONS

1. Discuss the challenges faced by the management in 21st century.



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2. Do you agree that digitalization of the economy create a fear of loss of security and secrecy in the minds of end users? Comment
3. Is it true that reshaping and redesigning of management helps in creating a positive image of the organisation in the minds of public of the area in which that has been established? Discuss with the help of the suitable example.
4. Performance is a function of abilities, opportunities and motivation. How? Elaborate.
5. Elaborate the factors affecting the reward system prevailing in an organisation.
6. The reward system has direct impact on the performance level of an individual. Discuss
7. The internationalization of the corporate helps in improving the profitability. Do you agree with this statement? Comment
8. Discuss the purpose and motivations taken into consideration while internationalization of the business.
9. What are the positive and negative impacts of the internationalization? Elaborate
10. What do you mean by digitalization? How it helps in improving the performance of an organization? Discuss
11. “It is a matter of life and death for many businesses in the present time, as they seek to survive in a digital world.” Comment

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LESSON 20

ENTREPRENEURSHIP AND INNOVATION

Dr. Virender Kaushal

STRUCTURE

- 20.1 Learning Objectives
- 20.2 Introduction: Entrepreneurship
- 20.3 The Value of Entrepreneurs
- 20.4 Competencies for Entrepreneurs
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20.1 LEARNING OBJECTIVES

After studying this chapter students may able to understand: -

- Concept, meaning, purpose and other requisite aspects of entrepreneurship.
- Concept, meaning, purpose and other requisite aspects of innovation.
- Concept, meaning, purpose and other requisite aspects of workforce diversity.
- Concept, meaning, purpose and other requisite aspects of democracy and sociocracy.
- An attempt has been made to provide an insight about these concepts in this chapter so that students may take the advantages and benefits of these concepts.

20.2 INTRODUCTION: ENTREPRENEURSHIP

The French term "Entreprendre," which means "to undertake," is the root of the English word "entrepreneur." A person who possesses the aptitude and motivation to launch, manage, and be successful in a startup enterprise, coupled with the risk necessary to do so, is referred to as an entrepreneur. The launch of a new company venture is the best illustration of entrepreneurship. The market is opened up to new ideas by entrepreneurs, who are frequently credited as innovators or sources of fresh concepts. From small, home-based businesses to international corporations, it can be categorised. In terms of economics, an entrepreneur's profits are derived from a combination of land, natural resources, labour, and capital.

The term "entrepreneur" dates back to the middle Ages, when it simply referred to a person who completed undertakings like building and construction projects, by using all the resources at his disposal. However, it wasn't until the 16th century that the word "business" became widely used and the concept of an "entrepreneur" emerged as a person in charge of starting a business. The term "entrepreneurship" may be traced back to the economists of the



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eighteenth century, and it continued to hold economists' attention throughout the nineteenth. During the 20th century, the phrase came to be associated with capitalism and free enterprise. In the last two decades of the 20th century, the idea of entrepreneurship has changed from being the domain of a single person to that of a whole company or business. The aptitude and preparedness to create, plan, and manage a business enterprise—along with all of its uncertainties—in order to turn a profit is what is meant by entrepreneurship. The creation of new firms is the most visible illustration of entrepreneurship. Entrepreneurs are highly motivated, action-oriented people who take risks to accomplish goals. An entrepreneur is someone who develops a novel production combination. The entrepreneur is the company's founder who recognises opportunities, gathers qualified personnel and essential resources for the operation of the business, draws customers and financial institutions, and accepts psychological responsibility for effectively operating the business. Starting a firm, growing it, and turning a profit are all parts of entrepreneurship.

Although simple, this term is rather constrictive. The modern notion of entrepreneurship entails changing the world by identifying and resolving significant issues. Entrepreneurship is implied when a person starts a business to implement their idea. This raises the issue of labour and capital used to create goods and services for profit. In this activity, an entrepreneur makes decisions that are meant to transform the world. Although it requires taking a lot of risks, becoming an entrepreneur can be quite rewarding. It contributes to economic prosperity, expansion, and innovation. In terms of economics, entrepreneurship involving land, labour, raw materials, and capital can be profitable. The entrepreneurial vision is characterised by exploration and taking risks, and it is a crucial component of a country's ability to prevail in a world market that is always evolving and becoming more competitive.

20.3 THE VALUE OF ENTREPRENEUR

- **Employment Generation:** Jobs occur as a result of entrepreneurs. They are necessary for jobs to exist. They take up the danger of working for themselves in order to maintain the expansion of their companies. In essence, new jobs are being created as a result. More jobs are created for the unemployed as their company continues to expand.
- **Innovation:** Businesses are mostly responsible for the majority of the most important technology in today's society. These technological developments are the result of efforts to solve issues, increase productivity, or better the world. Entrepreneurs are extremely inventive, and if technology improves rapidly, an entrepreneur is typically to blame.
- **Change:** Entrepreneurs has very high aspirations, as a result, some of these concepts inevitably result in change on a global scale. Most of the time, they can develop new



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goods that address pressing issues or take on the task of developing something that have never existed before. Many targets use their services, concepts, or enterprises to enhance the world.

- **Contribution to Society:** Businesspeople are more charitable than the average person because they contribute more to society. They contribute more taxes when they earn more money, which helps pay for social programmes. Some people want to put money into developing programmes that will help disadvantaged communities, such as providing clean water and adequate healthcare.
- **Higher National Income:** The national revenue of a nation is increased by entrepreneurship (GDP). They help an economy create new wealth. New markets will expand and wealth will increase as a result of better products, services, and new ideas.

20.4 COMPETENCIES OF ENTREPRENEURS

Entrepreneurs require intuition, innovative skills, and creative thinking. Entrepreneurs are not born; rather, they learn to be them. Through a variety of training programmes for business owners, they can learn new things and enhance existing skills. The abilities listed below are necessary for an entrepreneur: -

- **Conceptual:** An entrepreneur can instantly spot connections in the midst of complicated situations. He recognises issues and gets to work on solutions more quickly than others.
- **Technological:** A smart entrepreneur should be interested in experimenting with novel concepts, cutting-edge technologies, and production techniques. He needs to have some amount of technical expertise.
- **Human Relation:-** An entrepreneur needs to keep friendly relationships with the general public and his clients. Additionally, he needs to keep a positive working relationship with his staff in order to inspire them to work more effectively.
- **Communication:** An entrepreneur's communication must be concise, persuasive, and to the point. Most entrepreneurs' success is a result of their ability to communicate effectively.
- **Decision-Making:** The capacity to select the best option from a variety of possibilities is known as decision-making. An entrepreneur should be able to weigh the pros and cons of numerous business scenarios before making a choice.
- **Managerial:** An entrepreneur needs to be able to control the people and other production-related aspects. He should be able to choose, develop, and retain the members of the labour force.



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- **Time management:** It is the act or process of exerting ongoing control over the amount of time spent on particular activities. To boost production or efficiency, this is important. To manage their time, an entrepreneur needs to have this ability.
- **Stress Management:** In today's world, managing stress is one of the keys to a successful and happy existence. It is the most effective approach to control anxiety and keep up general wellbeing. Entrepreneurs need to be able to use a variety of stress management techniques.
- **Individual Skill:** Entrepreneurship is developed by individuals with impressive personalities and individual skills. Since entrepreneurs must interact with officers, engineers, labourers, clients, investors, government officials, etc., these traits are unavoidable.
- **Exploring new Opportunities:** Entrepreneurs are able to do this. They enjoy learning about new markets and production techniques. They are innovators in their own field as a result.
- **Unity:** An entrepreneur interacts with numerous groups and unions. He must organise numerous items in various ways and bring them all together for a single objective. He must therefore possess organising and unification skills.
- **Digital Literacy:** A businessperson who is computer literate can use the equipment and programmes to carry out various tasks. A computer is a useful tool for making decisions. Email, telnet, purchasing software, and the World Wide Web are some significant internet applications.

20.5 FUNCTIONS OF ENTREPRENEURS

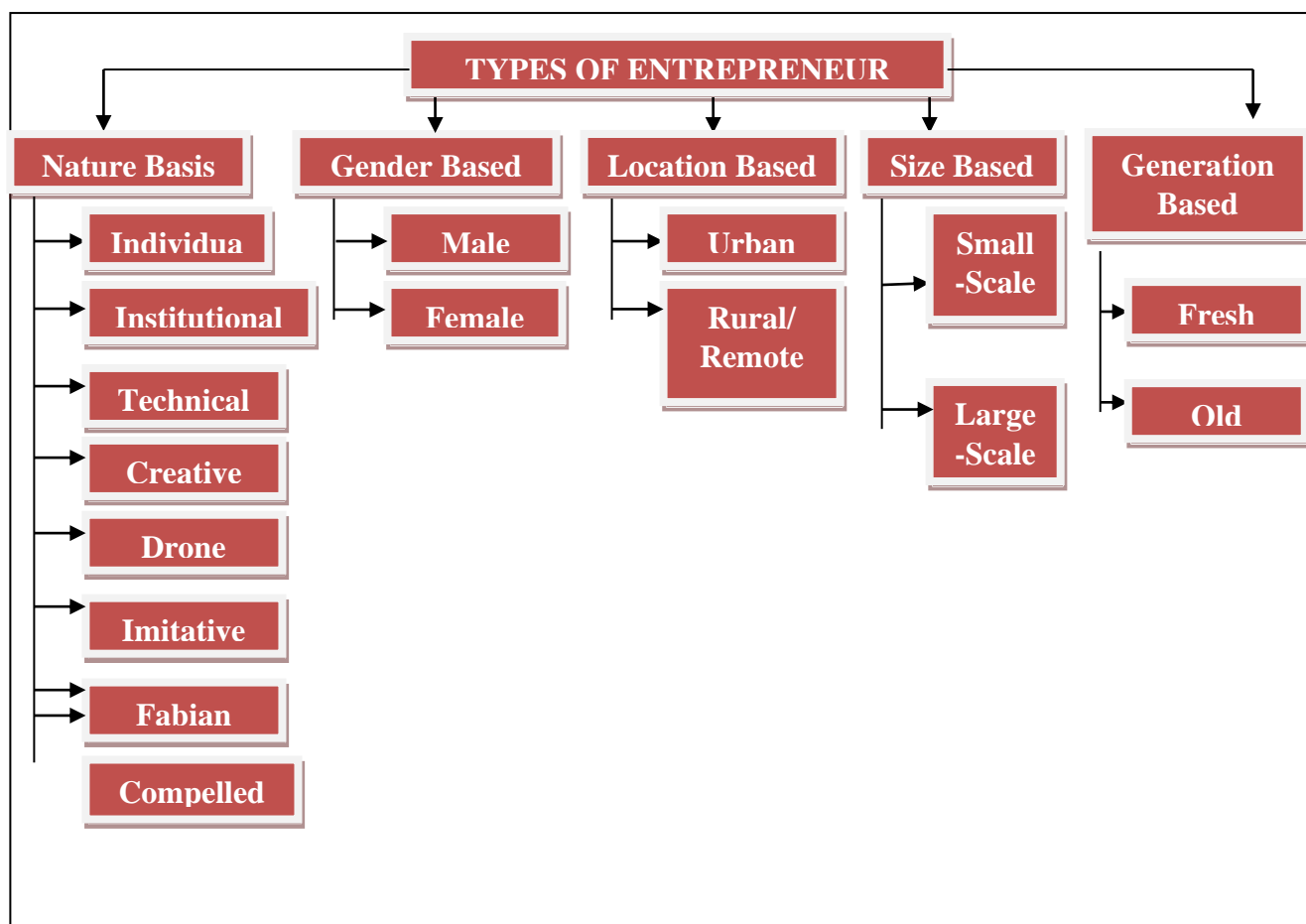
- **Innovation:** Creativity is the capacity to create something new or of carrying out an existing action in a novel manner. But there are differences between innovation and creativity. A person may have an idea for something new and see how it will be valuable, but they may not take the required steps to make it a reality.
- **Taking risks:** It is the act of engaging in an activity or making a decision without knowing the results. But it is still possible to assess risk in terms of relative probability. Risk-taking refers to setting aside money so the entrepreneur can start and run the business.
- **Management and Organization:** Many entrepreneurs make the mistake of thinking that their company doesn't require a sophisticated system of administration and organisation. Planning for an enterprise, coordination, control, and monitoring are all part of the organisation and management process. This role was acknowledged by Prof. Alfred Marshal as a crucial one for an entrepreneur.



- **Business Judgments:** According to Arther H. Cole, an entrepreneur makes judgement calls. The entrepreneur must make the decisions regarding what to produce, how to produce, and for whom to produce. In this regard, he must put his creative process into practise.

20.6 KINDS OF ENTREPRENEUR

The following are the different types of entrepreneurship: -



- a) **Nature Basis:** Nature refers to the human traits that serve as a primary incentive for pursuing entrepreneurial endeavors. On this premise, entrepreneurs are divided into two categories: -
- **Individual Entrepreneur:** A person is the forefather of entrepreneurship in human history. An individual entrepreneur is a single person who embarks on an entrepreneurial activity.



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- **Institutional Entrepreneur:** Institutions are groupings of people who work together to achieve a shared purpose. When an institution embarks on entrepreneurial initiatives, it is referred to as an institutional entrepreneur. Individual and institutional motivational forces are further classified in both of the above categories.
 - i. **Technical Business Owner:** A person who is knowledgeable with a certain technology may notice some of the potential modifications that may result in cost-effective performance. This helps to create/promote technical entrepreneurs. They raise the necessary funds and hire professionals in finance, law, marketing, and other fields.
 - ii. **Creative Business Owner:** An innovative entrepreneur is someone who takes the initiative to conduct existing things in a new way that adds value to customers. In business, innovation refers to new work techniques, a new market, or a new supply of materials, and a new management style or system.
 - iii. **Drone Entrepreneur:** Drone entrepreneurs are those who can turn an opportunity into a viable project right away. A savvy and prudent entrepreneur can recognise the visible change and its potential. Drone entrepreneurs are characterised as opportunist entrepreneurs or drone entrepreneurs.
 - iv. **Imitative Entrepreneurs:** Imitation is the process of making a product identical to another product that is currently on the market. A prominent method of imitating a product is franchising. Imitative entrepreneurs are most suited for developing countries since they desire to copy the technology, information, and skills already available in these countries.
 - v. **Fabian Business Owners:** Fabian entrepreneurs are unwilling to take risks and prefer to follow in the footsteps of their forefathers. They take venture initiatives when they are certain that there is no risk of failure or loss in a particular venture based on the experience of others in the market.
 - vi. **Compelled Entrepreneurs:** Compelled entrepreneurs are those who are forced to be so by the competitive environment. The failure of a business may force a person to start a new one.
- b) **Gender based Entrepreneurs:** Entrepreneurs are categorised based on the natural divide of humanity, and hence there are two categories of entrepreneurs depending on sex. They are both male and female business owners. Male entrepreneurs have historically been the dominating entrepreneurial class in our society.



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- c) **Location based Entrepreneurs:** Entrepreneurs are divided into two categories based on their location of entrepreneurial activities, such as rural and urban entrepreneurs.
- **Urban Entrepreneurs:** These are those who start businesses in a country's urban areas. They are numerous in all countries throughout the world.
 - **Rural Entrepreneurs:** These are also required for the economy's balanced growth. Remote entrepreneurs start businesses in rural areas of the country. They utilise indigenous resources, which improves the usage of local natural resources and raises the standard of living in the area.
- d) **Size based Entrepreneurs:** The size of an entrepreneurial initiative is used to divide entrepreneurs into two groups.
- **Small-scale Entrepreneur:** A tiny-scale entrepreneur is one who has a small capital or investment, as well as a small production capacity, a small number of employees, and a small market region; it signifies a business that operates in a limited capacity.
 - **Large-scale Entrepreneurs:** Large-scale entrepreneurs are individuals or groups of individuals who start a business with a large-scale production capability. They handle big aggregate demand and entail significant investment in manufacturing technologies. They are few in number in all countries around the world.
- e) **Generation based Entrepreneurs:** Entrepreneurs are categorised according to generation too. This category is initiated by large types of new ventures: -
- **Fresh Generation Entrepreneurs:** These are individuals who use technology or an idea in their new version. A cybercafé, a fast-food restaurant, and virtual universities are a few examples of new generation entrepreneurial initiatives.
 - **Old Generation Entrepreneurs:** Old generation entrepreneurs dislike change. They usually take the initiative on old-fashioned endeavors. They are wary of new technology but prefer known or traditional and prevalent technologies.

20.7 IMPORTANCE OF ENTREPRENEURSHIP

The importance of entrepreneurship is explained as follows: -

- **Job Creation:** Entrepreneurship creates jobs. It provides an entry-level job that is essential for unskilled people to get experience and training.



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- **Innovation:** It is a hub of innovation that creates new product ventures, market, technology, and product quality, among other things, and raises people's standard of living.
- **Impact on Society:** A big and diverse job base benefits society. It causes social transformation and encourages amenities such as increased educational spending, improved sanitation, fewer slums, and a higher degree of homeownership. Entrepreneurship also helps organisations achieve a more stable and high quality of communal life.
- **Improved Standard of Living:** Entrepreneurship helps to increase a person's standard of living by boosting income. A household's standard of living is defined as a rise in the consumption of various products and services over a given time period.
- **Promotes Research and Development:** New products and services must be developed and evaluated before being released to the market. As a result, an entrepreneur also provides funding for R&D with research organisations and universities. This encourages economic development, research, and general construction.

20.8 ENTREPRENEURSHIP PROCESS

Entrepreneurship is the act and art of becoming an entrepreneur or one who pursues innovations or introduces new items. The most visible type of entrepreneurship is the establishment of new firms. In recent years, the term entrepreneurship has been expanded to cover characteristics that are not necessarily related to business formation activities. The steps involved in the entrepreneurial process are as follows: -

- **Idea Generation:** The entrepreneurial process begins with idea generation, in which the entrepreneur identifies and evaluates the business opportunities available to him or her.
- **Identifying and Evaluating Idea:** Identifying and evaluating prospects is a challenging work; thus, an entrepreneur seeks input from all stakeholders, including employees, consumers, channel partners, technical people, and so on, in order to find the best business opportunity. After deciding on an opportunity, the following stage is to evaluate it.
- **Evaluation of Efficiency of Opportunity:** An entrepreneur can evaluate an opportunity by asking specific questions such as its attractiveness, practicality, chances of competitive advantage, and various dangers linked with it, etc. Above all, an entrepreneur must assess his or her personal skills and competencies in order to achieve business goals.
- **Selection of Opportunity:** Once the macro and micro level analysis has been completed, the entrepreneur selects the best potential alternative from the chosen few, based on the key factors highlighted by him/her prior to idea production.



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- **Organising Resources:** It involves that the entrepreneur identifying the sources from which finance and human resources can be gathered. Here, the entrepreneur gets financiers for its new endeavour as well as staff to carry out commercial operations.
- **Decision regarding the Structure of Business:** The entrepreneur chooses the initial size of the business and its expansion potential based on his or her ability to manage resources.
- **Choice of Location and Layout:** This is a critical decision. Entrepreneurs should choose a location where there are tax breaks and cheap labour and materials are plentiful.
- **Financial Planning:** Once the money are raised and the personnel are employed, as well as the business location and layout, efforts are made to do sound financial planning using the available financial resources in order to maximise their utilisation.
- **Market Entry:** An entrepreneur's enterprise launch can be a terrifying adventure since the entrepreneur must remain focused while also remaining open to recommendations. If he or she is a mission-driven entrepreneur, keep in mind that creating a truly outstanding firm is a marathon, not a sprint.
- **Starting Business Activities:** Once the finances have been raised, an entrepreneur must determine the management structure or hierarchy that will be necessary to tackle operational challenges as they develop.
- **Focus on Return:** The actual growth is contrasted to the expected growth, and then a choice is made regarding the stability or expansion of corporate operations.

ACTIVITY

Visit the entrepreneurs started the various business ventures whether confectionary shops, dhabas, road side vendor, saloons, and others situated surrounding of your educational institution and ask them questions about the management aspect of their business and relate those with the management functions and prepare a list of sub-functions of management followed by them to run their business and discuss the same in the class.

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IN-TEXT QUESTIONS

1. The economic approach to entrepreneurship focuses primarily on:
 - a) Innovation and Creativity
 - b) None of the Above
 - c) Risk Taking
 - d) Both a & b
2. Which of the following is a step in the entrepreneurial process?
 - a) Idea Generation
 - b) Starting Business Ventures
 - c) Analysis of Opportunity
 - d) All of the Above
3. Entrepreneurship is an
 - a) Innovation & Creativity
 - b) Leadership
 - c) Management
 - d) All of the Above
4. The procedure of structuring a business by a group of people is known as:
 - a) Fresh Entrepreneurship
 - b) Group Entrepreneurship
 - c) Male Entrepreneurship
 - d) Technical Entrepreneurship
5. The entrepreneurial process yields the: -
 - a) Generating Employment Opportunities
 - b) Decrease in the revenue
 - c) Political Interference
 - d) All of the Above
6. The primary motivation for an entrepreneur to start a business is: -
 - a) To generate employment opportunities and profit
 - b) To be dependent
 - c) Both a & b
 - d) None of the Above
7. Entrepreneurial functions includes; -
 - a) Taking Chances
 - b) New Idea Generation
 - c) Management of Functions
 - d) All of the Above

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8. Entrepreneurial functions includes; -
 - d) Taking Chances
 - e) New Idea Generation
 - f) Management of Functions
 - g) All of the Above
9. Entrepreneurs who create new and improved technological products is known as _____.
10. A person who takes the risk and starts a business is referred to as an _____.
11. The entrepreneur who is resistant to change is called as _____.

20.9 INNOVATION

Innovation is the systematic application of ideas that result in various new types of new offerings, including as products, services, processes, and business models, with the goal of improving or disrupting existing applications or developing new solutions. It makes little difference whether you receive your ideas from outside the company, through brainstorming, merging existing concepts, or through radical new thinking within your profession. However, it should be at the centre of your business and done on a regular basis to ensure corporate sustainability. Entrepreneurship is defined by its ability to innovate, whether in an established firm, a public service organisation, or a new endeavour launched by a single person in the family kitchen. It is the process through which an entrepreneur produces new wealth-producing resources or endows existing resources with more potential for wealth creation.

20.10 SIGNIFICANCE OF INNOVATION

In the center of rivalry, innovation is the most crucial source of competitive advantage and companies can use it to:

- Create new goods to better meet the demands of their customers, such as through differentiation
- Increase revenue by improving the quality of existing products, allowing the company to charge a premium price;
- Reduce the cost of producing the product that the customer wants;



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- Improve the effectiveness and efficiency of business processes; • Increase the likelihood of discovering new opportunities; and
- Successfully respond to changes in dynamic business environments.

Competitors will typically attempt to mimic successful, and frequently successful, innovations. As a result, retaining a competitive advantage necessitates a continuous commitment to innovation.

20.11 INNOVATION DOMAINS

- **Innovation in Product and Product Performance:** A new product is created, or the performance of an old product is enhanced. This type of invention is fairly common in business.
- **Technological Advancement:** Many more advances can be based on new technologies. The clearest example is the Internet, which was an innovation in and of itself but also spawned subsequent innovations in a variety of sectors.
- **Innovation in Business Models:** Many of the world's most successful businesses have innovated their business models. Using new channels, technology, and markets can result in new business models that can develop, distribute, and capture customer value. Digital ecosystems are a well-known example of innovation that combines multiple technologies to create a completely new form of business.
- **Organizational Creativity:** Managing and sharing resources in novel ways can also be considered innovative. This allows for the use of resources and assets in novel ways.
- **Process Improvement:** Process innovation can increase the efficiency or efficacy of existing procedures. Production, delivery, and customer interaction are all possible process innovations.
- **Marketing / Sales:** New Channel Development: New approaches for capturing and retaining client attention either through utilising creative marketing/sales concepts or by utilising new channels for customer acquisition/sales such as social media, messaging, internet and others.
- **Network Creativity:** It may be able to add value by connecting various groups and stakeholders. Because of the widespread usage of ICT services, this form of innovation is becoming increasingly popular.
- **Customer Retention:** Innovative approaches that attempt to boost customer engagement and retention. The idea is to develop novel models that keep clients "locked in" or engaged.

[illegible]

- **Do What You Enjoy:** According to Steve Jobs, people with a genuine passion may change the world for the better. People that follow their passions with hard work and dedication come up with new and unique ideas.
- **Make a Hole in the Universe:** This refers to a person's vision for their business. Entrepreneurs must broaden their perspectives through innovation, which allows them to perceive potential in things that others cannot.
- **Get Your Brain Going:** According to Steve Jobs, innovation is about linking things. This implies that we must look for innovation and innovative ideas in other fields as well. Inspiration for new ideas can come from anywhere and at any moment. Steve Jobs was well-known for borrowing concepts from other businesses and adapting them to his own needs.
- **Promote Dreams, Not Products:** This is a discussion on marketing innovation. The goal is to make clients feel that they are a part of the firm, a part of something bigger. Create items that assist individuals in accomplishing their goals. Steve Jobs never considered his customers as just consumers, but as geniuses in their own right.



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- **Refuse a Thousand Things:** These innovation principles speak about innovation through removing superfluous items. The goal is to keep your products and designs as simple, functional, and uncluttered as possible. Innovation does not always have to be sophisticated; it can just be simple.
- **Provide Excellent Experiences:** Creating an emotional connection with your customers through innovation will ensure that they have positive experiences with your product and brand. Consider Steve Jobs' invention, the Apple Store. He created an incredible retail experience for the buyers.
- **Understand the Message:** Steve Jobs is regarded as one of the best storytellers of all time. And he shares his stories through his products with the power of innovation. His lavish product releases and promotions were nearly an art form in and of themselves. He made certain that his product was launched with innovation in order to make people enthused about it.

20.13 ADVANTAGES OF INNOVATION

For firms, there are numerous advantages to innovation. Among these advantages are:

- **Improved Productivity:** When employees have access to the most recent technologies and technology, they will be more efficient. Furthermore, there are numerous other advantages to increased efficiency. One such benefit is cost reduction; in industries where innovation leads to less waste, costs can be dramatically reduced.
- **Lowering Costs:** Lowering costs is a natural byproduct of increased production. Employees can perform more with their limited work hours if they spend less time on jobs that do not demand innovation.
- **New Markets and Prospects:** Innovation enables businesses to reach new consumers through various platforms, thus increasing profit margins.
- **Enhanced Self-Esteem:** Employees benefit from innovation as well. They can not only complete more work in less time, but their higher job satisfaction leads to increased production and lower turnover rates.
- **Delighting Customers:** Increased efficiency benefits both the company and the customer by offering better service at a reduced cost. Furthermore, advancements in one area can frequently lead to the development of new product lines that fulfill customer needs.
- **Competitiveness:** Innovation can also provide a competitive edge. New products and services are usually superior to existing ones; so, innovation helps organisations



preserve their competitive advantage against competitors who may be resistant to change."

- **Long-Term Innovation Capability:** Businesses that develop will be able to compete better in this new digital economy. They will be more successful and grow faster; therefore long-term innovation capability is vital to success.

20.14 HAZARDS OF BUSINESS INNOVATION

While new technology is exciting and appealing, a business owner should be mindful of the benefits and pitfalls of innovation. To create an appropriate assessment, you must collect data, establish parameters for all variables, and evaluate how those variables may interact. Business innovation risks can take many shapes. Financial, operational, regulatory, and reputational risks are all possible.

- Financial risks may include the cost of innovation being more than expected, failing to achieve the predicted return on investment (ROI), or deviating from the company's core capabilities.
- Process failures or disruptions to routine business operations could be examples of operational risk.
- If a new product or service fails to fulfil applicable safety or security criteria, regulatory hazards may occur.
- When an invention backfires, such as customers being dissatisfied with a change in their routine or experience, reputational repercussions can be severe.

20.15 DIFFUSION THEORY OF INNOVATION

Innovation does not spread, and the entire population takes it for granted. Instead, it is being adopted gradually. The diffusion theory of innovation is then developed by experts to explain how, why, and how quickly new ideas and innovations spread. They categorise market consumers into five groups:

- Innovators
- The early adopters
- Early majority
- Late majority
- Laggards



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- **Innovators:** Innovators are individuals who were the first to adopt. They are few and far between. They are ready to incur the risks associated with adopting the product since it may be backed up by high social status or strong financial backing. They also have the most direct interaction and touch with other innovators and scientific sources.
- **Early Adopters:** They have the highest levels of opinion leadership and make better adoption decisions than innovators. They also have a high social position and sufficient financial and educational resources.
- **Early Majorities:** They dominated the market population. After a while, they accept advances, and many people do. They have above-average social standing but rarely assume positions of opinion leadership.
- **Late Majorities:** They embraced the invention after the majority of the populace. They are dubious of an invention, possibly due to lower financial support and social position than the average.
- **Laggards:** These are the slowest to accept new technologies. They are resistant to change and like to stick to the status quo and traditions. In comparison to the other four categories, they have the lowest social standing and financial support.

20.16 CORPORATE INNOVATION PROCESS

The organisation must go through various stages of corporate innovation in order to develop a successful and sustainable innovation process. This comprises brainstorming, evaluating, testing and experimenting, developing and implementing, and optimising. Each stage is critical to the success of your innovation effort.

- **Ideation and Concept Generation:** The process of coming up with new ideas and draughts. This stage is all about developing new and unique ways to improve your company's services or products. Brainstorming, client feedback, new technology, changing economies, and other sources of new ideas are all frequent approaches for producing new ideas. It is critical to have a continual flow of fresh ideas to analyse and move forward with, regardless of how they are generated.
- **Assessment:** Many businesses fail to evaluate their ideas, which can be costly. You may find yourself investing in a project that is neither possible nor profitable if you do not take the time to thoroughly examine it. It's critical to evaluate each proposal before moving forward with it so that you can ensure you're investing in ventures that have the best chance of success.
- **Experimentation, Testing, and MVP:** The process of putting a concept to the test to see if it works in actuality. This stage entails prototyping, market testing, and user



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input. However, it is critical to begin with small-scale MVPs in order to decrease the risk of investing in a project that is neither practicable nor profitable.

- **Design and Implementation:** A successful test can provide valuable early feedback, allowing you to design a strategy and subsequently carry out the full-scale development of the idea. Following a successful test, it is critical to use the input to design a development strategy. This strategy should outline all of the processes required to bring the idea to market. Once the strategy is in place, it is time to put it into action and bring the innovation to life. This also includes marketing, sales, and customer service.
- **Expansion and Optimization:** Following the launch of the innovation, it is critical to monitor its success and adjust where necessary. This stage is all for ensuring that the innovation is successful and long-lasting. It entails ongoing tracking, analysis, and improvement. When the innovation is well-established and operating effectively, it is time to scale it up and make it available to additional clients.

20.17 ENCOURAGEMENT FOR INNOVATION

Innovation can be a significant factor in the survival of many organisations and sectors. However, pushing your staff to come up with fresh ideas might be demanding at times. Here are some ideas for increasing your level of innovation:

- Actively encourage your employees
- Request feedback from customers/invite customers to feedback rounds
- Request feedback from stakeholders • Invest in your employees' education
- Actively reserve resources for Research and Development (R&D)
- Create a reward system for innovative thinking
- Collaborate with start-ups and innovative companies
- Create an entrepreneurship programme
- Conduct active online research (watch industry news, tech news, etc.)
- Ask / interview specialists

Innovation is a calculated risk that must be managed. Not all projects will succeed, and the company's process must be controlled to weed out possible failures before they have a significant influence on your innovative budget. Attempt to shorten the process and perhaps develop your own innovation programme that addresses some of the problems raised above. This allows you to better regulate it and gain a better perspective.



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20.18 STRATEGIES USED FOR INNOVATION PROTECTION

The strategies followed by the entrepreneurs for the protection of their innovation are as under: -

- **Legal:** Whether or not you need to patent your invention may depend on the form and scope of the innovation. There must also be a clear grasp of the expense of patent protection. While the initial cost may be lower, the legal costs to prosecute suspected patent infringements may increase.
- **Be Initiator:** A corporation with a new technique, business model, or product attempts to capture as much market share as possible while the rival is still developing its offering. This advantage allows the first-mover to incrementally improve the product and deliver a superior product/service sooner than competitors.

20.19 ENTREPRENEURSHIP AS SELF_EMPLOYMENT PROGRAMS

Self-employment programmes in India are seen as effective tools in the fight against poverty and unemployment. Prospective entrepreneurs can examine non-farm sector options for establishing businesses of varying investment sizes. Banks and other financial institutions may be of assistance in providing fixed and operating capital. Banks and development financial institutions, with overall support from SIDBI and NABARD (National Bank for Agriculture and Rural Development), have played a significant role in encouraging individual entrepreneurs, groups of entrepreneurs or registered institutions, and non-governmental organisations (NGOs) to take on this role. Ministries of Rural Development and Housing, Urban Employment, and Poverty Alleviation have been involved in non-farm sector development. Various self-employment initiatives under the Ministry of Agro and Rural Industries are also being implemented. Women from poorer sections are also served by various ministries' programmes.

ACTIVITY

Organise a class seminar on the topic, "Importance of Innovation and Creativity in Present Scenario" and prepare an assignment on the same and submit it to the class teacher.

**IN-TEXT EXERCISE**

11. The process of creating something new is depicted by _____.
12. Which of the following is a small firm's advantage in the innovation process?
 - a) Entrepreneur's ability to handle multiple tasks.
 - b) Financial Capability
 - c) Capability to conduct Research & Development
 - d) The entrepreneur's ability to act on new ideas or product development.
13. For the success of the business plan, the goals should be _____.
14. External links may offer _____ incentives.
15. Firms located in science parks are _____ than those located outside of science parks.
16. Why does an idea need to be transformed into an innovation?
 - a) To be carried out
 - b) To address a specific problem
 - c) To add value to the company, customers, and the environment
 - d) All of the preceding
17. What exactly is innovation?
 - a) "Putting an idea into action that addresses a specific challenge and adds value to both the company and the customer."
 - b) "Having an idea that solves a specific problem and adds value to both the company and the customer."
 - c) "Having a new idea and making it popular so that people agree with it."
 - d) All of the Above
18. Changes should be taken into account because of :-
 - a) Risky Situations
 - b) Possibilities and Opportunities
 - c) Risk
 - d) None of the Above
19. What kind of innovation is used to alter the business model?
 - a) Management creativity;
 - b) Strategic innovation;
 - c) Product and service development;
 - d) Innovation in operations
20. Is it correct that we can only innovate if we create something desirable, viable, and feasible? (True/False)



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20.20 WORKPLACE DIVERSITY

"Companies that embrace diversity and inclusion in all aspects of their business outperform their peers statistically," writes Josh Bersin. Workplace diversity is becoming more common in companies all over the world. It entails recruiting, training, comprehending, accepting, and valuing differences, and pleasing others. The practise of hiring people from diverse backgrounds to work in a corporate setting is referred to as workplace diversity. In addition to their distinct identities, diversity brings a wide range of knowledge. It contains the following items:

- Multiracial, ethnic, gender, age, culture, religion, disability, and sexual orientation.
- With regional origins, education, personalities, skills, experiences, and knowledge bases that differ.

Organizations should strive for diversity in the composition of their workforce at all levels. It entails not only recruiting but also retaining employees with diverse backgrounds, experiences, perspectives, and generations. Greater workforce diversity leads to increased profitability and value creation, and diverse leadership has a positive relationship with financial performance. Diversity expands a company's reach and contacts for a talented group. This composition does not represent any particular mindset, upbringing, culture and background, viewpoint, or ethnicity. Instead of being limited to a single type of client, this broad perspective enables businesses to connect with the needs and motivations of their diverse and international customer base.

20.21 FOUNDATION OF WORKFORCE DIVERSITY

The negative consequences of a lack of workforce diversity drive the need for it. Some of the consequences of a lack of diversity in an organisation are as follows: -

- **Dissatisfied Employee:** the absence of a workplace diversity mechanism typically results in employee alienation, with some employees being marginalised by the majority. When a victim is subjected to harassment or discrimination, he or she may feel isolated. This may even cause victims to be hesitant to report workplace discrimination. The complexities of minority cause this reluctance. Failure to report discrimination demonstrates toxic company culture, which has a negative impact on the company's talent pool and employee productivity.
- **Narrow-mindedness:** Different perspectives are influenced by backgrounds, beliefs, and culture, and a diverse set of perspectives fosters innovation and creativity in an organisation. A lack of diversity results in a lack of experience, perspective, knowledge, and skills, which restricts and limits the organization's operations and growth. It limits the perspectives that businesses must consider when developing



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products and strategies, putting policies in place to deal with an uncertain business environment, and especially when expanding into foreign markets.

- **De-Motivation:** A lack of motivation- appropriate workforce diversity produces appropriate leadership for app levels and employee varieties. They seek inspiration from role models, particularly those with whom they typically connect. In the absence of such role model mentors, employees can easily feel alienated. In organisations that do not allow for diversity to thrive, facilities, incentives, and opportunities to prosper are limited, limiting employee output. Organizations that lack diversity typically lack proper inclusive infrastructure as well as a mechanism for reporting harassment and discrimination, further demotivating employees.

20.22 ADVANTAGES OF WORKFORCE DIVERSITY

Workforce diversity has numerous benefits that extend across all aspects of business operations. Some of the advantages of having a diverse workforce are as follows: -

- **Creativity:** When a company hires people from various backgrounds, nationalities, experiences, skill sets, and cultures, it fosters a fresh perspective on every aspect of the business. Co-workers may be hesitant to accept change at first, but a diverse workforce can help create a perspective to accept the change.
- **Pool of Talent:** Companies that promote diversity will attract a broader range of candidates looking for a progressive workplace. As a result, diverse companies are more likely than competitors to attract more motivated and better-talented employees. These employees are no longer looking for traditional 9-5 jobs but rather one where they can grow, feel accepted, and challenged.
- **Employee Perfection:** Diversity and firm performance are inextricably linked. Employees who feel alienated at work are more likely to fear rejection and produce subpar work. A better redressal mechanism to resolve diversity issues motivates employees because they are assured of resolving their grievances if discrimination occurs.
- **Profitability:** Various research studies empirically demonstrate that ethical and racial management, as well as workplace diversity, reduce employee turnover and increase productivity, resulting in financial benefits for the organisation from not only more employees, but also more customers and investors.
- **New Business Opportunities:** Language barrier can be overcome by bringing in a diverse workforce from all over the world. Cultural diversity has become a business strategy for improving the entity's standing in foreign markets. This results in



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increased profitability and equal opportunity for the company and its employees; thus, workplace diversity builds a positive reputation.

- **Removing Psychological Biases:** Diversity benefits a company not only financially, but also by improving its corporate culture. Inherent biases against specific segments of the workforce are repulsed, which aids in appreciating differences. When biases are dispersed, a workforce is more likely to work as a team and in tandem.
- **Enhances Company Culture:** A company's culture is derived from its members. Company culture differs from one another. Some people take a more informal and casual approach. It also depends on the company's size, ethics, goals, and work environment.
- **Innovation:** Working with colleagues from various backgrounds, experiences and working styles can lead to the development of creative ideas. It also contributes to the formation of stronger groups and teams. While one employee brings new ideas to the table, another may be better at the strategy's execution due to his experience in the field..

20.23 WORKFORCE INCLUSION AT WORKPLACE

There is insufficient diversity in workforce recruitment. It necessitates the inscription of diversity, also known as inclusion. Inclusion refers to a collaborative, supportive, and ethical work culture in a business organisation that encourages employees from diverse backgrounds to contribute. It is necessary to create a work environment that encourages healthy and inclusive brainstorming, discussions, and input seeking at all levels of an organisation in order to make connections and fully exploit the potential of diversity. Simply put, inclusion fosters a sense of belonging among employees, which aids in the implementation of major strategies and policies, as well as the implementation of changes.

Diversity in practise follows from inclusion in theory. It is simple to recruit a diverse workforce, but it is difficult to provide opportunity through inclusion. Inclusion and diversity are inextricably linked. A company can hire a diverse workforce, but if that workforce is not supported and developed, the diversity will fade. It is not enough to simply have diversity; the diversity must also thrive and prosper. Rules, policies, infrastructure, and diversity awareness must all be developed in order to maintain them.

20.24 ENCOURAGING WORKFORCE INCLUSION

Inclusion is both complementary and necessary to workforce diversity. Without inclusive policies, company diversity dwindles, resulting in a negative organisational image and high recruitment costs. The methods for doing so are as follows: -



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- **Resources:** Provide employees with the support, resources, and expertise they need to be inclusive. Access to employee resource groups, inclusive infrastructure, or technology will aid in the creation of an environment in which employees can be themselves and thrive.
- **Group Meetings:** Employees feel included when they are involved in decision making and have a say in decisions that affect their work. Including diversity in decision-making provides a fresh perspective on complex problems while also assisting in the induction and implementation of decisions across the organisation. There are common meeting places for group discussions to go over major points and evaluate and weight various courses of action.
- **Learning-Friendly Environment:** Employees must believe they have the opportunity to grow and advance their careers at their company. Employee growth and innovation will be stifled if learning and development are not prioritised as a component of inclusion and broader company values.
- **Participatory environment:** When teams feel more connected to one another, they are better able to utilise the strengths and skills of each individual. Collaboration is critical to the success of your business and an important component of workplace inclusion.
- **Grievance Redressal Mechanism:** An effective redress mechanism for discrimination and harassment concerns helps to build a strong organisation. When employees can express their concerns, a positive message about the company is sent throughout the organisation. This reduces such incidents in the future and leads to a more positive work experience for all staff.
- **Awareness Programme:** Programs that recognise self-worth and boost self-confidence are also beneficial in maintaining the diverse workforce's unique identity, say researchers at the University of Bristol.
- **Interpersonal Motivation:** Employees' sense of belonging at their organisation can affect their levels of intent to stay, as well as their well-being, engagement, and overall success in their roles.

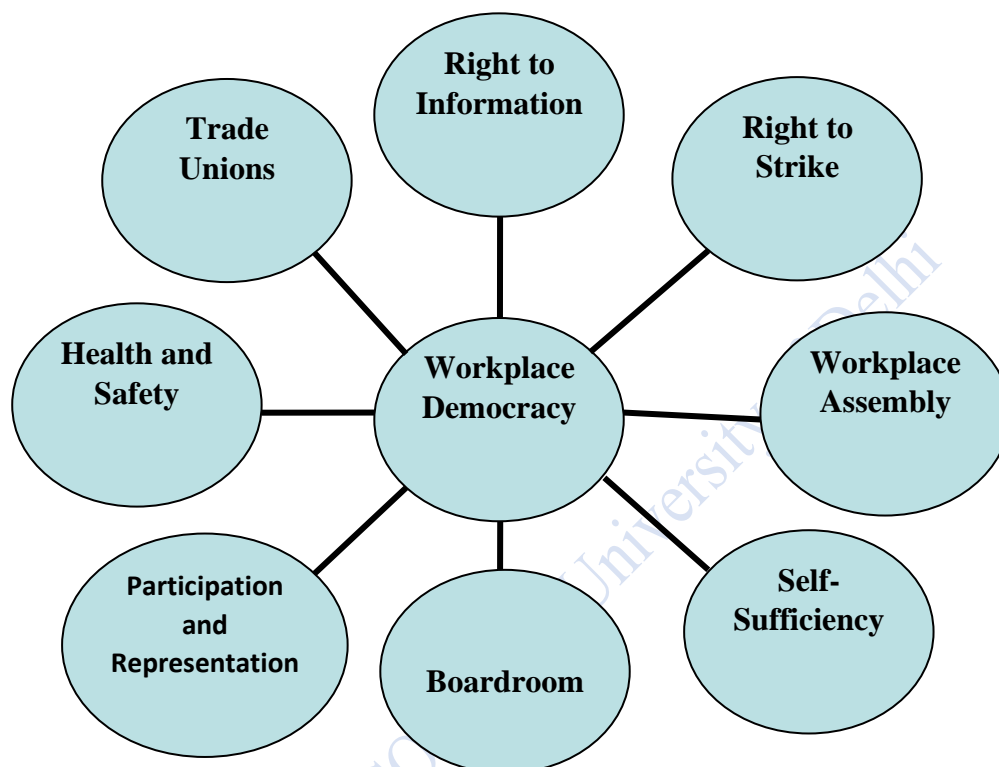
20.25 DEMOCRACY AT WORKPLACE

Democracy is a form of government in which elected officials govern the entire population. Workplace democracy refers to the incorporation of democratic practises into the workplace via tools such as voting, employee ownership, and public debate. This varies greatly depending on the organization's size, type, objective, and work culture. Employee engagement was becoming increasingly important for firm performance, employee



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satisfaction, and lower employee turnover in the 1960s. While workplace democracy can range from full-scale direct democracy, in which every employee's vote counts equally, to organisations where democracy is limited to a specific area or department, or to the other extreme, where workplace democracy is a trending fad.



Source: Prepared by Content Writer

20.26 ADVANTAGES OF WORKPLACE DEMOCRACY

Workplace democracy contributes to the development of a corporate culture while also assisting the organisation in monetizing the culture. The following are some of the advantages of implementing workplace democracy:-

- **Economic:** Employee participation, involvement and transparency in decision-making improve employee acceptability, satisfaction, and loyalty to the implementation of new ideas and changes, as well as the organisation. Employee participation generates creativity and innovation, which is an added benefit to workplace democracy. Participation in organisational affairs also boosts employee morale, which boosts productivity.



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- **Leadership Abilities:** Making decisions in routine and special company matters improves an employee's acumen, responsibility, accountability, and skills. These abilities contribute to internal employee training and development for succession planning. As a result, businesses can be extremely resourceful when it comes to recruiting and retaining top talent.
- **Morale Boosting:** It is ethical for businesses to involve members in decision making in order to help them voice their concerns, opinions, and views. This boosts employee morale, which aids not only personal development but also organisational development.
- **Creativeness:** People want to work in places where they feel appreciated and heard, and democratic organisations attract smart, creative, self-motivated people. Non-democratic companies' plans fail during the execution phase because they lack democratic acceptance from their employees who will be carrying out the decision.

20.27 TECHNIQUES TO ENCOURAGE WORKPLACE DEMOCRACY

Democracy must be instilled in the minds of employees as well as the organisational system. There are some simple steps that organisations can take to create a democratic environment. The following methods have been used for encouraging Workplace Democracy: -

- **Transparency:** It is essential for an organisation to express clearly the business information, goals, rules, social position and viewpoint, with all the stakeholders at all levels. People become more engaged when they are kept informed about how the company is doing and where it is headed. Trust gives them the confidence to engage with the company and help it grow.
- **Meeting:** Deliberations, group discussions, and brainstorming allow employees to communicate openly. Employee thoughts, ideas, and criticisms are solicited, treated with respect, and followed up on.
- **Communication:** A strong network to communicate/intranet facility that connect all members of the organisation for company news and updates, as well as a dedicated web page where employees can submit ideas and fellow employees vote on them can be helpful in linking and democratizing the organisation.
- **Open Door Policy:** Creating a system for resolving incidents in which people are unfairly demoted, fired, or punished ensures that employees are heard. This fosters a sense of belonging and loyalty.



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- **Employee Stock Ownership Plan (ESOP):** When businesses combine employee ownership with participatory management, it strengthens relationships. Employee ownership gives him a stake in the organization's operations. It serves to ingrain democratic principles into the company's decision-making procedures. When employees participate in equity, both entities' conflicts of interest are aligned.
- **Employer-Employee/Labour Unions Relationship:** Labor unions ensure that employees' rights are protected. Limiting the growth of employee unions or undermining them will limit employees' voices, hampered workplace democracy.
- **Voting:** An organisation may request voting or polling for important or routine decision making, giving employees a voice in their choices. This is the most efficient method of developing workplace democracy, but it can result in postponed decision making and a lack of a majority for decision making.
- **Rewards and Recognition:** Employees are always rewarded when they work hard. Employees should be recognised and praised for their positive contributions in front of their peers in order to motivate both parties. They will feel valued for their contribution and will work harder to make an impact.
- **Dynamism:** In order for new ideas to flourish, workplaces must become freer in order to be democratic. Democracy necessitates flexible working hours, no uniform dress code, and a recreational, meeting place/space for introspect and socialisation within the organisation.
- **Whistle Blower Policy:** A confidential whistle-blower facility/reporting mechanism for reporting bad company behaviour, with no retaliation against those who blew the whistle, will ensure employees' safety while also providing them with an opportunity to demonstrate loyalty.

20.28 SOCIOCRACY

Sociocracy is both a social ideal that values equality and people's rights to determine their living and working conditions, as well as an effective method of organising large and small associations, businesses, and governments. Sociocracy is both a social ideal that values equality and people's rights to determine their own living and working conditions, as well as an effective method of organising large and small associations, businesses, and governments. Another distinguishing feature of sociocracy is the achievement of equivalence of voice by asking organisational members to consent to decisions in circles rather than the management hierarchy selecting the majority. As a result, no one is excluded. As a result, communication can be described as the common thread that binds the entire sociocratic process together. It facilitates decision-making by gathering information, being considerate, and using sound business practises. While a branch of democracy, sociocracy differs in its outlook from it.



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Democracy prioritises majority rule, whereas sociocracy prioritises inclusion of all voices. Democracy is distinguished from sociocracy by the right to vote and the incorporation of all members' concerns. It is opposed to democratic majority rule, which can quickly lead to a majority-dominated society. As a result, having a majority encourages competition and dominance over cooperation and equality. In practice, democracy can lead to the formation of an autocratic society. Sociocracy encourages inclusive and considerate business practices.

20.29 PRINCIPLES OF SOCIOCRACY

Unlike democracy, sociocracy is founded on principles. These principles serve as guiding lines for the continued existence of sociocracy. These are as follows: -

- **Approval:** Consenting does not imply unanimity, majority, or even agreement. All decisions must be made without the objection of any participant, so that each participant has a say in each decision. Simply put, the decision allows everyone to collaborate and contribute without feeling influenced or oppressed, but rather included.
- **Circle Organization:** Sociocratic organisations are made up of circles of participants who govern among themselves. Each circle has its own set of goals and is responsible for executing, measuring, and controlling them. These circles minimise the need for hierarchy by emphasizing the importance of each member's viewpoint.
- **Interconnected Circles:** Superior and subordinate circles are interconnected and interdependent for better decision making. Participants in circular groups elect a representative to communicate information to the next higher level of circle, while members from the higher group are sent to the subordinate group to facilitate two-way information exchange.
- **Work Division by Consent:** Individuals are only chosen after an open discussion yields a clear choice with no objections. Each circle's members define the responsibilities and qualifications that a person must meet to carry out specific duties and responsibilities.

20.30 WORKPLACE AND SOCIOCRACY

Sociocracy necessitates the creation of a favourable environment in order to establish and sustain good human practices of freedom, equality, and consent. This requires extensive mental transformation and awareness of the concept and it is possible to do so by undertaking the following aspects: -

- **Two-Way Communication:** Sociocracy is democracy in action, which can be accomplished through unrestricted dialogues between levels of management.



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Management should be proactive in asking employees at all levels about their concerns, questions, and thoughts, and the information flow should be two-way.

- **Delegation:** Delegation of project and decision-making responsibilities instils rational decision-making in employees who participate in self-government. Rational decision making also promotes better organisational judgement. With delegation comes accountability for responsibilities, which can improve decision-making due to the fear of misreporting.
- **Self-Governance:** Sociocracy is based on conduction and expression flexibility. Circular groups reduce hierarchy, allowing employees to make their own decisions. This freedom should be accompanied by flexibility at work in order for organisational circles to integrate and evolve.
- **Avoid Hierarchy:** Leadership and hierarchy have an impact on free consent and workforce opinion. Leadership has no place in sociocratic organisations because everyone can be heard and considered.

ACTIVITY

Discuss in the class room about the need and significance of Workforce Diversity, Workplace Diversity, sociocracy and democracy at workplace. How these can affect the performance of an organisation?

IN-TEXT QUESTIONS

- Which of the following promotes democratic levels in an organisation?
 - Employee Involvement
 - Participation in Decision-Making
 - Transparency
 - All of the Above
- A lack of diversity results in
 - Higher Employee Turnover
 - Enhancement in Image and Goodwill of Corporation
 - Profit Maximization
 - Organisational Effectiveness



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23. Which of the following is aided by workforce diversity?
 - a) Lack of Talent of Pool
 - b) Decreased Performance and Productivity
 - c) Global Competitive Edge
 - d) Reduction in Profitability
24. Democracy's majority rule is not supported by sociocracy. (True/False)
25. _____ is dynamic governance; it is more than just a statement of values.
26. Cultural diversity has evolved into a business strategy for maintaining a company's competitive edge in the international market.
(True/False)
27. _____ is the incorporation of democratic practices in the workplace.

20.31 SUMMARY

The French term "Entreprendre," which means "to undertake," is the root of the English word "entrepreneur". An entrepreneur's profits are derived from a combination of land, natural resources, labour, and capital. Entrepreneurs are highly motivated, action-oriented people who take risks to accomplish goals. The French term "Entreprendre," which means "to undertake," is the root of the English word "entrepreneur". In terms of economics, an entrepreneur's profits are derived from a combination of land, natural resources, labour, and capital. During the 20th century, the phrase came to be associated with capitalism and free enterprise. The modern notion of entrepreneurship entails changing the world by identifying and resolving significant issues. Entrepreneurship is implied when a person starts a business to implement their idea. In this activity, an entrepreneur makes decisions that are meant to transform the world. Although it requires taking a lot of risks, becoming an entrepreneur can be quite rewarding. The most visible type of entrepreneurship is the establishment of new firms. In recent years, the term entrepreneurship has been expanded to cover characteristics that are not necessarily related to business formation activities. This entrepreneurial process must be repeated anytime an entrepreneur embarks on a new endeavour, thus, it is a never-ending process.



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Innovation is the systematic application of ideas that result in new types of new offerings. Entrepreneurship is defined by its ability to innovate, whether in an established firm or a single person's kitchen. It is the process through which an entrepreneur produces new wealth-producing resources. Self-employment programmes are seen as effective tools in the fight against poverty and unemployment. Prospective entrepreneurs can examine non-farm sector options for establishing businesses of varying investment sizes. Banks and development financial institutions have played a significant role in encouraging individual entrepreneurs, groups of entrepreneurs or registered institutions.

20.32 GLOSSARY

- **Business:** A business or organisation that engages in commercial, industrial, or professional activities. Businesses can be either for-profit or non-profit organisations. Limited liability companies, sole proprietorships, corporations, and partnerships are all examples of business structures.
- **Creativity:** The proclivity to generate or recognise ideas, alternatives, or possibilities that may be useful in problem solving, communication with others, and entertainment for ourselves and others.
- **Employment:** In most cases, employment refers to the state of having a paid job—of being employed. Employing an individual means paying them something to perform the work assigned to them. An employer provides employment to employees.
- **Entrepreneur:** Who has an idea and works to create a product or service that people will buy, as well as an organisation to support that effort. An entrepreneur bears the majority of the risk and initiative for their new venture, and is frequently regarded as a visionary or innovator.
- **Entrepreneurship:** The process of creating, organising, and running a new business in order to generate profit while incurring financial risk.
- **Enterprise:** A legal entity with the authority to conduct its own business, such as entering into contracts, owning property, incurring liabilities, and opening bank accounts. A corporation, a quasi-corporation, a non-profit institution, or an unincorporated enterprise all are examples of enterprises.
- **Innovation:** The spark of insight that prompts a scientist or inventor to investigate a problem or phenomenon is referred to as innovation. An observation of what appears to be true or the creative jolt of a new idea usually shapes that insight. A commitment to excellence and continuous improvement drives innovation.



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- **Productivity:** A measurement system of economic performance that compares the quantity of goods and services produced (output) to the quantity of inputs used to produce those goods and services.
- **Workforce:** The total number of people in a country or region who are physically capable of working and are looking for work.
- **Workforce Diversity:** It means that the individual characteristics, values, beliefs, experiences, backgrounds, preferences, and behaviours are all part of the collective mix of employee differences and similarities.
- **Workplace:** A place where work is done such as a shop, office or factory.
- **Workplace Diversity:** A company culture characteristic in which the workforce composition includes employees of various genders, ages, sexual orientations, religions, languages, abilities, professional backgrounds, socioeconomic backgrounds, and educational backgrounds.

20.33 ANSWER TO IN-TEXT QUESTIONS

1. (d) Both a & b	16. All of the Above
2. (d) All of the Above	17. (a) putting an idea into action that addresses a specific challenge and adds value to both the company and customer.
3. (d) All of the Above	18. (b) possibilities and opportunities
4. (b) Group Entrepreneurship	19. (b) strategic innovation
5. (a) Generating Employment Opportunities	20. True
6. (a) To generate employment opportunities and profit.	21. (d) All of the Above
7. (d) All of the Above	22. (a) Higher Employee Turnover
8. Technical Entrepreneurs	23. (c) Global Competitive Edge
9. Entrepreneur	24. True
10. Traditional Entrepreneur	25. Sociocracy
11. Innovation	26. True
12. (d) the entrepreneurs' ability to handle multiple tasks.	27. Workplace Democracy
13. Specific	



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14.	Introduction of product enhancement	
15.	No more or less innovative	

20.34 SELF-ASSESSMENT QUESTIONS

1. What do you understand by entrepreneurship? How entrepreneur and entrepreneurship are related to one-another? Discuss.
2. Elaborate the contribution of entrepreneurship in the economic development of a country.
3. What are the different stages of entrepreneurial process? Discuss with the help of example.
4. Explain the barriers of entrepreneurship which restricts an economy to introduce the concept of entrepreneurship in effective manner.
5. What is innovation? Discuss the role and importance of innovation in entrepreneurship.
6. What are the features, importance and types of entrepreneurship? Discuss
7. With the help of an example discuss the relationship among entrepreneur, entrepreneurship and enterprise.
8. Is it true that, “entrepreneurship is a procedure to give birth to a new enterprise”. Comment
9. Define entrepreneur. What are the functions, duties and responsibilities of an entrepreneur?
10. “Any individual with creative mind can become a successful entrepreneur.” Do you agree with the statement? Comment
11. What are the different types of entrepreneurs? Discuss with the help of suitable example.
12. What hindrances faced by an individual while have to be creative? Discuss
13. Discuss the barriers to innovation and creativity. How these barriers can be removed or immunized? Give suggestions.
14. Do you agree that “Environmental scanning is very important aspect of innovation and creativity? Comment
15. What do you understand by innovation? Discuss the features, role and importance of innovation in entrepreneurship



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16. What do you understand by workplace diversity? Discuss the pros and cons.
17. “Workplace diversity helps an organisation to achieve the objective of organisational effectiveness.” Do you agree? Comment
18. Describe the importance of workforce inclusion at workplace.
19. “Workplace democracy helps in enhancing the creative and innovative aspect among the workforce.” Explain critically.
20. Critically evaluate the role of sociocracy and democracy at workplace.

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LESSON 21

ETHICS AND VALUES

Dr. Virender Kaushal

STRUCTURE

- 21.1 Learning Objectives
- 21.2 Introduction: Ethics
- 21.3 Scope of Ethics
- 21.4 Benefits of Ethics
- 21.5 Aims of Ethics
- 21.6 Principles of Ethics
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21.1 LEARNING OBJECTIVES

After studying this lesson, the students able to understand the:-

- The concept and importance of ethics and values.
- Indian culture is a rich culture and taught us the lessons of life and management.
- It is necessary to learn about the ethical and value based aspect to be a good human.

21.2 INTRODUCTION: ETHICS

The term ethics is derived from the Ancient Greek word êthikos, which means "concerning one's character." The adjective êthikos is derived from another Greek word, the noun ethos, which means "character, disposition." The study of what is right and wrong in human behaviour is known as ethics. This is a philosophical branch that explores moral values. As a result, Ethics is sometimes referred to as Moral Philosophy. Ethics, often known as moral philosophy, is the study of what is ethically good and evil, right and wrong. The phrase can also refer to any set of moral beliefs or principles. Systematizing, defending, and endorsing conceptions of good and bad action are all part of the study of ethics (or moral philosophy). When and how did ethics come into being? If one considers ethics in its broadest sense—that is, the systematic study of what is morally right and wrong—it seems evident that ethics could have emerged only when humans began to consider the best way to live. This introspective stage appeared long after human cultures had formed some type of morality, typically in the form of customary rules of right and bad behaviour. The process of reflection tends to emerge from such practices, even if it may have found them wanting in the end. As a result, the establishment of the first moral codes marked the beginning of ethics. Almost every human community has a myth that explains the origins of morality.

The Louvre in Paris houses a black Babylonian column with a relief depicting the sun deity Shamash handing the Code of Hammurabi to Hammurabi (died before 1750 BCE). Another example is the tale in the Hebrew Bible (Old Testament) of God giving the Ten Commandments to Moses (flourished 14th-13th century BCE) on Mount Sinai. Plato's



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dialogue Protagoras (428/427-348/347 BCE) contains an admittedly fictional tale of Zeus taking pity on the helpless humans, who were physically no match for the other monsters. To compensate for these shortcomings, Zeus endowed mankind with a moral sense and the capacity for law and justice, allowing them to dwell in bigger groups and collaborate with one another. It is hardly unexpected that morality should be imbued with all the mystery and power of heavenly origin. Nothing else could provide such compelling grounds to adopt moral law. By attributing a divine origin to morality, the priesthood became its interpreter and defender, securing an authority that it would not easily abandon. This connection between morality and religion is so strong that it is frequently said that there can be no morality without religion. According to this viewpoint, ethics is a branch of theology rather than a separate subject of study. Plato was aware of various difficulties with the concept that morality was formed by a heavenly power. Plato examined the idea that divine approval is what makes an action good in his conversation Euthyphro. Plato argued that if this were the case, one could not claim that such deeds are sanctioned by the gods because they are virtuous. So how come they approve of them? Is their approval completely random? Plato thought this was impossible and hence felt that there must be some criteria of right and evil that are independent of the gods' likes and dislikes. Plato's reasoning has usually been accepted by modern philosophers since the alternative suggests that if, for example, the gods approved of torturing children but disapproved of assisting one's neighbours, then torture might have been good and communality would have been evil.

21.3 SCOPE OF ETHICS

- **Nature:** Ethics is a normative science that determines standards, moral ideals, and an individual's personality. It is a methodical explanation of what is right and wrong.
- **Not Art:** Ethics is not an art because, art is concerned with the acquisition of skill in order to produce objects, whereas morality is concerned with motive, intention, purpose, and choice, which are deemed right or wrong in the light of goodness.
- **Dynamic Nature:** Ethics is not a static concept. It is not always consistent. Human beings change, and so do their moral and ethical perspectives.
- **Only for Humans:** Ethics can only be applied to humans because we are the only ones with the capacity for moral judgement. We cannot expect ethical behaviour from animals because they are not as intelligent as humans; hence ethics is solely for humans.

21.4 BENEFITS OF ETHICS

The benefits of ethics are as under: -



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- **Satisfaction of Human Requirements:** One of the basic human needs is to be fair, honest, and ethical. Every employee aspires to be such and to work for a company that operates in a fair and ethical manner.
- **Trustworthiness:** An organisation that is thought to be driven by moral standards is respected in society, even by individuals who have little knowledge of how the business or organisation works.
- **Establishing Relationship:** A values-driven organisation is respected by its people. They are the connecting thread that connects employees and decision makers on a single platform. This goes a long way toward aligning organisational behaviour toward the achievement of a single common objective or mission.
- **Decision Making:** A man's fate is the sum total of all the decisions he/she makes throughout his/her life. The same is true for businesses. Values influence decisions.
- **Profitability:** Organizations led by ethics and principles are successful in the long term, even if they appear to lose money in the short run.
- **Societal Security:** Ethics frequently succeeds law in defending society. The legal system is frequently seen as a mute spectator, unable to defend society or the environment.

21.5 AIMS OF ETHICS

The aims of the ethics are as follows: -

- **Individual level:** A personal policy should be established not to misuse the properties of others or of the organisation, to keep promises and extend mutual aid, not to seek quick gains, and not to engage in politics to gain power.
- **Organizational level:** When dealing with employees and other stakeholders, the business organisation should use fair practices. At all levels of the organisation, communication should be open and improved. Employees should be motivated by the organization's leadership for increased productivity and the greater good.
- **Societal level:** The primary concerns of business organisations are social concerns such as no discrimination and concern for the oppressed. Internal policies should emphasise the efficient use of scarce resources, the preservation of the environment, and the enhancement of the quality of life for all stakeholders.
- **Stakeholder level:** The organisation should take care of as many stakeholders as possible and use ethical methods when dealing with shareholders, customers,



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suppliers, employees, banks and financial institutions, government, and all others who are associated with the organisation.

21.6 PRINCIPLES OF ETHICS

The following are the principles of ethics: -

- **Purity:** The first and most fundamental concept of business ethics highlights the importance of using sacred and pure ways and techniques to achieve corporate goals. It means that a good end cannot be obtained using improper means, even if they are advantageous to society.
- **Morality:** It is unethical to do a big evil to another or to oneself, whether as a means or an end in itself.
- **Fairness:** This principle implies that before doing anything, one should use good judgement so that a fair view is taken and others are not harmed by the conduct of business.
- **Equality:** It clearly states that a firm should not collaborate with anyone in carrying out any wrong activities.
- **Teamwork:** This idea states that businesses should aid others only when they deserve it.
- **Publicity:** Anything that is being done or will be done should be made public. If everyone is aware, no one will have the opportunity to commit an unethical conduct.
- **Remuneration:** People have the right to goods that are worth the money they will pay.
- **Universality:** This idea states that business should be conducted in accordance with universal values.
- **Human Value:** According to this principle, man should not be viewed as a factor of production and his dignity should be preserved.
- **Non-Violence:** When a businessman harms the interests and rights of society and exploits the consumer by ignoring their interests, this is considered violence and unethical behaviour.

21.7 SOURCES OF ETHICS

The sources of ethics are as under: -



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- **Religion:** Religion is one of the oldest sources of ethical inspiration. Over 100000 different religions exist on the planet. Despite doctrinal differences, major religions agree that ethics is an expression of divine will that reveals the nature of right and wrong in business and other areas of life.
- **Culture:** Culture is a set of values, rules, and standards that are passed down through generations and are intended to model behaviours so that they fall within acceptable limits. Because individuals anchor their behaviour in the group to which they belong, these rules and standards are always important in determining values.
- **The Legal System:** Laws are rules of behaviour that are approved by legislatures and guide behaviour in any society. Whatever ethics are codified in the law, they are binding on businesses. Law is reactive; new statutes and enforcement are always enacted in response to an opportunity for corporate expediency.

21.8 THEORIES OF ETHICS

The following are the some essential theories of ethics given by different philosophers: -

- a) **Virtue Ethical Theories:** According to virtue ethical theories, an individual's ethical value is defined by his character. Character refers to the virtues, impulses, and intentions that predispose a person to moral behaviour. The theories come under it are as: -
- **Individual Character Ethics:** According to individual character ethics, identifying and developing noble human characteristics aids in determining the instrumental and intrinsic value of human ethical relationships. Examples include bravery, self-discipline, prudence, thankfulness, wisdom, sincerity, understanding, generosity, and other noble qualities.
 - **Work Character Ethics:** Identifying and developing introspective, practitioner, noble work attributes such as inventiveness, honesty, loyalty, honour, reliability, politeness, shared work pride, empathy, and so on determine the intrinsic and instrumental ethical quality of work life.
 - **Professional Character Ethics:** In some cultures, self-regulation, loyalty, impartial judgement, benevolence, truthfulness, and public service establish an individual's intrinsic and instrumental ethical qualities, according to professional character ethics.

As a result, the Virtue Ethical Theories are based on the idea that life is all about developing a good character. The character provides a solid moral foundation for one's behaviour. A person with a strong character is thought to have imbibed emotional, intellectual, moral, and social characteristics in order to develop self-discipline and do or seek what is best for him. A



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weak character, on the other hand, finds him doing all the wrong things, craving what is actually harmful and making excuses for all of his wrongdoing.

- b) **System Development Ethical Theories:** According to system development ethical theories, the ethical value of actions is determined by how sensitive the organisation system is to the need to develop a work culture supportive of ethical conduct.
- **Personal Improvement Ethics:** According to personal improvement ethics, an action is good if it promotes the individual's personal responsibility for continuous learning, improvement, holistic development, and moral excellence. Employees enrolled in the company's training programmes to gain expertise in their work and to improve their own and the organization's performance.
 - **Organisation Ethics:** According to organisational ethics, an action is right if it confirms the development of formal and informal organisational processes, which in turn improves procedural outcomes, respectful caring, ethical work culture innovation, and systematic justice. If there are no employee grievances If the organisation lacks a redressal system and employees lack a voice system for feedback, it is the manager's responsibility to implement such a system and give the employee a voice. By doing so, the manager promotes individual and organisational moral development while reducing strong opposition to overall moral development.
 - **Extraorganizational Ethics:** Extra organisational ethics asserts that an action is right if it promotes or tends to promote collaborative partnerships and respects the diverse political, economic, legal, social, ecological, and philanthropic concerns that affect the firm. A manager's social responsibility is to consider all external factors affecting the organization's business processes, such as political, legal, social, and environmental factors.

Thus, managers who carefully assess the moral conduct of their employees and punish them for wrongdoing are said to have successfully developed an ethical system. If the manager relies solely on the character of his employees and does not implement morally supportive intra-organizational systems and stable processes, the organisation is vulnerable to future ethical risk.

- c) **Teleological Ethical Theories:** The term teleological comes from two Greek words: telos, which means "purpose" or "goal," and logos, which means "science" or "study." It is concerned with goodness, or with being a good person with good intentions. As a result, in contrast to deontological ethics, teleological ethical traditions focus on the goal of - or intention behind - human actions. The goal of a given decision is the focus of teleological ethical theories. The Teleological Ethical Theories are concerned with



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the consequences of actions, which means that whether our actions are morally right or wrong is determined by the good or evil generated.

- **Ethical Egoism:** The ethical egoism is a teleological theory that holds that an action is good if it produces or is likely to produce results that maximise the person's self-interest as defined by him, even at the expense of others. It is based on the idea that it is always moral to promote one's own good, but that avoiding one's own personal interest can also be a moral action. This distinguishes ethical egoism from psychological egoism, which holds that people are self-centered and self-motivated and act only to maximise their personal interests without helping others, thereby denying the reality of true altruism, i.e. sacrificing one's personal interest for the welfare of others.
- **Utilitarianism:** According to the Utilitarianism theory, an action is good if it maximises satisfaction for a large number of people who are likely to be affected by the action. If a manager creates an annual employee vacation schedule after soliciting all employees' vacation time preferences and honouring their preferences, he is acting in a way that maximises the pleasure of all employees.
- **Eudaimonism:** Eudaimonism is a teleological theory that holds that an action is good if it results in the achievement of goals as well as the well-being of humans. In other words, actions are said to be fruitful if they promote or tend to promote the fulfilment of human nature's goals and happiness. Assume a manager imposes employee training and knowledge standards at work, both of which are natural components of human happiness.

Thus, a teleological theory is a moral theory that holds that the rightness or wrongness of actions is solely determined by their consequences.

- d) **Deontological Ethical Theories:** The term deontological comes from the Greek word deon, which means "duty." It is concerned with right action, or simply doing the right thing because it is the right thing to do. Deontological theories examine whether ethical decisions are right or wrong in and of themselves, regardless of the consequences or intentions of those ethical decisions. According to Deontological Ethical Theories, actions are morally correct regardless of their consequences.
- e) **Negative and Positive Rights Theories:** According to the negative rights theory, an action is justified if it protects the individual from harm or unjustified interference from other people or the government while exercising his right. If an individual has the right to use, sell, or dispose of his personal car, then others have the correlative duty not to prevent him from doing so. According to the positive rights theory, an action is right if it provides or tends to provide an individual with anything he requires to exist. If an individual has the right to adequate health care services in order to



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survive, this implies that other agents, perhaps the government, have a correlative duty to provide him with the necessary health care services.

- f) **Social Contract Theories:** According to social contract theories, people make agreements with one another to uphold moral and political obligations to the society in which they live. This theory is based on the idea that if society lacks order and law, people will have unlimited freedoms, i.e. the right to everything, and will resort to all misdeeds such as rape, murder, plunder, and so on. As a result, there will be an endless "war of all against all," and in order to overcome this situation, people agree to give up some of their freedoms in exchange for the obligation to respect and safeguard the rights of others. As a result, an individual gains the civil rights that comprise the social contract and he is entitled to the extent that he fulfils his societal obligations.
- g) **Social Justice Theories:** According to social justice theories, an action is considered right if it confirms fairness in the distributive, retributive, and compensatory dimensions of cost and reward. The distributive dimension refers to group members' perceptions of fairness in the distribution of social benefits and burdens. The retributive dimension considers punishment in relation to the severity of the crime, whereas the compensatory dimension considers how people are compensated in relation to the injuries inflicted on them. If second-hand smoke harms passive or nonsmokers at work, the health risk burden should be distributed fairly, and the party responsible should face proportionate punishment. In addition, the injured parties must be compensated to the extent of their injuries. Thus, according to one theory, the rightness or wrongness of actions is independent of the goodness or badness of their consequences.

21.9 INDIAN CULTURE AND ETHICS

In India, ethics is founded on a variety of scriptures, thoughts, ideas, and Vedas. Organizational culture in India is divided into two broad categories: professional culture and community culture. Among these ethical values are the following: -

- **Respect:** Respect means that each individual should respect the beliefs and values of others. To maintain good mutual relationships in a multiethnic country like India, people should respect each other's views, beliefs, and ideas.
- **Trust:** Trust implies that an enterprise's employees should cultivate mutual trust and faith in one another. Doubts can lead to misunderstandings, problems, and chaos among people, so they should be avoided. Such doubts can be dispelled by placing trust in one another in order to improve the operation of a business.



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- **Spirituality:** Businesses recognise the value of spirituality, contemplation, meditation, and yoga practices. Such practices assist people in living a more sensible life, increasing work efficiency, and lowering stress levels. When a person is in a peaceful and contented state of mind, he or she performs efficiently and feels satisfied at work.
- **Tolerance:** It aids in the maintenance of cordial relationships among enterprise employees. Tolerance refers to an increase in an employee's adaptability to various organisational changes. Individuals must be permissible and open to the challenges of their jobs. They should accept people for who they are and not pass judgement on them.
- **Flexibility:** Flexibility refers to an individual's ability to adapt to his or her surroundings in the workplace. It considers an individual's receptive and adaptive nature toward coworkers and assigned tasks.
- **Honesty:** It refers to the truthfulness and transparency of an enterprise's employees' nature and behaviour. It also necessitates a trustworthy code of conduct in a business.
- **Tolerance:** It refers to an individual's ability to tolerate delays in the fulfilment of their desires or goals. Individuals with a high level of patience are unaffected by delays in receiving rewards for completed tasks.
- **Persistence:** It refers to an individual's ability to not give up easily and to keep trying to achieve goals. Individuals with perseverance can keep their spirits up in order to achieve their objectives.

ACTIVITY

Discuss in the class room the need and significance of the Ethics for human being. Do these helps an individual to be good professionals? What role ethics plays in running a ethical business? Is it necessary for the present day organisations to follow and prepare a proper guidelines for Ethical aspect?



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IN-TEXT QUESTIONS

1. Ethics will be taught in business schools.
 - (a) Raise ethical consciousness.
 - (b) Make managers ethically conscious.
 - (c) Assist managers when they face ethical quandaries
 - (d) All of the Above
2. Ethics studies the nature of fundamental concepts such as right, duty, and _____.
3. Ethics is regarded as the: -
 - (a) Standard of Goodness
 - (b) Fact of Goodness
 - (c) Object of Goodness
 - (d) Thought of Goodness
4. Ethics is a science of the following: -
 - (a) Peace
 - (b) Body
 - (c) Mind
 - (d) Conduct
5. The term ethics comes from the Greek word _____.
6. Ethos means: -
 - (a) Rituals
 - (b) Customs
 - (c) Society
 - (d) Character



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7. The rightness or wrongness of _____ is determined by ethics.
8. _____ created a link among Indian and Western cultures.
9. The ethical attributes are: -
 - (a) Care, Love, Truth, Peace and Self-Discipline
 - (b) Patience, Healthy Relationship, Harmonious Environment, Goodness
 - (c) Code of Conduct, Accountability, Efficiency, Determination and Punctuality
 - (d) Self-Esteem, Confidence, Focus, Mindfulness.
10. You convince a friend not to embarrass a former friend by posting embarrassing photos on social media. Your deeds are_____.

21.10 VALUES

Moral ideas, general conceptions or orientations toward the world, or simply interests, attitudes, preferences, needs, sentiments, and dispositions have been interpreted as values. However, sociologists define this term more precisely as "the generalised end which has the connotations of rightness, goodness, or inherent desirability." Society regards these goals as legitimate and binding. They define what is important and worthwhile to strive for. Values have been interpreted as "such standards by which the ends of action are selected" at times.

Value has been defined as moral ideas, general conceptions or orientations toward the world, or simply interests, attitudes, preferences, needs, sentiments, and dispositions. However, sociologists define this term more precisely as "the generalised end which has connotations of rightness, goodness, or inherent desirability." Society considers these goals to be legitimate and binding. They define what is important, worthwhile, and worth striving for. Values have been interpreted to mean "such standards by which the ends of action are selected." In a broad sense, values are what is good, desirable, or worthwhile. Purposeful action is motivated by values. They are the goals for which we strive and can take many forms. Personal values are personal beliefs about what is right and wrong that may or may not be moral. Cultural values reflect what is important in each context and are accepted by religions or societies.



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21.11 FEATURES OF VALUES

The features of the values are as under: -

- These are extremely practical, and valuation necessitates not only techniques but also an understanding of the strategic context, and they can provide competence and moral standards that extend beyond specific situations or people.
- Personal values are relatively permanent and more central to the core of a person, and can be influenced by culture, tradition, and a combination of internal and external factors.
- The majority of our core values are learned early in life from family, friends, neighborhood schools, mass print, visual media, and other societal sources. Values are loaded with powerful thoughts about ideas, objects, behaviour, and so on.
- They have a judgmental element in that they carry an individual's ideas about what is right, good, or desirable, which can differ from culture to culture and even person to person, and these values play an important role in the integration and fulfilment of man's basic impulses and desires that are stably and consistently appropriate for his living.
- They are generic social action experiences composed of both individual and social responses and attitudes that help to build societies and integrate social relations. Values shape the ideal dimensions of personality and cultural depth.
- They influence people's behaviour and serve as criteria for evaluating others' actions, and they play a significant role in the conduct of social life. They contribute to the development of norms.

21.12 ESSENTIALS OF VALUES

The essential aspects of the value are as: -

- Value serves as the foundation for understanding motivation and influences our perception.
- Value aids in understanding what should or should not be and contains interpretations of right and wrong.
- These have an impact on attitudes and behaviour, implying that certain behaviours and outcomes are preferred over others.



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- These enable members of an organisation to interact in a harmonious manner. These make it possible to achieve goals that would be impossible to achieve otherwise.
- These are achievement goals that motivate, define, and colour all of our cognitive, affective, and connective activities.

Values and morals can not only guide but also inspire and motivate a person, providing energy and zeal for living and doing something meaningful. Values are important in the study of organisational behaviour because they lay the groundwork for understanding attitudes and motivation.

21.13 TYPES OF VALUES

The following are the different types of value: -

- **Individual Values:** These are values associated with human personality development or individual norms of recognition and protection of human personality, such as honesty, loyalty, veracity, and honour.
- **Collective Values:** Collective values are values associated with community solidarity or collective norms of equality, justice, solidarity, and sociability.
- **Intrinsic Values:** These are values associated with life goals. They are also referred to as ultimate and transcendent values. They establish the schemata of human rights, duties, and virtues. They are at the top of the value hierarchy and are superior to all other life values.
- **Instrumental Values:** These values follow intrinsic values in the value gradation scheme. These values serve as a means to an end (intrinsic values). They are also known as proximate or incidental values.
- **Theoretical Values:** An interest in discovering truth through logic and systematic thought. The ideal theoretical man values truth discovery.
- **Economic Values:** An interest in usefulness and practicality, including wealth accumulation. The ideal economic man is concerned with practical matters and values what is useful.
- **Aesthetic Values:** An appreciation for beauty, form, and artistic harmony. Even if he is not creative, the ideal aesthetic man values artistic and aesthetic experiences in life.
- **Social Values:** A fascination with people and human relationships. The ideal social man places great values on affiliation and love. He is generally kind and sympathetic to others.



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- **Political Values:** A desire to gain power and influence others. Power is extremely important to the ideal political man.
- **Religious Values:** A desire for unity and a comprehensive understanding of the universe. Unit is the highest value for the ideal religious man. Different people place different weights on the six values listed above. Every individual ranks the values from one to six. This is critical for understanding people's behaviour.

21.14 SOURCES OF VALUES

The sources of values are as under: -

- **Family:** A great source of values is one's family. A child's first value is taught to him by his family.
- **Peers and Friends:** Peers and friends are important in achieving values.
- **Community:** A person learns values from society or different groups of society as a member of society.
- **Educational Institutions:** As a learner, school and teachers play a critical role in instilling values.
- **Media:** Print media and electronic media both play a role in instilling values in people's minds.
- **Relatives:** Relatives also help to inculcate values in people's minds.
- **Organization:** Various organisations and institutions, such as religion, history, and books, all play an important role in the creation of value.

21.15 VALUE DEVELOPMENT

Value formation is how we determine what is right and wrong based on our worldview. According to research, managers' personal values have a significant impact on their behaviour and performance. Defining an organization's values is effective in empowering a workforce and engaging effective decision making. As we grow, we go through three stages in which our values develop as follows: -

- **The Imprint Period:** From birth to the age of seven, children absorb everything around us and accept much of it as true, especially when it comes from their parents. This period's confusion and blind belief can also lead to the formation of trauma and other serious problems. The key here is to develop a sense of right and wrong, good and bad.

India takes pride in its strong ethical foundation. It must be rekindled through proper education of our young and aspiring managers. Indian ethico-moral debates date back three and a half millennia, when the Vedas laid out the ground rules for human existence and living. The ethical debates and teachings continued throughout Indian history, despite the fact that India was ruled by various emperors and foreign rulers. The traditions were carried on by the Upanishads, Puranas, and Smritis. The values were popularised in the great epics of Mahabharata and Ramayana. The Bhagavad-Gita presents ethics in a clear and concise manner.

The epics present human dilemmas in all walks of life and emphasise the importance of values in dealing with all such issues. Arthashastra by Kautilya, Panchatantra by Vishnu Sharma, Hitopadesha, Neetishastra by Katha Saritsagar, Neeti Shataka by Somadev Neeti Sootra by Somadev Neeti Sootra by Somadev Neeti Sootra by Somadev Neeti Sootra by Somadev Neeti Sootra by Somadev Neeti Soo Perhaps in order to attract readers, these works are in story form, ornate, colourful, and poetic, with unparalleled practical ethical values. Indian ethics today are an intimate blend of good textures of values drawn from Vedantic, Jaina, Buddhist, Sikh, and Sufi traditions. We have recently added western values as well.

There are different models have been developed by Indian researcher such as Dr. Virender Kaushal, Dr. Balbir Singh and Ms. Sunita Devi related to the management ideas for the Indian managers and professional students from the Indian mythological aspect. The different models developed have been given as under: -

Lord Ganesha is an elephant-headed Hindu God of beginnings who is also revered in Jainism and Buddhism. According to historical and mythological literature, He is mystical and ".
Lord Vinayaka, son of "Lord Shiva" and "Goddess Parvati," is known as the God of success.



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- **Visionary:** Lord Gajanan's big head represents having an intellectual mind filled with conceptual clarity, information, knowledge, wisdom, and vision. Management professionals must deal with a number of common issues, problems, difficulties, or conflicts. As a management professional, you must think creatively in order to find solutions to problems.
- **Good Listener:** As a management professional, you must master the art of listening carefully and calmly. You must be a good listener in order to provide fruitful solutions to your organization's problems.
- **Focused:** As a management professional, you must keep a close eye on your employees to avoid mistakes. To sharpen the KSAOs, keep an eye on the activities they engage in while performing their duties or jobs. You are a popular and successful management professional due to your microscopic focus and determined behaviour.
- **Future Oriented:** Long Nose/Trunk of the God implies that you should be able to smell or judge your surroundings in order to protect yourself. A management professional must be alert, cautious, and aware of their competitors. The future is uncertain, and no one knows who will surpass them.
- **Speak Less:** Lord Vighanaharta's small mouth represents "Speak Less and Listen More". When motivating, inspiring, discussing, and communicating with your employees, use a practical or pictorial presentation. Because using too many words while performing duties create ambiguity in practitioners' minds.
- **Effective Communication:** A management professional should have clarity while communicating with others. Effective communication acts as a weapon in minimising chances of disputes and misunderstanding between the parties involved. The Lord Dhumraketu is an elephant-headed God have human throat to communicate with others, according to the Hindu religion.
- **Sacrifice:** The Lord Ekadanta has two tusks, one of which has been broken. The right tooth of Lord Ganesha was broken by Rishi Parshuram, when he refused to allow Rishi to meet with Lord Shiva. This was the reason he named as "Ekdanta". To become a good management professional he/she needs to overcome his/her emotions and perform their duties carefully. So, you have to act selflessly for others irrespective of their needs, wants, desires and expectations. It shows the will of sacrifice and how selfless you are.
- **Saama, Daama, Danda and Bheda:** There are four hands which indicate that you have to follow the four sutras to be successful in your life. Saama (Equity), Daama (Compensation/Remuneration), Danda (Rules/Regulations) and Bheda (Division) play an important role in achieving the goals or targets set by professionals.



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- **Adaptability:** The big belly of "God Lambodara" shows good capacity to digest everything. It is essential for management professional to be emotionally balanced and stable. He must accept failure and move forward to overcome his deficiencies. He should keep the confidential information and secrets shared with him.
- **Will-Power:** If you have limited resources with you and with these resources you have to look after the operations of your organisation. It means whole responsibility and accountability lies upon you to run, manage and take decision regarding proper functioning of your enterprise. For this, you should have strong will power so that you can attain the targets easily and effectively.
- **Humbleness:** Humbleness is essential for management professionals because they have to teach people from all income level and community as well. The mouse is the most tiny creature and used as a vehicle by Lord Akhuratha. It indicates that a small thing can be very useful and advantageous for us.
- **Confidence:** In Hindu religion Lotus flower is the symbol of youth, beauty and life. It reveals that one should have confidence to perform his role in the life. A management profession should be able to present his knowledge, skills and abilities on front of others. The most unique feature of Lotus flower is its capability to flourish in muddy water.
- **Relationship Building:** The rope is in God's hands revealed that in order to foster trust and loyalty, one must cultivate healthy and harmonious relationships with others. Thus, a management professional should adhere to the concept of developing relationships with all stakeholders in order to ensure the long-term survival of their organisation.
- **Competence:** The Axe in Lord Gajavajtra's hands indicates that management professionals should have in-depth knowledge, skills, and abilities as sharp as the Axe's edge. If he lacks something, he must devote his time, dedication, and commitment to improving his competence and problem-solving abilities.
- **Fruitful Outcomes:** Modaka's are the most favourite dessert of Lord Ekadrishta. It is the holy offering offered by devotees to the Lord. The sweetness of modaka's resembles with fruitful results. Therefore, if management professional want their outcomes to be sweet and profitable like modakaas, work hard.

21.16.2 Lord Hanuman Model of Leadership Lessons:

The "Lord Hanuman" also called as "Pawansuta", "PawanPutra" or "Monkey God" is the son of King Kesari and Mata Anjana. Maruti Nandan is also famous for His intelligence, knowledge of all four Vedas (The Rig-Veda, The Yajurveda, The Samaveda and The Atharvaveda. "Bajrang Bali" was the kingpin, who arranged meeting of Lord Rama and



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Sugreeva (King of Monkey Kingdom) or crossing the sea in search of Mata Sita or blazing Lanka. These lessons help them to resolve different hindrances faced by them in their daily life.

- **Effective Communication:** Effective communication or speaking skills not only helps a professional in creating good societal relationship and it also motivates them in building reputation, status, image and trustworthiness with team members in an organisation. Maruti Nandan acts as an authentic messenger of Mata's life line Lord Rama.
- **Tactical Approach:** Lord Pawansut is considered as one of the greatest Indian Managers of all time for his tactical approach and ability to focus on the assignments allotted to him. His qualities, skills and tactics were outstanding like lifting mountain to save the life of Lakshman and using his tail to burn the Ravana's Lanka.
- **Reliability:** Lord Hanuman's life goal was to serve Lord Rama only and dedicated his life in the feet of his deity. It depicts that the reliability is must in the present day environment. How successful and blooming people are different from those unproductive or failed one, this difference is due to reliability and loyalty towards objectives, aims, ends, goals and ideas.
- **Humbleness:** In Ramayana, Sursa was sent by Gods to test the competence of Lord Hanuman. She tried to create hindrances in the way of Him by enlarging her body. If a professional is competent but if he/she fails to show their humble and polite nature towards other, they will never achieve their targets.
- **Problem Solving:** When Lakshman was unconscious due to war with Meghnada, Lord Sankat Mochan was asked to bring Sanjeevani herb from Sumeru Parvat in the Himalaya mountain ranges. He went there to bring the herb but Bajrag Bali got confused to identify that and it was the major problem faced by Him.
- **Adaptability:** An individual to be a professional must have adaptable nature in order to adjust himself in the changing situations. In Epic Ramayana, Lord Hanuman have supernatural powers and with it He may turn himself into any shape like as small as an ant, as huge as a mountain.
- **Courageous:** In Ramayana, Lord Hanuman took brave decisions and risks to accomplish the tasks assigned to him. The fear and panic situations restricted the capabilities of an individual. To become a good professional, an individual must perform his/her role in a courageous way for the growth and development of organisation.
- **Dynamism:** In Ramayana, when Lord Rama and His younger brother Lakshman were kidnapped by Patala Lok's King Ahiravana, then Veer Hanuman went there to rescue



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them. He has to put out lamps from five directions such as North, South, East, West and Upward directions respectively. For doing this, He changes His shape to five-faced figure.

- **Leading:** During the battle between Lord Rama and Ravana, He managed and directed the whole army of mischievous animals such monkeys, baboons and others with His leading capabilities. It presents that being a professional whether an academican, manager, lawyer, researcher, leader, artist, musician and others, one must be an initiator.
- **Strength:** The Epic Ramayana is a proof of Lord Hanuman's power and strength. This discussion predicts that if a professional want to be successful, he should have reliance on his/her capabilities and competence. He must have wisdom and foresightedness to take bold decisions which would be effective and beneficial for the growth and development of organisation.
- **Effective Listening:** The Lord Hanuman was an effective listener and has high patience level. He had the abilities to influence, encourage and motivate others to move on the right path. His suggestions to Vibhishan (the younger brother of King of Lanka-Ravana) help Lord Rama to defeat Ravana.
- **Determination:** Lord Hanuman's determination and will to provide relief to His "Prabhu's" depressed state caused by the kidnapping of Mata by Ravana. His dedication to find Mata Sita made Him stronger to face all the difficulties. These obstacles direct Him to pave the way in bringing her back home after defeating Ravana by Lord Rama.
- **Hardwork:** There is a story that when the Lord Hanuman was a child He consumed the Sun thinking that it was a fruit. For consuming the Sun He changed His shape to larger size. If you have vision, wisdom, competence and hardworking nature, you may convert your dreams into reality.

21.16.3 Saint Kabir's Model of Managerial Qualities:

According to Saint Kabir's Model, the following qualities must be possessed by a manger: -

- **Action Oriented:** "Kaal Kare so aaj kar, Aaj kare so ab, Pal mein parlay hoyegi, Bahuri karega kab," says the narrator. i.e. It is critical to complete one's task rather than postponing it indefinitely. What if the world were to end tomorrow? Be prepared, and act now.
- **Faith and Patience:** "Dukh mein sumiran sab kare, sukh mein kare na koye, Jo sukh main sumiran kare, toh dukh kahe ko hoye," says the poet. That is, if one maintains faith during times of peace, nothing bad will ever happen. Have faith that the manager will achieve the objectives.



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- **Communication:** “Aisee vani boliye, Mann ka aapa khoye, Apna tan sheetal kare, Auran ko sukh hoye,” says the speaker. In other words, instead of being arrogant, be humble and courteous to others. What matters most is spreading joy through words.
- **Will-Power:** “Chinta aisee dakini, Kaat kaleja khaye, Vaid bichara kya kare, Kahan tak dawa lagaye,” says the poet. Worry, for example, is a disease that no doctor can cure with his medicines. After all, it is ultimately heartbreaking.
- **Self-Analysis:** “Bura jo dekhna main chala, buran aa milya koye, mann khoja aapna, toh mujhse buran aa koye, mann khoja aapna, toh mujhse buran aa koye, mann khoja aapna,” In other words, I couldn't find any flaws in others. But when I looked within, I couldn't find anyone who was as flawed as I was. Thus, before passing judgement on anyone, one must first examine oneself.
- **Well-Wisher:** “Kabira khara bazaar mein, Mange sabki khair, Na kahu se dosti, Na kahu se bair,” i.e. instead of seeking friends and enemies, Kabira seeks wisdom and well wishes while blessing others. Make yourself a well-wisher.
- **Positive Attitude:** “Jab tu aaya jagat mein, Log hanse tu roye, Aisi karni na kari, Pache hanse sab koye,” i.e. Live your life so well that when you die, others will miss you.
- **Selflessness:** “Chaah miti, chinta miti, Manwa beparwah,” says the Buddha. Who Shahenshah, i.e. He who desires nothing, is the true king. There will be no room for worries when there are no desires.
- **Time Management:** “Raat gawai soyeke, Diwas gawayaa khaay,” says the timekeeper. Kodi badle jaye', Hira janam anmol tha.” That is, you were born to shine like a diamond. However, if the nights are spent sleeping and the days are spent eating, it will lead to worthlessness.
- **Humbleness:** “Uncha dekh aavas, Kabira garv na keejiye. Uper jamsi ghaas', Kaal pairon punyah letna.” i.e. Never be proud of your wealth, because in the end, you will be buried beneath the earth, and all that will remain is the growing grass above you. Be modest and humble to all.

21.16.4 Ethical Leadership: The Godrej Group

The Godrej Group has never split in its 123-year history. The family owns a majority stake (50 to 100%) in the majority of the company's corporations. Senior management is primarily made up of family members; youngest generation forced to work at lowest executive levels. Godrej was founded in 1897, during the era of India's Swadeshi Movement, or the original "Make in India" movement. There is a strong and systematic succession plan in place, with these executives groomed and trained by senior family members and outside professionals. Ardeshir Godrej was born in Bombay in 1868 to a Parsi-Zoroastrian family. When Ardeshir



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was three years old, his father, Burjorji Gootharajee, changed the family name to Godrej. In 1894, Ardeshir was hired by Bombay Solicitors for a brief period. His first relegation required him to travel to Zanzibar to fight a case for their client. He realised that he would need to control the case's certainties in order to demonstrate his customer's guard.

After a brief career in the Indian legal profession, he became fascinated with surgical instruments and launched his first surgical instrument business, which also failed. As a man of principles, he refused to take the case that would have led to the creation of what is now known as the Surgeon's Case. In 1897, Ardeshir Godrej started a lock-making business in Mumbai. The rising number of burglaries in Mumbai at the time sparked the idea for this lock-manufacturing venture. Merwanji Cama, a prestigious Parsi representative and humanitarian, gave him a credit and an incredible boost. At the age of 24, Ardeshir Godrej graduated from the Victoria Jubilee Technical Institute in Mumbai. He launched Chavi, the world's first cleanser made without the use of animal fat. Pirojsha's vision had been to help the family business grow and diversify. After starting out in the locks and soap business, they ventured into the furniture business in 1923. In 1958, they made a strong entry into the home appliance market with their first refrigerators.

Following his father's death in 1972, Sohrab Pirojsha Godrej was appointed chairman of several international organisations. He was wary of the political charade that existed in the Indian landscape. At the time, Indian companies were attempting to gain a global platform for their products. In times of uncertainty, he was able to effectively unite Indian businesses. He gained the respect of his employees by becoming involved in their personal concerns, issues, living conditions, and so on. In the eyes of Indian businesspeople, this commanded love and respect for Sohrab.

Adi Godrej's Notable Rise

The Godrej Group has dabbled in a variety of businesses over the years. They have ventured into hair dye products, real estate, agri-business, mosquito repellents, gourmet retail, air care, and the construction of aerospace engines. Their company expanded across borders. Adi Godrej joined the family business in 1963 after graduating from MIT Sloan School of Management. He is regarded as one of the richest Indians, with a net worth of \$2.2 billion.

Adi Godrej was tasked with modernising the inflexible management structure of his family business. Adi believes that his time in America has had a significant impact on his business acumen. Adi Godrej is credited with changing the way business was done in India by appointing CEOs from outside the family. He introduced new business processes at a time when companies saw "change" as disruptive and dangerous. By upholding middle-class core values, he created an emotional connection with people for both his personal and the group's brand image.

Adi is influenced by Greek philosophers Socrates, Plato, and Aristotle as well as Nelson Mandela and Margaret Thatcher. He had always been technologically savvy and was

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particularly interested in technology adoption that benefited his business. Adi believes that staying ahead of the market's fierce competition required innovation. The Godrej Group has emerged as a strong market fast-moving consumer goods (FMCG) player under his leadership. The two most important mantras that have contributed to his success are the need to imbibe and follow best practices, and to know and understand the trade.

Adi Godrej's father Nadir and first cousin Jamshyd were both successful businessmen. Their children have begun to take key positions in their family business. There will undoubtedly be conflict among them as a result of their disparate ideas, paths, and choices. Adi Godrej is an industrialist by trade, but a philanthropist by nature. He is a value-driven individual who is well-known for his simplification, promptness, and focus. Adi has received numerous awards in various categories for his exceptional leadership and business acumen.

Impact of Adi's Leadership on Godrej

Adi Godrej completed a 10-year restructuring process in 2001. His initial goal was not to drastically alter everything but to add competitive value. According to Adi, leadership is about doing the difficult things that no one else wants to do, not just the popular ones. He was raised with the Zoroastrian virtues of uprightness, charity, generosity, and benevolence. His values-driven personality is reflected in his leadership styles.

- **Delegative leadership style:** In his early career, Adi was seen as an authoritative leader, but over time he evolved into a Delegative leader. He practised listening skills and consulted with his teammates before making decisions. He recognised the need for different CEOs in the various group companies and delegated decision-making authority to employees.
- **Transformational leadership style:** Adi Godrej was successful in developing an emotional connection with his workers and employees because he was an effective listener and an empathetic leader. He lives by the motto "thinking future backwards," and works with his teams to identify needed change from various perspectives. Adi Godrej acquired Transelektra, an insecticide manufacturing company, for Rs. 80 crore in 1994. He recruited Sara Lee and sold half of the acquired company to Hindustan Unilever at the price he had to pay for the entire company. In addition, he received a free 50% stake in the company.
- **Authentic leadership style:** Adi's open and honest relationships with his workers and employees fostered openness, trust, and earned the respect of all. His philanthropic nature earned him accolades and a large following even outside of his family business. He was more concerned with people and ethics than with the bottom line.
- **Ethical leadership style:** Adi Godrej received the Golden Peacock Lifetime Achievement Award in 2017. His pioneering contributions as a dedicated leader have



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set many great examples for India's emerging leaders. As an ethical leader, he has worked and succeeded in changing the country's societal and business landscape.

- **Value-based leadership style:** VBL is the result of an amalgamation of ethical and authentic leadership styles. Adi Godrej's leadership reflects the strong Parsi ethos that has been instilled in him. He lives by the Zoroastrian motto, "Good thoughts, good words, and good deeds". The Godrej Group's Vision-2020 includes the creation of shared value through Good and Green. The brand value created by organic and inorganic growth has resulted in increased social and relationship capital. This has helped to strengthen their financial capital and diversify their human capital.

21.16.5 Ethical Principles and Values: Indian Oil Corporation Limited

Indian Oil is in the process of transitioning from a pure sectoral company with downstream dominance in India to a vertically integrated, transnational energy behemoth. By integrating its core refining business with petrochemical activities, the Corporation is already on its way to becoming a major player in petrochemicals. Indian Oil, one of India's most socially responsible brands, has successfully integrated its corporate social responsibility agenda with its business offerings. The Corporation has supported numerous initiatives related to health, family welfare, education, environmental protection, potable water, sanitation, and the empowerment of women and other marginalized groups. The 'Vision with Values' of Indian Oil is a matrix of six cornerstones that would help the Corporation's efforts to be "The Energy of India" and "A globally admired company". The Vision is infused with the core values of Care, Innovation, Passion, and Trust.

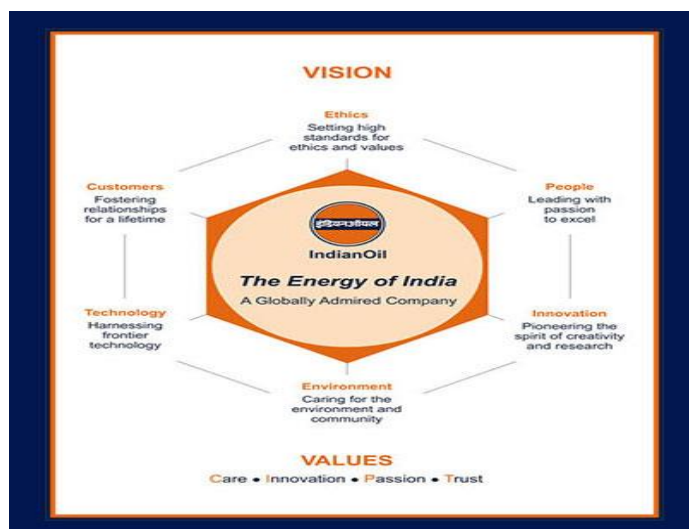
Ethical Conduct: Indian Oil Corporation Limited

- The CEO and his deputies are expected to act impartially and ethically, and refrain from participating in any decision-making process involving a conflict of interest.
- The Board of Directors of the Confederation of British Industry (CBI) has approved a new code of conduct for its members, which includes that they should: 'Abstain from engaging in any business, relationship, or activity with anyone who is a party to a transaction involving the Company'.
- "Senior Management Personnel" means Company personnel who are members of the Company's core management team, excluding the Board of Directors, and would include all members of management one level below the Whole Time Directors. "Heads of departments" would include heads of departments directly reporting to Whole Time Director.
- The New York Stock Exchange (NYSE: NYSE) has adopted a new code of conduct for its officers, which requires them to act with utmost care, skill, diligence, honesty, good faith, and integrity, as well as high moral and ethical standards.



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- The Chairman of the Board of Directors of a public company should avoid doing business with any company in which he or his relative is a member or a director, or has a position of influence over the company's affairs;. Act fairly and transparently, and refrain from participating in any decision-making process involving a potential conflict of interest.



Source: <https://iocl.com/our-vision-with-values>

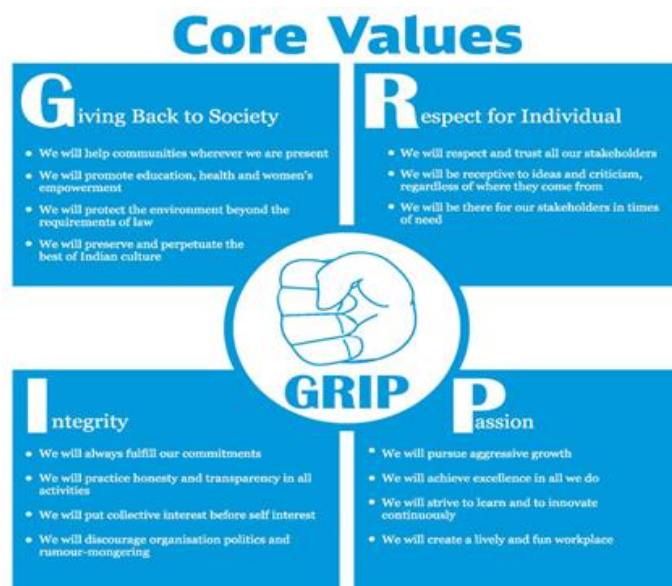
- The Association of Chartered Accountants in England and Wales (AFCB) has issued a set of general guidelines for its members on how they should conduct themselves in relation to their work with the Company, which includes avoiding any personal or financial interest in any business dealings.
- Not to exploit for personal gain opportunities discovered through the use of corporate property or information; Not seek, accept, offer, or make, directly or indirectly, any gifts, illegal payments, remuneration, donations, or comparable benefits with the intent or perception of obtaining business or uncompetitive favors.

21.16.6 Ethical Principles: Bhilwara Group

LNJ Bhilwara Group, founded in 1961, is one of the country's most prestigious and diverse business conglomerates. The Group is proud to be a multi-products and services conglomerate with an annual turnover of more than INR 5,600 Crore (\$1.0 Billion). The Bhilwara Group's efforts are primarily aimed at improving the quality of life for those who live in and around its facilities. Healthcare, education, and environmental conservation are key areas of focus. The activities are carried out both directly and through dedicated trusts. The term "corporate culture" was coined in the early 1980s and became widely known by the 1990s. Managers, sociologists, and other academics used corporate culture to describe a



company's character. It included value systems, management strategies, employee communication and relations, work environment, attitude, and even company origin myths.



Source: <https://www.lnjbhilwara.com/culture.html>

- a) **Ethics, Transparency, and Accountability in Corporate Governance:** We are committed to implementing the best corporate governance practices in our operations. The composition of the Company's Board of Directors is governed by the Companies Act of 2013 and the SEBI Regulations of 2015. The Board has established several committees to ensure accountability and monitoring, including Audit Committee, Nomination & Remuneration Committee, and Corporate Social Responsibility (CSR) Committee.
- **Code of Conduct:** RSWM's Code of Conduct applies to all directors and senior employees of the Company and aims to maintain the highest standards of business conduct in accordance with the Company's Ethics. It also aims to provide guidance in difficult situations involving conflict of interest and moral dilemma, and to ensure compliance with all applicable laws.
 - **Whistle Blower Policy:** Vigil Mechanism provides a channel for employees and directors to report concerns about unethical behaviour, actual or suspected fraud, or violations of the Codes of Conduct or policy. The mechanism provides adequate safeguards against employee victimisation when using the mechanism, as well as direct access to the Chairman/Chairman of the Audit Committee in exceptional cases.



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- b) **Product and service life-cycle sustainability:** RSWM's business model is based on the 3P philosophy of People, Planet, and Profit. These aspects are critical in the formulation of every business strategy at the Company.
- **People:** RSWM considers its employees to be its most valuable asset. Safety is the Company's top priority in order to strengthen its people connection. All employees must receive safety training, which promotes incident-free operations. The Company encourages its team, across hierarchies, to suggest ideas for business improvement.
 - **Planet**
 - **Responsible Sourcing:** For its man-made and natural fibre requirements, the company sources raw materials from vendors that adhere to global environmental standards. The Company assists cotton farmers in increasing their crop output by providing them with an efficient means of transportation and storage.
 - **Recycling Fibre and Fabric:** The Company has invested heavily in a unit that converts plastic bottles into polyester fibre. It has also purchased machinery that converts post-consumer waste fabrics into new usable fibres, it has been reported by the BBC's World News Programme (WMP) programme.
 - **Renewable Energy:** The Company has increased its reliance on renewable energy sources, lowering the environmental impact of its operations.
 - **Resource utilisation:** Energy and utility optimization has progressed from an intentional practise to an organisational culture. As a result, the Company implements numerous resource optimization initiatives across all of its operating units each year. Furthermore, the company has taken an aggressive approach to digital transformation, which helps to reduce the use of paper.
 - **Pollution control:** As a responsible corporation, the Company works hard to reduce waste generation. Its facilities are outfitted with cutting-edge technology, positioning the organisation as zero-liquid discharge.
 - **Profits:** The surplus generated by business operations at RSWM is prudently deployed in repaying debt, investing in business to capitalise on opportunities, and rewarding shareholders for their trust in management. In its entire history, the Company has never missed a payment to its finance providers.



- c) **Employee Happiness:** RSWM has an empowerment culture that values and respects individual potential. The organisation is a signatory to a number of economic, environmental, and social charters, codes, and voluntary initiatives. Various social activities, such as gardening and folk activities are held on a regular basis to boost employee morale.
- **Child Labor:** The Company does not use child labour.
 - **Sexual Harassment:** There were no complaints of sexual harassment at work from female employees during the year 2013-2014. The company has complied with the provisions of the Sexual Harassment of Women at Workplace (Prevention, Prohibition, and Redressal) Act, 2013, relating to the formation of an Internal Compliance Committee.
 - **Bonded Labor:** The Company has no bonded labour.
 - **Participation of Stakeholders:** RSWM has devised a method for structured identification of stakeholder groups, comprehension of their concerns, and incorporation of their perspectives into its sustainability strategy. The risk management process handles issues that arise from stakeholder engagements. It ensures that RSWM's business model is aligned with those of its respective stakeholders.
- d) **Civil Liberties:** We adhere to the human rights principle of workforce dignity regardless of a person's nation, location, language, religion, ethnic origin, or any other status. Maintaining better working conditions is given top priority in order to protect employees' health and safety. Since 2013, we have been certified by BSI under OHSAS 18001.
- **Environmental Protection and Restoration:** RSWM is dedicated to making ongoing efforts to reduce the negative impact of its products and facilities on the Earth and its environment. The Company's commitment extends beyond legal compliance to include the incorporation of sound environmental practises into business decisions. It follows its environmental principles and considers the environment in all aspects of its operations.
 - **Water conservation:** RSWM dyes fabrics using advanced techniques that use less water and chemicals. In its effluent treatment plant, the Company treats all of its post-process water and further purifies it via reverse osmosis before returning it to the environment as clean as when it was first used. Sewage Water Treatment Plants have also been installed at the Company's operating facilities. The treated water is used on the plantation. The Company has successfully implemented numerous initiatives to reduce fresh water consumption over the years.



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- **Energy Management:** Optimizing energy consumption is a discipline that has become a culture within RSWM portals over the years. The shop floor team continues to raise the bar by improving man-machine efficiency, which results in significant energy savings. The company is constantly replacing legacy equipment with modern, energy-efficient equipment and lighting solutions, which helps to reduce its environmental impact.
 - **Clean Energy:** As part of its environmental commitment, the Company has installed 22.7 MW of solar power at its various plant locations and has entered into an agreement to procure 20 MW of wind power for use at its manufacturing facilities, reducing the consumption of fossil fuel.
- e) **Waste and Recycle Management**
- **Yarn to fabric:** RSWM takes pride in using recycled yarns in its fabrics. Its cutting-edge Garnett machine effectively degrades post-consumer waste fabrics and converts them into new usable fibres. Every month, the company recycles approximately 30 tonnes of used fabric.
 - **Plastic to fabric:** RSWM has established a green fibre unit with a daily capacity of 120 MTs to convert waste plastic bottles into green fibre. PET bottles are recycled into flakes, which are then spun into yarn fibre. On performance parameters during end use, this 100% recycled polyester fibre is comparable to virgin polyester fibre. This plant recycles approximately 150 MTs of waste plastic bottles that would otherwise be dumped into landfills or bodies of water.
- f) **Advocacy with Integrity:** RSWM's operations are certified according to ISO 9001: 2008 (Quality Management Systems) and ISO 14001: 2004 (Environmental Management Systems). The Company's emphasis on improving the health and safety of its employees remains strong. Various control measures are in place to ensure the smooth operation of business operations.
- g) **Promoting Inclusive and Equitable Development:** RSWM has a detailed CSR policy in place, which is overseen by a CSR committee appointed by the Board of Directors. CSR initiatives at RSWM are developed with a focus on promoting education, providing advanced health care facilities, contributing to rural development, environmental conservation, and so on.
- h) **Adding Value to the Customer:** RSWM received 706 customer complaints during the review period, all of which were resolved amicably. Company introduced 2,314 yarn variants and 317 denim fabric variants in response to customer demand. No case involving unfair trade practises is pending against the Company.



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ACTIVITY

Organise a class seminar on the topic, “Importance and Inculcation of Values among Professionals”. How values motivate an individual to be a good professional and human being? Can these values be taught in the class room? Discuss about these aspects and prepare a final report of the discussion and submit it to the coordinator.

IN-TEXT QUESTIONS

11. If you have....., people will trust you because they will see that you are dedicated to your company.
12. _____ is concerned with both positive and negative aspects of human behaviour.
13. The universally accepted _____ are freedom, justice, and equality, and they determine the standard of behaviour.
14. What are the results of realization and comprehension?
 - a) Task
 - b) Values
 - c) Humour
 - d) Health
15. The term 'society' is most commonly used in the context of a human-_____ relationship.
16. Human-to-human interaction is referred to as _____.
17. The interaction between humans and the rest of nature is known as _____.
18. _____ is concerned with self-realization.
19. _____ and ethical values are the mental contents of a good person.
20. The ability to successfully interpret and adapt to different national, organisational, and professional cultures is referred to as _____.



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21.17 SUMMARY

Ethics is the study of what is ethically good and evil, right and wrong. The phrase can also refer to any set of moral beliefs or principles. The term ethics is derived from the Ancient Greek word êthikos, which means "concerning one's character". The study of what is right and wrong in human behaviour is known as ethics. The phrase can also refer to any set of moral beliefs or principles. Systematizing, defending, and endorsing conceptions of good and bad action are all part of the study of ethics (or moral philosophy). Ethics could have emerged only when humans began to consider the best way to live. This introspective stage appeared long after human cultures had formed some type of morality. The establishment of the first moral codes marked the beginning of ethics, according to philosopher Carl Menger. Philosopher Plato argued that there must be some criteria of right and evil that are independent of the gods' likes and dislikes. He was aware of various difficulties with the concept that morality was formed by a heavenly power. According to this viewpoint, ethics is a branch of theology rather than a separate subject of study. Moral ideas, general conceptions or orientations toward the world, or simply interests, attitudes, preferences, needs, sentiments, and dispositions have been interpreted as values. In a broad sense, values are what is good, desirable, or worthwhile. They are the goals for which we strive and can take many forms. In a broad sense, values are what are good, desirable, or worthwhile. Purposeful action is motivated by values and can take many forms. Personal values are personal beliefs about what is right and wrong. Cultural values reflect what is important in each context and are accepted by religions and societies. Indian ethico-moral debates date back three and a half millennia, when the Vedas laid out the ground rules for human existence and living. The values were popularised in the great epics of Mahabharata and Ramayana. Indian ethics today are an intimate blend of values drawn from Vedantic, Jaina, Buddhist, Sikh, and Sufi traditions.

21.18 GLOSSARY

- **Business:** Business is an organization where people work to make and sell products or services. A business can earn a profit for the products and services it offers. The owner of a business is the person who hires people for work, and makes a profit from selling them goods and services.
- **Culture:** It refers to the characteristics and knowledge of a specific group of people, which includes language, religion, cuisine, social habits, music, and the arts. The term "culture" is derived from a French term, which is derived from the Latin "colere," which means to cultivate and nurture the earth.



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- **Cultural Value:** Cultural values are the fundamental principles and ideals that underpin an entire community. This is made up of several parts: customs (traditions and rituals); values (beliefs); and culture (all of a group's guiding values).
- **Ethics:** Ethics or moral philosophy is a branch of philosophy that involves systematizing, defending, and recommending concepts of right and wrong conduct. It seeks to resolve questions of human morality by defining concepts such as good and evil, virtue and vice, justice and crime.
- **Ethical Principle:** Ethical principle is a base philosophical stance which directly or indirectly leads to an ethical standard. The term "ethics" simply means "moral principles that govern a person's or group's behavior". An ethical principal is the foundation thought or idea that makes an ethical standard correct.
- **Legal Values:** It refers to the worth of a record that contains evidence of enforceable rights, obligations, or samples.
- **Manager:** A manager is someone who oversees or is in charge of something. Managers can direct departments in businesses or guide their employees. Managers must frequently make decisions.
- **Moral:** It refers to the rules of what is right and wrong.
- **Moral Values:** These are the standards that we use to determine what is right and wrong. They can come from the individual, family, community, religion, government, or any other entity that influences the individual's thoughts.
- **Normative Ethics:** Normative ethics is the branch of moral philosophy or ethics concerned with moral right and wrong. It includes the development of moral rules with direct implications for how human actions, institutions, and ways of life should be.
- **Religion:** It is the belief in a god or gods, as well as the activities associated with that belief, such as praying or worshipping in a structure such as a church or temple. A religion is a specific system of belief in a god or gods and the activities associated with that system.
- **Social Values:** These are a set of moral principles that are defined by the dynamics of society, institutions, traditions, and cultural beliefs. These values are implicit guidelines that guide individuals and corporations in how to behave appropriately within a social system.
- **Society:** A society is a group of people who interact with one another on a regular basis, or a large social group that shares the same spatial or social territory and is typically subject to the same political authority and dominant cultural expectations.



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- **Value:** It is the degree of importance of something or action, with the goal of determining what actions are best to do or how to live (normative ethics), or describing the significance of various actions. As a result, values reflect a person's sense of what is right and wrong, or what "ought" to be.
- **Value System:** One's virtues and vices shape one's value system. A person's standards and self-discipline are established based on common sense and wisdom in knowing what the proper moral rules and discipline are, as well as the amount of willingness to see them and others follow them.

21.19 ANSWERS TO IN -TEXT QUESTIONS

1. (d), All of the Above	11. Loyalty
2. Good	12. Values
3. Standard of Goodness	13. Human Values
4. Conduct	14. Values
5. Ethos	15. Human
6. Character	16. Behaviour
7. Human Actions	17. Work
8. Swami Vivekanand	18. Truth
9. (c), Code of Conduct, Accountability, Efficiency, Determination and Punctuality.	19. Moral
10. Ethical	20. Cultural Intelligence

21.20 SELF-ASSESSMENT QUESTIONS

1. What do you understand by ethics? Discuss its role, need, importance and scope.
2. Define Ethics. Enumerate the significance of ethical principles in business.
3. "Ethics cannot be taught, these can be caught at any stage of an individual's life." Comment.
4. Differentiate between social contract theories and Teleological Ethical theories.
5. Critically evaluate the role of ethics in an individual's life.
6. What do you mean by organisational ethics? Discuss with the help of suitable example.
7. Discuss the ethics and values practiced by Indian corporate.



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8. What are the objectives and sources of ethics and values? Elaborate
9. Define the term “Value”. Enumerate its features, need and significance.
10. Elaborate the various types of values with their significance in our life.
11. What are sources of values? Discuss its importance for the professions.

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DISCLAIMER

Unit I-IV are edited versions of study material prepared for the course under Choice Based Credit System (CBCS) Mode.

Unit V has been written afresh.