1. BUSINESS NATURE

NOTES

STRUCTURE

Definitions

Business: It refers to purchase, production and/or sale of goods and services with the objective of earning profit.

Profession: Includes those activities which require special knowledge and skills in the occupation.

Employment: It refers to the occupation in which people work for others and get remuneration in return.

Commerce: It includes all those activities which are concerned with removing all the hindrances in the movement of goods from the manufacturer to the consumers. It includes the following activities.

Trade: Trade means exchange of goods and services between sellers and buyers with profit motive.

Advertising: It provides information about availability of goods and services. It induces the consumers to buy the product.

Warehousing: It keeps the goods in tact till they are in demand. It creates time utility to the product.

Business risk: It refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events.

1.1 ECONOMIC AND NON-ECONOMIC ACTIVITIES

NOTES

All Human beings have different types of needs. So, in order to fulfil those needs they have to perform some or the other activity. Human activities are classified into Economic and non-economic activities.

Basic	Economic	non-economic
Purpose/Notice	Those activities whose objective is to earn money and to create wealth.	Those activities whose aim is not to earn money, but to satisfy social, psychological and emotional needs.
Examples	– People working in factories. – A teacher teaching in a school.	– A house wife cooking food for her family. – A teacher training his/daughter at home.

Concept of business: Business refers to those economic activities involving the purchase production and/or sale of goods and services with a motive of earning profit by satisfying human needs in society.

1.2 CHARACTERISTICS OF BUSINESS

1. **An economic activity:** Business in considered as an economic activity as it is undertaken with the objective of earning money.
2. **Production or procurement of goods and services:** Business includes all the activities concerned with the production or procurement of goods and services for sales. Services include transportation, banking, Insurance, etc.
3. **Sale or exchange of goods and services:** There should be sale or exchange of goods and service between the seller and the buyer.
4. **Dealing in goods and services on a regular basis:** There should be regularity of dealings or exchange of goods and services. One single transaction of sale or purchase does not constitute business.
5. **Profit earning:** The main purpose of business is to earn profit. A business cannot survive without making profits.
6. **Uncertainty of return:** Every business invests money with the objective of earning profit. However there is always a possibility of losses.
7. **Element of risk:** All business activities carry some elements of risk because future is uncertain and business has no control over several factors like, strikes, fire, theft, and change in consumer taste, etc.

NOTES

1.3 COMPARISON OF BUSINESS PROFESSION AND EMPLOYMENT

Economic Activities

Business	Profession	Employment
– Fishing	– Medical (Doctor)	– Worker
– Manufacturing goods	– Legal (Lawyer)	– Employee
– Mining	– Accountancy (C.A.)	

Business: It refers to purchase, production and/or sale of goods and services with the Profession: Includes those activities which require special knowledge and skills in the occupation.

Employment: It refers to the occupation in which people work for others and get remuneration in return.

	Basic of Destruction	Business	Profession	Employment
1.	Mode of Establishment	Starts after completing some legal formalities if needed.	Membership of a profession body and certificate of practice required.	Start after getting appointment letter.
2.	Nature of work	Provision of goods and services to the public.	Personalised services of expert nature.	Work allotted by the employer according to the contract.
3.	Qualification	No minimum Qualification is necessary.	Professional Qualification and training required.	Qualification and training as prescribed by the employer.
4.	Capital Investment	Capital needed according to its nature and size.	Limited capital for establishment.	No capital required.
5.	Reward/Return	Profits	Professional Fee	Salary or wages.
6.	Risk	It involves high risk	The degree of risk is low	No risk in it.
7.	Code of conduct	No code of conduct	Professional code of conduct is to be followed	The terms and conditions of service contract are to be followed.

Objectives of Business: The objectives of business mean the purpose for which a business is established and carried on. Proper selection of objectives is essential for the success of a business.

The businessmen always have multiple objectives. All objective may be classified into two broad categories. These are: (1) Economic objectives and (2) Social objectives.

1.4 ECONOMIC OBJECTIVES

NOTES

Business is an economic activity and therefore, its purpose is to show economic results. The economic objectives of business are follows:

1. **Earning profit:** Profit means excess of income over the expenditure. The foremost and prime objective of every businessman is to earn profit. A business cannot survive without earning profit. Not only for survival but it is also required for growth and expansion of business.
2. **Market standing/creation of customer:** Business can survive for a longer period only if it is able to capture a big share in the market and has market standing. It is possible only when business provides goods and services to satisfy the needs and wants of customers. Therefore, creation and satisfaction of customers (market) is an important objective of business.
3. **Innovations:** Innovation means making new products or adding new features to old products for making it more useful, improving methods of production and distribution, exploring new markets, etc. In these days of competition, a business can be successful only when it creates new designs, better machines, improved techniques, new varieties, etc.
4. **Optimum utilisation of resources:** It refers to the best use of men, material, money and machinery employed in business. The resources of business are scare so these must be utilised in the best possible manner so that the business can get maximum benefit from their resources.

1.5 SOCIAL OBJECTIVES

Business is an integral part of society. It makes use of resources of society. It earns profit by selling its products or services to members of society. So it becomes obligatory on the part of the businessman to do something for the society. The important social objective of business are as follows:

1. **Quality goods and services at fair price:** The first social objective of business is to provide better quality product at reasonable price and in proper quantity on continuous basis to consumers.
2. **Avoidance of anti-social and unfair trade practices:** Anti-Social practices include hoarding, black marketing and adulteration. Making false claims in advertisements to mislead and exploit people is an example of unfair trade practice. Business should not indulge in such practices.
3. **Generation of employment:** Now a day, employment is the biggest problem of society. Business should provide employment to more and more people living in the country. Handicapped and disabled people should be given extra care.
4. **Employee welfare:** Employees are a valuable asset and they make significant contributions towards the success of business. Another social objective of business, therefore, is to ensure welfare of employees by providing good

working conditions, fair wages and facilities such as housing, medical and entertainment, etc. such welfare facilities help to improve physical and mental health of employees.

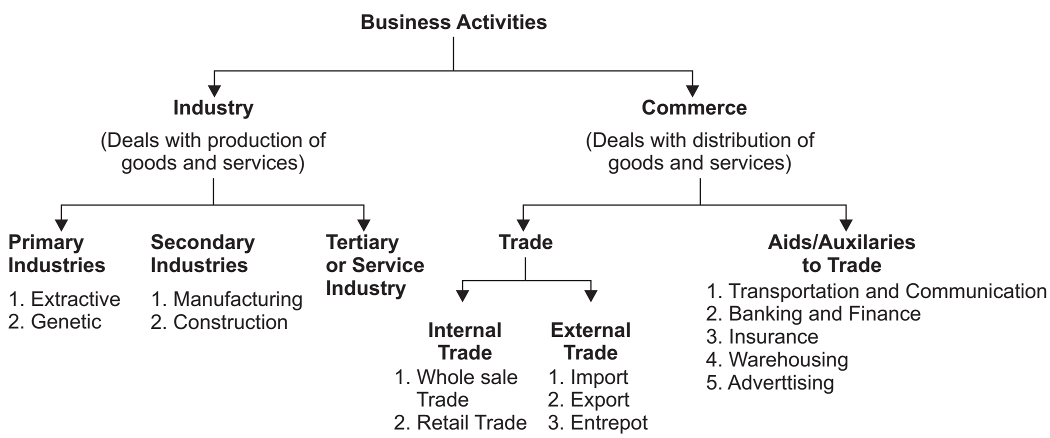
5. **Community service:** Business should contribute something to the society where it is established and operated library, dispensary, educational institutions, etc. are certain contributions which a business can make and help in the development of community.

1.6 ROLE OF PROFIT IN BUSINESS

Business is established for the purpose of earning profit. Profit plays a very important role in business. The Role of profit in business can be brought out by the following facts:

1. **For long survival:** Profits alone help a business to continue to exist for a long period. In the absence of profit the establishment of a particular business loses its justification.
2. **For growth and expansion:** All businessmen want their business to expand and to grow. For development of business additional capital is needed. Retained earnings are a very good source of capital. The more the profit is in a business, the more reinvestment becomes possible.
3. **For increasing efficiency:** Profit is that power which motivates both the parties – owner and workers to do their best. As they know that in case of good profits they will get good compensation for their efforts so it finally helps in increasing the efficiency of business.
4. **For building prestige and recognition:** For gaining prestige in the society, business has to satisfy all the parties concerned. It has to supply good quality product/service at reasonable price to customers; adequate remuneration to employees, to pay sufficient dividend to the shareholders, etc. and all these are possible only if the business is earning good profit.

1.7 CLASSIFICATION OF BUSINESS ACTIVITIES



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1. **Primary Industry:** The primary industry includes those activities through which the natural resources are used to provide raw material for other industries. Primary industries are of two types.

   (*i*) ***Extractive Industry*** refers to those industries under which something is extracted out of the earth, water or air e.g., coal, iron, gas, etc.

   (*ii*) ***Genetic Industry*** refers to those industries under which the breed of animals and vegetables are improved and made more useful e.g., poultry farms, agriculture, dairy farming, tree planting, etc.

2. **Secondary Industry:** Under this industry new products are manufactured by using the previously produced things e.g., producing cotton is a primary industry and manufacturing cloth out of cotton is a secondary industry. It is of two types.

3. **Manufacturing:** These industries convert raw materials or semi finished products into finished products, e.g., paper from bamboo, sugar from sugar cane. It is further being divided into four parts.

   (*i*) ***Analytic:*** Different things are manufactured out of one material e.g., petrol, diesel, gasoline out of crude oil.

   (*ii*) ***Processing:*** Those industries wherein useful things are manufactured by making the raw material to pass through different production process e.g., steel from iron ore.

   (*iii*) ***Synthetic:*** Many raw materials are mixed to produce more useful product e.g., paints, cosmetics.

   (*iv*) ***Assembling:*** Where in the parts manufactured by different industries are assembled to produce new and useful product e.g., computers, watches, etc.

4. **Tertiary or service Industry:** Includes those services which help business to move smoothly, e.g., transport, bank, insurance, storage and advertising.

1.8 MEANING OF COMMERCE

Commerce refers to all those activities which are concerned with the transfer of goods and services from the producers to the consumers. It embraces all those activities which are necessary for maintaining a free flow of goods and services. The functions of commerce are as follows.

1. Removing the hindrance of person.
2. Transportation removes hindrance of place.
3. Storage and warehousing activities remove the hindrance of time.
4. Insurance removes hindrance of risk.
5. Banking removes hindrance of finance.
6. Advertising removes hindrance of information.

1.9 COMMERCE INCLUDES TWO TYPES OF ACTIVITIES

NOTES

Trade: It refers to buying and selling of goods and services with the objective of earning profit. It is classified into two categories.

1. **Internal trade:** Takes place within a country. Internal trade is classified into two categories wholesale trade and retail trade.
   (*i*) ***Wholesale trade:*** Refers to buying and selling of goods in large quantities.
   A wholesaler buys goods in large quantities from the producers and sells them to other dealers. He serves as a connecting link between the producers and retailer.
   (*ii*) ***Retail trade:*** Refers to buying of goods and services in relatively small
   Quantities and selling them to the ultimate consumers.
2. **External trade:** Trade between two or more countries. External trade can be classified into three categories.
   (*i*) ***Import trade:*** If goods are purchased from another country, it is called import trade.
   (*ii*) ***Export trade:*** If goods are sold to other countries it is called export trade.
   (*iii*) ***Entrepot trade:*** Where goods are imported for export to other countries, e.g. Indian firm may import some goods from America and export the same to Nepal.
3. **Auxiliaries to trade:** All those activities which help in removing various hindrances which arise in connection with the production and distribution of goods are called auxiliaries to trade. An overview of these activities is given below.
   (*i*) ***Transportation and communication:*** The production of goods takes place at one place whereas these are demanded in different parts of the country. The obstacle of place is removed by the transport. Along with transport communication is also an important service. It helps in exchange of information between producers, consumers and traders. The common communication services are postal service, telephone, fax, internet, etc.
   (*ii*) ***Banking and finance:*** Business needs funds for acquiring assets, purchasing raw materials and meeting other expenses. Necessary funds can be obtained from a bank.
   (*iii*) ***Insurance:*** It provides a cover against the loss of goods, in the process of transit, storage, theft, fire and other natural calamities.
   (*iv*) ***Warehousing:*** There is generally a time lag between the production and consumption of goods. This problem can be solved by storing the goods in warehouses from the time of production till the time they are demanded by customers.
4. ***Advertising:*** Advertising brings goods and services to the knowledge of prospective buyers. It is through advertising that the customers come to know about the new products and their utility.

NOTES

Basis	Industry	Commerce	Trade
1. Meaning	Production of good and services	Distribution of goods and services	Buying and selling of goods and services.
2. Capital requirement	Large amount of capital invested	Comparatively lesser capital invested	Less capital depending on the nature of business
3. Scope	It includes primary, secondary and service industries	It includes trade and auxiliaries to trade	It includes home and foreign trade
4. Risk	Involve maximum risk	Less risk as compared to industry	Least risk involved.
5. Utility	Created from utility	Creates place and time utility	Creates possession utility.

Business risk: The term business risk refers to possibility of inadequate profits or even losses due to uncertainties, e.g., changes in tastes and preferences of consumers, strike, increased competition, change in Government policy, etc. These are of two types speculative and pure.

1.10 NATURE OF BUSINESS RISKS

1. **Business risks arise due to uncertainties:** Natural calamities, change in demand and prices, change in technology, etc. are some of the examples of uncertainty which create risks.
2. **Risk is an essential part of every business:** No business can avoid risk. Risk can be minimised but cannot be eliminated.
3. **Degree of risk depends mainly upon the nature and size of business:** For small scale business it is less and for large scale business it is more.
4. **Profit is the reward for risk taking:** An entrepreneur assumes risks and in consideration he gets reward which is called profit. Greater the risk higher is the chance of profit.

1.11 CAUSES OF BUSINESS RISK

1. **Natural causes:** They are beyond human control e.g., flood, earthquake, heavy rains, famine, etc.
2. **Human causes:** It include carelessness or negligence of employees, e.g., theft, strikes, riots, misappropriation of cash and goods, etc.
3. **Economic causes:** They are related to a chance of loss due to change in market condition, e.g., fluctuations in demand and prices, competition, change in technology, etc.
4. **Physical causes:** Mechanical defects or failures may also lead to losses e.g., bursting of boiler or machine may cause death or destruction.

5. **Other causes:** These include unforeseen events like political disturbances, fluctuation in exchange rates, etc.

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1.12 STARTING A BUSINESS: BASIC FACTORS

1. **Selecting the line of business:** The first thing to be decided by the entrepreneur is the line and type of business to be undertaken.
2. **Scale or size of business:** After deciding the line of business the businessman must decide whether he wants to set up large scale or small scale business.
3. **Choice of form of business organization:** The next decision must be taken is to finalise the form of business, i.e., to set up sol e proprietorship., partnership or joint stock company.
4. **Location of business enterprise:** The entrepreneur has to decide the place where the enterprise will be located. Before taking this decision he must find out availability of raw materials, power, labour, banking, transportation etc.
5. **Financial requirement:** The businessman must analyse the amount of capital he might require to buy fixed assets and for working capital (Day to day expenses) proper financial planning must be done to determine the amount of funds needed.
6. **Physical facilities:** Include machinery, equipment building, etc. This decision depends upon the size, scale and type of business activities he wants to carry on.
7. **Plant layout:** Showing the physical arrangement of machines and equipment needed to manufacture a product.
8. **Competent and committed workforce:** The entrepreneur must find out the requirement of skilled and unskilled workers and managerial staff to perform various activities.
9. **Tax planning:** The entrepreneur must try to analyse the types of taxes because there are a number of tax laws in the country which affect the functioning of business.
10. **Setting up of the enterprise:** After analysing the above mentioned points carefully the entrepreneur can start the business which would mean mobilising various resources and completing legal formalities.

SELF ASSESSMENT QUESTIONS

1. Explain the characteristics of business.
2. Compare business with profession and employment.
3. Explain with examples the various types of industries.
4. Describe the activities relating to commerce.
5. Why does business need multiple objectives? Explain any.
6. Explain the concept of business risk and its causes.

NOTES

2. SOCIAL RESPONSIBILITY OF BUSINESS AND BUSINESS ETHICS

STRUCTURE

Definitions

Social responsibility: Social responsibility of business refers to its obligation to take those decisions and perform those actions which are desirable in terms of objectives and values of our society.

Environment: The environment is defined as a totality of natural and man- made things existing around us. It is from the environment that the business draws its resources.

Business environment: It is a totality of all external forces with which the business interacts constantly but over which it does not have any control. The environment influences the business directly to a great extent.

Environmental protection: It is the deliberate process of protecting the environment from existing or potential threats of any nature.

Pollution: It is the process of emission or release of harmful substances into the environment which harms human life, the life of other species and wasting or depleting scarce sources.

Ethics: Ethics is concerned with what is wrong and what is right in a society based on its moral values and beliefs.

Business ethics: It refers to the socially determined moral principles which should govern the business activities.

Legal responsibility: It is the obligation of the business to abide by the laws governing the place at which it exists.

Code of ethics: Enterprises with effective ethics programs do define their principles of conduct for the whole organization which is called the ‘Code of Ethics’.

2.1 CONCEPT OF SOCIAL RESPONSIBILITY

A business is a part of society. So, a business enterprise should do business and earn money in ways that fulfil the aspirations of the society. Thus social responsibility relates to the voluntary efforts on the part of the businessmen to contribute to the social well being. The businessmen make use of resources of society and earn money from the members of society so they must do something for the society.

2.2 ARGUMENTS IN FAVOUR OF SOCIAL RESPONSIBILITY

There is a need for social responsibility of business for existence and growth:

1. **Justification for existence and growth:** Business is the creation of society, therefore it should respond according to the demands of the society. To survive and grow in a society for long run the business must provide continuous services to the society.
2. **Long term interest of the firm:** A firm can improve its image and build goodwill in the long run when its highest goal is to serve the society. If it indulges in unfair Trade Practices, e.g., adulteration, hoarding, black marketing it may not be able to exist for long.
3. **Avoidance of government regulations:** Business can avoid the problem of government regulations by voluntarily assuming social responsibilities.
4. **Availability of resources with business:** Business has valuable financial and human resources which can be effectively used for solving problems of the society.
5. **Better environment for doing business:** Social responsibility creates better environment for business operations as it improves quality of life and standard of living of people. So, business will get better community to conduct business.
6. **Contribution to social problems:** Some of the social problems have been created by business firms themselves such as pollution, creation of unsafe work places, discrimination, etc. Therefore, it is the moral obligation of business to solve such social problems.

2.3 ARGUMENTS AGAINST SOCIAL RESPONSIBILITY

Major arguments against social responsibility are:

1. **Profit motive:** A business is an economic entity that is guided by profit motive. It should not waste its energies and resources in fulfilling social responsibility.
2. **Burden on consumers:** Involvement of business in social responsibilities involves a lot of expenditure which will ultimately be borne by the customers.

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3. **Lack of social skills:** The business firms and managers have the skills to handle business operation. They are not expert to tackle the social problems like poverty, overpopulation, etc. Therefore, social problems must be tackled by social experts.
4. **Lack of public support:** Generally public does not like business involvement in social problems. Therefore, business cannot fulfil social responsibility because of lack of public confidence and cooperation.

2.4 SOCIAL RESPONSIBILITY TOWARDS DIFFERENT INTEREST GROUPS

Business has interaction with several interest groups such as shareholders, workers, consumers, government and community. Business is responsible to all these groups.

1. **Responsibility towards shareholders:**
   (*i*) To ensure a fair and regular return on the investment of shareholders.
   (*ii*) To ensure the safety of their investment
   (*iii*) To strengthen financial position of the company.
   (*iv*) To safeguard the assets of the business.
   (*v*) To protect the interest of all types of investors in the business.
2. **Responsibility towards workers:**
   (*i*) Providing fair compensation and benefits.
   (*ii*) Providing good and safe working conditions.
   (*iii*) To develop a sense of belongingness.
3. **Responsibility toward consumers:**
   (i) To supply right quality of goods and services at reasonable prices.
   (*ii*) To ensure regular and adequate supply of products.
   (*iii*) To inform them about new products and new uses of existing products.
   (*iv*) To handle the customer's grievance promptly.
4. **Responsibility towards government:**
   (*i*) To pay taxes honestly
   (*ii*) To observe rules laid down by the government.
   (*iii*) to avoid corrupting government employees.
5. **Responsibility towards community:**
   (*i*) To make available opportunities for employment.
   (*ii*) To avoid polluting the environment.
   (*iii*) To uplift the weaker sections of society.

NOTES

2.5 BUSINESS AND ENVIRONMENTAL PROTECTION

Meaning of Environments: The environment is defined as the totality of mans surroundings – both natural and man made. Natural Resources include all land, water, air and man made – cultural heritage, socio-economic institutions and the people.

Meaning of Environmental Pollution: It means injection of harmful substances into the environment. The greatest problem that industries and businessmen are creating is that of pollution, which is the result of industrial production. So, protection of environment is a must.

Causes of Pollution: Many industrial organizations have been responsible for causing air, water, land and noise pollution.

1. **Air pollution:** Due to smoke, chemicals emitted by factories, vehicle. It has created a hole in the ozone layer leading to global warming.
2. **Water pollution:** Due to chemicals and waste dumped into the rivers, streams and lakes. It has led to the death of several animals and posed a serious problem to human life.
3. **Land pollution:** Due to dumping of garbage and toxic wastes which affect the fertility of land and make it unfit for agriculture.
4. **Noise pollution:** Caused by the running factories and vehicles. Noise pollution can be responsible for many diseases like loss of hearing, violent behaviour and mental disorder.

2.6 NEED FOR POLLUTION CONTROL

1. **To ensure healthy life:** Many diseases like cancer, heart attack and lung complications are caused by pollutants in the environment. Pollution control is a must to keep a check on these diseases.
2. **To ensure safety:** Due to environmental pollution and smoke the visibility is reducing due to which chances of accidents have been increasing. To reduce the number of accidents there must be a check on pollution.
3. **Economic losses:** Pollutants in the environment bring heavy economic losses for the country, for example, the Taj Mahal is losing its beauty due to pollution.
4. **Improved public image:** A firm that adopts pollution control measures enjoys a good reputation as a socially responsible enterprise.

2.7 ROLE OF BUSINESS ENVIRONMENTAL PROTECTION

1. Eco-friendly and clean or low waste technology should be used by the industrial organizations.
2. Industrial wastes should be recycled as far as possible.

NOTES

3. Plant and machinery should be modernised to minimize pollution.
4. The business houses should comply with the laws and regulations enacted for prevention of pollution.
5. Positive steps should be taken to save environment. These include plantation of trees, cleaning of rivers, ponds, etc.

2.8 BUSINESS ETHICS

Refers to the moral values or standards or norms which govern the activities of a businessman. Ethics define what is right and what is wrong. By ethic we mean the business practices which are desirable from the point of view of Society. The purpose of business ethics is to guide the managers and employees in performing their jobs. Examples of business ethics are charging fair prices from customers, giving fair treatment to workers, earning reasonable profits and paying taxes to the government honestly.

2.9 ELEMENTS OF BUSINESS ETHICS

1. **Top management commitment:** The CEO and higher level mangers must be committed to ethical norms of behaviour. This would set an example for all employers and encourage them to follow ethical practice.
2. **Publication of code:** Code of ethics is a formal written document of the principles, values and standards that guide a firms actions. It may cover areas like honesty, quality, safety, healthcare, etc.
3. **Establishment of compliance mechanism:** A suitable mechanism should be developed to comply with the ethical standards of the enterprise. This mechanism should be properly communicated to all in the organization.
4. **Employees involvement:** It is the employees at the lower levels who implement ethical principles, so they must be involved in the process of developing ethical code.
5. **Measuring results:** Although it is difficult to measure the ethical results, it must be verified and audited that how far work is being carried according to ethical standards.

SELF ASSESSMENT QUESTIONS

1. Build up arguments for and against social responsibility.
2. Why do the business enterprises need to adopt pollution control measures?
3. What steps can an enterprise take to protect the environment from the dangers of pollution?
4. ‘Business is essentially a social institution and not merely a profit making activity’. Explain.
5. Explain the various elements of business ethics.

NOTES

3. THE SCOPE OF BUSINESS INDUSTRY AND COMMERCE

STRUCTURE

3.1 INTRODUCTION

This article provides information about the scope of Business activities in Industry and Commerce:

There are two broad categories of business activities: one concerned with the production of goods and services (called industry), and the other with their exchange or distribution (called commerce)

These activities are explained below and illustrated in Fig. 3.1.

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3.2 INDUSTRY

Industry is that branch of business which is concerned of good and services by using the processes of extraction, conversion, processing, or fabrication of products.

The goods and services produced by an industry may be used either by final consumer (consumer goods) or by businessmen for further production (producers' goods). In this section, therefore, the discussion is divided into two parts: (*i*) types of industry, and (*ii*) goods and services produced by the industry.

Types of Industry

The important types of industries are as follows:

1. **Primary Industries:** The production of these industries includes all kinds of work concerned with the extraction of the fruits of the earth of sea, that is, the extractive occupations. In this group, therefore, we find all types of farming or associated occupations — the many branches of agriculture, the rearing of animals; all types of mining and quarrying; forestry, etc. Primary industries, thus, employ the process of 'extraction' for production.

   Primary industries may be: (*i*) wasting (non-replenishable like iron ore mines), and (*ii*) non-wasting. Those (like mining) which use up resources in the course of extraction are wasting industries. When minerals are taken from the ground they are gone forever and cannot be replaced. This is not the case with vegetable and animal resources, and solar power, which if properly exploited, can produce indefinitely. Such primary industries are called non-wasting or replenishable industries.

2. **Manufacturing Industries:** Etymologically, manufacturing means making something by hand. This original meaning has changed and now it mostly means using mechanical devices to create something useful. Manufacturing usually takes place in factories, plants, mills, or other places designed for this purpose,and involve division of work into specialised jobs performed in sequence by skilled groups of workers.

   Manufacturing includes all the work done in an organisation using land, labour, and capital to make products from raw materials and semi-manufactured goods. Manufacturing industries, thus employ the process of 'conversion' for production (like Gujarat Ambuja Cement).

   Kind of Manufacturing Industries: Manufacturing industries are often classified on the basis of size of the investment heavy and light industries), scale of operations (small,medium and large-scale industries), type of product manufactured (textile, steel, oil, sugar industries), nature of operations (assembly line or otherwise), etc. Although these classification systems are correct and widely used, they, however, do not convey the common characteristics of the basic processes involved in manufacturing.

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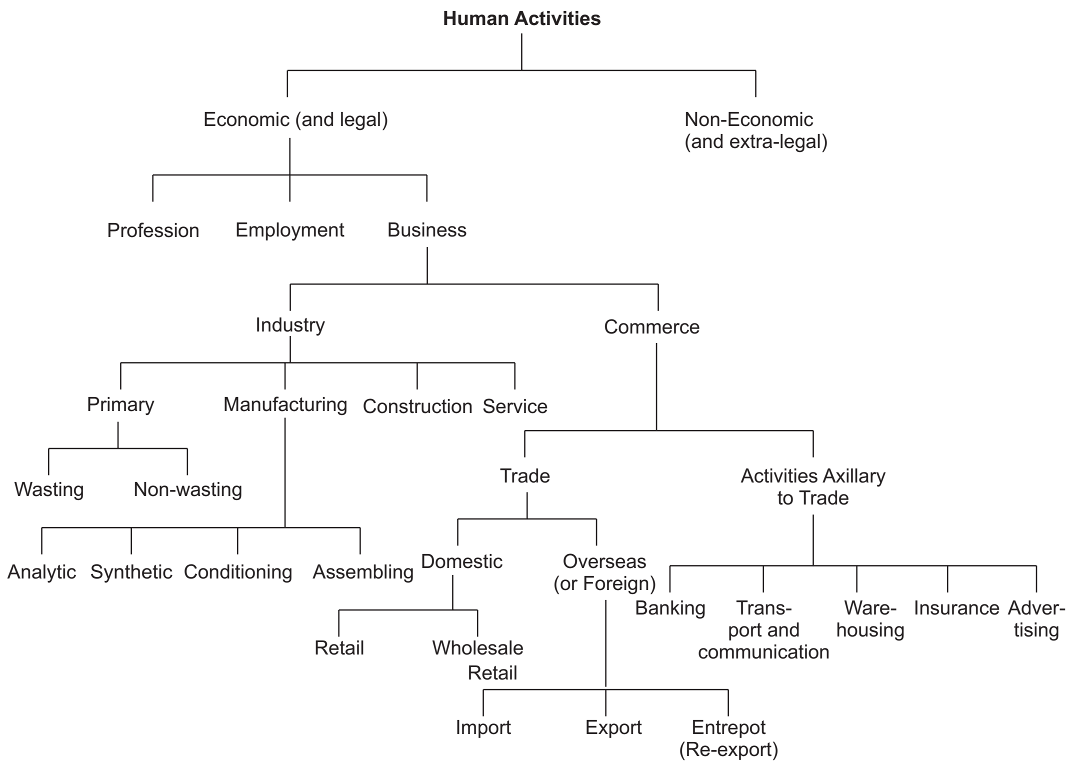

It is, therefore, suggested to follow a classification system that explains the basic processes of manufacturing. In all the manufacturing industries, one or a combination of the following dominant processes is used: analytic, synthetic, conditioning, or assembly.

Depending upon the process used, the industry is given the same name accordingly and analytical industry uses analytic process, synthetic industry uses synthetic process in manufacturing, and so on.

These basic manufacturing industries are explained below:

(*i*) Analytical manufacturing industries: Analytical industries are those which employ 'analytic' processes in the processes, of goods. Analytic processes break a raw material into two or more products. In some analytic processes, like oil, refining, there may be one useful product and a waste residue. In others, like petroleum refining, there may be many useful products, such as high and low test gasoline, kerosene, diesel oil, lubricating oil, fuel oil, grease, medicinal material, insecticides, etc.

(*ii*) Synthetic manufacturing industries: Synthetic industries are those which employ 'synthetic' processes in the production of goods. A synthetic process puts two or more raw materials together to form one finished product. Soap making is an example of synthetic process; soap is made by boiling sodium hydroxide with a fat, oil, or fatty acid, and adding fillers, dyes, and perfumes.

(*iii*) Conditioning manufacturing industries: Conditioning industries are those which employ 'conditioning' processes in the production of goods. A conditioning process involves such procedures as rolling, casing, bending, drawing, forging, molding, aging, seasoning, dying, or smoking.

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A few examples of conditioning manufacturing industries could be: rolling mills, where steel shapes are made; wire factories, where metal rods are stretched and drawn through dies; pottery and brick yards, where clay is shaped and burned; and lumber mills, where logs are sawed and seasoned.

(*iv*) Assembling manufacturing industries: Assembling industries are those which use 'assembly' processes in the production of goods. An assembly process simply puts together the various component party, already manufactured, to turn out new useful products. A few examples of such industries could be : automobile industry, television industry, computer industry, etc.

3. Construction Industries: Construction, although resembling manufacturing in some ways, differs sufficiently to be considered a separate industry. Although it includes fabrication on a large scale, construction is not done in factories, but on the site where the structure will remain. Businessmen who operate in the construction industry are usually called contractors.

Construction includes the erection of new buildings and the alteration of old ones, as well as the building of bridges, roads, railways, streets, canals, docks, tunnels, sewers and sewage-disposal plants, water-supply systems. It does not include shipbuilding, locomotives, etc. Construction industries, thus, employ the process of 'fabrication' for production.

4. Service Industries: Before discussing about the service industry, it may be specified that the three types of industries described above (primary, manufacturing, and construction) produce tangible products, i.e., products having a physical form and which can be stored for future consumption.

However, a service industry produces intangible goods—i.e., goods which do not have any physical form, and therefore, cannot be stored for future consumption; however, these intangible goods also have a utility for consumer (i.e., these goods have want-satisfying attributes).

Examples of service industries could include: banking and financial institutions, advertising agencies, transportation and communication companies, insurance companies, hotels and restaurants, dyers and cleaners, and so on.

3.3 PRODUCTION OF GOODS AND SERVICES

As we have explained in the preceding paragraphs, production may take the form of either goods or services. When all the goods and services available are considered more closely, they can be seen to fit into certain broad classes. It is necessary to understand these broad classes in order to appreciate the correct nature of production activities.

Goods produced (or made available) by industries can be broadly divided into three categories: (*a*) primary goods, (*b*) semi-manufactured goods, and (*c*) manufactured goods.

(*a*) Primary goods: These goods are provided by the primary industry (i.e., from natural sources) and include products such as, wheat, cotton, iron-ore, coal, fish, etc.

(*b*) **Semi-manufactured goods:** These are processed goods but cannot be used by the ultimate consumer or industrial user unless they pass through further manufacturing process. For instance, iron-ore is a primary product. When it passes through certain processes it gets converted into pig-iron, i.e., a semi-finished product. Pig-iron has to undergo further processes before it can be converted into usable steel.

(*c*) **Manufactured goods:** In this category are included all those finished products that can be usefully used by ultimate consumers and industrial users, for example, cloth, sugar, machines, etc.

Manufactured goods can be of two types: consumer goods and capital (or industrial or producers') goods. Consumer and capital goods can be further divided into durable and nondurable goods. These are described below:

Consumer goods are those products and services purchased by the ultimate consumer for his or her own use. Most of the products we buy, such as toothpaste, sugar, cassette tapes, medicines, refrigerator, car, television, and cloth are consumer goods.

Some consumer goods, and such as car, refrigerator,television, cassette tapes are such whose benefits can be obtained over a period of time, and although each time they are used they will come to a little bit nearer to the end of their, useful time, their existence will continue during many operations. They are called durable consumer goods.

Many articles, however, cannot be used over and again, and they will be substantially used up in the actual moment of use. They are called non-durable consumer goods. Within this category fall sugar and medicine.

Capital (or industrial or producers') goods are products purchased to be used, either directly or indirectly, in the production of other goods for resale. Machines, tools, oil are capital goods. Capital goods may be durable like machine and tools, or non-durable like the oil that lubricates machines.

3.4 PRODUCTION OF SERVICES

Services can be classified into two main kinds of services, commercial services and direct services. Commercial services are designed to assist the functioning of industrial and commercial undertakings. They include the work of financial and insurance organisations, transport undertakings, and advertising agencies.

All of these services are essential. Direct services, as their name implies, are rendered direct to the consumer in the satisfaction of a need. For example, the services of decorators, dyers and cleaners, beauty parlours, etc. In this context, it may be clarified that professional services (doctors', lawyers' services) do not fall within the ambit of business, and therefore, they are not included here. Figure 1.2. Summatises the classification of goods and service.

3.5 COMMERCE

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From an economic point of view, the business of producing a commodity is not complete until it has reached the consumer. For carrying these commodities to consumers certain services of an ancillary nature like transportation, banking, insurance, etc. are necessary.

Commerce = Trade + Aids to Trade (or Auxiliary Services)

Trade

Trade refers to the sale, transfer, or exchange of goods. But excludes ancillary functions like transportation, banking, insurance, warehousing, etc., which along with constitute commerce. There are three main aspects of trade: home, foreign, and entrepot trade. When exchange of commodities takes place within the country, it is home trade ; when it crosses national boundaries, it is foreign trade. Entrepot or re-export trade involves the import of foreign goods with a view to re-exporting them and making a profit in the process.

The bases for conducting home and foreign trade are different. Home trade may be conducted on wholesale (sale of goods in comparatively larger quantities to those traders who are in direct contract with the consumers) or retail basis (i.e., providing goods to the consumers in small quantities).

Because home trade is conducted within the bounds of a nation, payments for such trade are made in national currency directly or through the national banking system, and the internal transportation system is used for the movement of goods.

International trade, on the other hand, may be conducted in the form of import (buying foreign goods for domestic use) or export trade (selling home goods for foreign use). Because foreign trade crosses national boundaries, payments for such trade are converted into the currency of the other country and means of international transportation have to be used.

Aids to Trade

The other important component of commerce—'aids to trade', also called ancillary services or auxiliaries help in the conduct of trade and include five important sectors: banking, communications and transportation, warehousing, insurance, and advertising.

Banking provides safe, efficient, and convenient methods of payment for goods, whether in home trade or in foreign transactions. The services of bank $re also widely used for financing, foreign exchange, investments, status enquiries, and many other aids to trade.

Communications and transportation are the next ancillary services. The function of communications is to transmit oral and written messages (information) from one businessman to another.

In the modern business, Of similar significance is the role of transportation that helps trade by providing the service of movement of goods and people from one place to another.

A businessmen can depend upon a number of modes of transportation—rail, road, water, and air transportation. Through a proper decision, the many goods of the present-day commerce must be made available to the consumer—an operation demanding fast, efficient, and relatively cheap transport services.

At times, commodities must necessarily be stored for perhaps long periods, and it is, thus, usual to avail of the warehousing facility.

Insurance occupies a permanent and valuable place as an ancillary of commerce. Businessmen encounter many risks, and while they must bear of them (such risks arising out of changes in demand, technology, outbreak of war, etc.), a large variety of them can be covered by insurance policies. The growth of the scope of insurance has been a major factor in the expansion of trade.

Finally, advertising makes its claim to be regarded as an ancillary of commerce. It may seem at first sight that advertising cannot be regarded as essential to trade in the way the other ancillary services are, and it is true that we can imagine a considerable amount of trade taking place without advertising. But, in recent years, advertising has become a large and thriving industry, dispensing information to potential buyers.

The main divisions of commerce are illustrated in Figure 1.1.

Interrelationship of Business Activities

Industry, trade, and aids to trade are closely related to each other. As such, they affect and are, in turn, affected by each other. Each component of business has to depend upon the other for the realisation of its objectives. Take the example of industry and commerce. Industry is concerned with the production of goods and services, and commerce helps in the distribution on these products. Thus, both are interdependent.

Apart from providing the service to distribution to industry, commerce also helps industry in taking decisions on important matters like what to produce, when to produce, and for whom to produce.

Commerce is able to provide this service to industry because of its understanding of the market situation, which it gets through 'marketing research'. Trade, industry, and commerce are also closely related to each other.

Trade, being concerned with the buying and selling of goods, provides support to industry and maintains a smooth flow of commerce. It is the nucleus of commerce as all business activities revolve around transfer or exchange. It provides the solid foundation upon which the superstructure of commerce has been raised. This state of interrelation is shown in Figure 1.3.

3.6 FRANCHISING

Franchising is an arrangement where franchisor (one party) grants or licenses some rights and authorities to franchisee (another party). Franchising is a well-known marketing strategy for business expansion.

A contractual agreement takes place between Franchisor and Franchisor authorizes franchisee to sell their products, goods, services and give rights to use their trademark and brand name. And these franchisee acts like a dealer.

In return, the franchisee pays a one-time fee or commission to franchisor and some share of revenue. Some advantages to franchisee are they do not have to spend money on training employees, they get to learn about business techniques.

Let us see the opportunities of franchising in India with some examples.

3.7 WHAT IS THE MEANING OF FRANCHISING?

Franchising is basically a right which manufacturers or businesses give to others. This right allows the beneficiaries to sell the products or services of these manufacturers or percent businesses. These rights could even be in terms of access to intellectual property rights.

Browse more topics under Emerging trends in Business

- Network Marketing
- Business Process Outsourcing
- Aggregator
- Knowledge Process Outsourcing
- Digital Economy
- E-Commerce
- M-Commerce

The individual or business that grants right to the franchise is called the franchisor, while the beneficiary of the right is called the franchise. Franchising is a business marketing strategy to cover maximum market share.

Franchising is a business relationship between two entities wherein one party allows another to sell its products and intellectual property. For example, several fast food chains like Dominos and McDonalds operate in India through franchising.

Examples of Franchising in India

- McDonald's
- Dominos
- KFC
- Pizza Hut
- Subway
- Dunkin' Donuts
- Taco Bell
- Baskin Robbins
- Burger King

Functioning of Franchising

Under a franchise, the two parties generally enter into a Franchise Agreement. This agreement allows the franchise to use the franchisor's brand name and sell its products or services. In return, the franchisee pays a franchisor.

The franchisor may grant franchising rights to one or several individuals or firms. Consequently, if just one person gets these rights, he becomes the exclusive seller of the franchisor's products in a specific market or geographical limit.

In return, the franchisor supplies its products, services, technological know-how, brand name and trade secrets to the franchise. It even provides training and assistance in some cases.

Features of Franchising

Firstly, under a franchising agreement, the franchisor grants permission to the franchise to use its intellectual properties like patents and trademarks.

Secondly, the franchise in return pays a fee (i.e. royalty) to the franchisor and may even have to share a part of his profits. On the contrary, the franchisor provides its goods, services, and assistance to the franchise.

Finally, both parties in a franchise sign a franchising agreement. This agreement is basically a contract that states terms and conditions applicable with respect to the franchise.

Advantages and Disadvantages of Franchising

Advantages to Franchisors

- Firstly, franchising is a great way to expand a business without incurring additional costs on expansion. This is because all expenses of selling are borne by the franchise.
- This further also helps in building a brand name, increasing goodwill and reaching more customers.
- A franchise can use franchising to start a business on a pre-established brand name of the franchisor. As a result, the franchise can predict his success and reduce risks of failure.

- Furthermore, the franchise also does not need to spend money on training and assistance because the franchisor provides this.
- Another advantage is that sometimes a franchisee may get exclusive rights to sell the franchisor's products within an area.
- Franchisess will get to know business techniques and trade secrets of brands.

Disadvantages for Franchisors

- The most basic disadvantage is that the franchise dose not possess direct control over the sale of its products. As a result, its own goodwill can suffer if the franchisor does not maintain quality standards.
- Furthermore, the franchisee may even leak the franchisor's secrets to rivals. Franchising also involves ongoing costs of providing maintenance, assistance, and training on the franchisor.
- First of all, no franchise has complete control over his business. He always has to adhere to policies and conditions of the franchisor.

Introduction

Make in India campaign was launched by the **Prime Minister Narendra modi** on 25th of September in 2014. It is an initiative to make a call to the top business investors all across the world for investment in India. It is a big opportunity for all the investors to set up their business in any field anywhere in the country. This attractive plan has resourceful proposals for foreign companies to set up manufacturing units in India. Make in India campaign launched by the India government focuses on building effective physical infrastructure. It also meant for improving the market of digital network in the country to create a global hub for business.

Unique Symbol-Its Significance

The symbol of this initiative is a giant lion having many wheels. This indicates peaceful progress and way to the vibrant future of the country. A giant walking lion with many wheels represents courage, strength tenacity, and wisdom.

Why Separate Campaign?

This national program was designed to transform the country into a global business hub. Because it contains attractive proposals for local and foreign companies. This campaign focuses on creating a number of valuable and honored jobs providing skill enhancement in almost every sectors for improving the status of youths of the country.

Advantages of Make in India

The successful implementation of this plan will definitely fulfill the following major objectives:

1. To ensure solid growth and valuable employment creation in the country.
2. With the help of top investors country will become completely self-dependent in the manufacturing sector.

3. It will provide the benefits to both parties, i.e. the investors and our country.
4. Make in India will also help for the companies for creating their brand values in global.
5. It will definitely help for the growth of India GDP as well as to increase the value of Indian currency.
6. Our own investors will retain in the country itself, who were planning to move their business outside India due to lack of resources and clarity on policy issues.
7. Due to this fact companies from across the globe making a huge investment in Make in India project.

Policy Structure of Make in India

The government of India is making a huge effort in order to reduce any type of burden on investors. Due to this, there is an arrangement of a dedicated web portal for solving all the queries from business entities. This portal www.makeinindia.com is now receiving an excellent response. Government has created a dedicated back-end support team, so that response can be given within 72 hours of duration.

Almost 25 key sectors like aviation, chemicals, IT, automobiles, textiles, ports, pharmaceuticals, hospitality, tourism, wellness, and railways have been identified by the government to work for the investors and become a world leader.

Disadvantages of Make in India

Now let's have a look some probable disadvantages of Make in India. On these aspects, the government must apply some corrective measures.

1. Negligence of Agriculture
2. Depletion of Natural Resources
3. The loss for Small Entrepreneurs
4. Disruption of Land
5. Manufacturing based Economy
6. Interest in International Brands
7. Pollution
8. Bad Relations with China

Conclusion

To make India free of unemployment by bringing development and growth this policy is the urgent need. We can downsize poverty in India to a great level by solving the unemployment issue for youths. Thus the country economy will achieve a new height after the success of this campaign. This, in turn, may solve various social issues in the country.

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SELF ASSESSMENT QUESTIONS

1. Which of the following statement is not correct in relation to 'Franchise'?
2. What is the advantage to the franchisee in a franchising?

REVIEW QUESTIONS

Fill in the blanks:

1. The contract between franchisors and franschisees is called _________.
2. Franchisees have to pay a fee termed as _________ to the franchisor.
3. Franchisors have to routinely provide _________ to the franchisees.
4. Explain the advantages of make in India.
5. What are the disadvantages of make in India?
6. What was the policy structure of make in India?

4. EMERGING OPPORTUNITIES IN BUSINESS

STRUCTURE

Definitions

e–Business: e–Business refers to the process of performing business activities electronically through the means of internet.

B2B Commerce: It is that business activity in which two firms or two business units make electronic transaction. For example, one can be a producer firm and the other a supplier firm.

B2C Commerce: In business to customer, one party is a firm and the other party is a customer.

Intra-B Commerce within business commerce: Under it, the parties involved in the electronic transaction are the two departments of same business.

C2C Commerce: Customer to Customer Commerce – Under it, both the parties involved in electronic transaction are customers.

Virus: Virus stands for Vital Information and Resources Under Siege.

e–Trading: e–Trading involves securities trading, i.e., online buying and selling of shares and other financial instruments.

Digital Cash: Digital Cash refers to electronic cash instead of actual money which exists only in cyberspace (also known as cyber currency).

Sweat Shopping: Firms that outsource seek to reduce their costs and get maximum benefit from the low cost manpower. This is known as "Sweat Shopping".

e–Commerce: e–Commerce refers to a firm's interactions with its customers and suppliers over internet.

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Secure Sockets Layer (SSL): It is a technology used in encrypting and securing vital user information such as Credit/Debit card details, etc., which are used in online transactions.

e–Procurement: It involves internet – based sales between the business firms forming digital marketplaces facilitating online trading between multiple buyers and sellers.

Business Process outsourcing (BPO): The process of contracting out non-core business activities to 3rd parties in order to reduce costs and time involved.

Online Trading: The act of selling and buying anything online.

e–Bidding: Most shopping sites have "Quote your price" option whereby you can bid for goods and services. This refers to process of conducting auctions online.

Call Centres: Firms generally outsource their customer support to 3 parties, which provide 24 × 7 Customer Support by the means of tele calling. The 3rd parties to whom this process is outsourced are called "Call Centres".

Outsourcing: Outsourcing refers to contracting out non-core activities, it helps the firm to focus its attention onto core activities, cost reduction and fulfil their quest for excellence.

4.1 e-BUSINESS

In this age of internet, the world commerce has gradually started linking with it. This has brought a new concept of commerce called e-commerce/e-business. Now we are capable of reaching the users of Internet all over the world simply by opening a shop on the Internet. The Internet users can order for the goods, receive their delivery and make their payment while sitting at their home on the Internet.

4.2 SCOPE OF e-BUSINESS

It can be understood by the view point of the parties involved and making transactions:

1. **B2B Commerce:** It is that business activity in which two firms or two business units make electronic transaction. For example: one can be a producer firm and other a supplier firm.
2. **B2C Commerce:** Business to customer In this one party is a firm and other party is a customer. On one hand a customer can seek information through Internet about products, place orders, get some items and make payments and on the other hand the firm can make a survey any time to know who is buying, and can also know the satisfaction level of customers. In modern times, call centres can provide these pieces of information.
3. **Intra-B Commerce within business Commerce:** Under it, the parties involved in the electronic transaction are the two departments of same business. For example, through internet it is possible for the marketing department to interact constantly with the production department and get the customised goods made as per the requirement of customers.

4. **C2C Commerce:** Customer to Customer Commerce – Under it, both the parties involved in electronic transaction are customers. It is required for the buying and selling of those goods for which there are no established markets. For example, selling old car through internet.

4.3 BENEFITS OF e-BUSINESS

The major benefits of e-Business are as follows:

1. **World wide reach:** Internet gives businessmen an extended market. New customers come in contact with them. This results in increase in sales.
2. **Elimination of middlemen:** Ever since the e-Business came into existence, the wholesalers and the retailers have started disappearing. Now, most of the producers have started having direct contact with customers. As a result the consumer get goods on less price.
3. **Easy distribution process:** Many types of information and services can be received on computer through e-business. This has simplified the system of distribution and has also made it less costly.
4. **Lower investment required:** In this, you don't require any big showroom or huge investment. All you need is computer and Internet.
5. **Easy to launch new products:** Any company can launch its new product in the market through the medium of E-Business. A complete information about the product is made available on Internet. In this way, the consumer and other businessmen get information about the new product while sitting at home.

4.4 RESOURCES REQUIRED FOR SUCCESSFUL e-BUSINESS IMPLEMENTATION

The resources required for the e-Business are:

1. **Computer system:** The presence of computer system is the first requirement of e-Business. The computer can be linked with Internet by just pressing its keys.
2. **Internet connection:** Internet connection is very essential and nowadays we can get this facility by sitting at home.
3. **Preparing the webpage:** Web page has the greatest importance in the use of e-Business. It is also known as Home Page. Any product that is to be shown on Internet is displayed on web page.
4. **Effective telecommunication system:** e-business requires an effective telecommunication system in the form of telephone lines, etc.

4.5 ON LINE TRANSACTIONS

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On line transaction means receiving information about goods, placing an order, receiving delivery and making payment through medium of internet. Under this system, the sale purchase of every type of thing, information and service is possible.

Payment Mechanism

Payment for the purchases through online shopping may be done in following ways:

1. **Cash on delivery (CoD):** Cash payment can be made at the time of physical delivery of goods.
2. **Net-banking transfer:** The customer can make electronic transfer of funds (EFT) to the account of online vendor over the internet.
3. **Credit or Debit cards:** The customer can make payment for online transaction through debit or credit card by giving the number and name of bank of card.

4.6 SECURITY AND SAFETY OF E-TRANSACTIONS

The following methods can be used to ensure security and safety of online transactions.

1. **Confirming the details before the delivery of goods:** The customer is required to furnish the details such as credit card no., card issuer and card validity online.
2. **Anti virus programmes:** Installing and timely updating anti virus programmes provides protection to data files, folders and system from virus attacks.
3. **Cyber crime cells:** Government may set up special crime cells to look into the cases of hacking and take necessary action against the hackers.

4.7 OUTSOURCING OR BUSINESS PROCESS OUTSOURCING (BPO)

Many activities have to be performed for the successful conduct of business like productions, buying, selling, advertising, etc. When the scale of business was small, the businessman used to perform these activities easily. However, with the enlargement of scale of business, this job has become tedious. Therefore, in order to overcome the difficulties connected with the performance of many activities and to get the benefit of specialisation, these services are now obtained from outside the organization. This is called outsourcing of services or BPO.

Need for BPO

BPO is essential for following reasons:

1. **Obtaining good quality services:** If a company attempts to perform all the activities itself, there is every possibility of quality of services being affected

adversely. In order to avoid this difficulty, the need for obtaining services from outside is felt.

2. **Avoiding fixed investment in Services:** If a company attempts to get these services from within the organization itself, it has to establish different departments for this purpose which involves huge investment. Therefore it appears justified to get these services from outside the organization at a little cost.
3. **Smooth running of business:** Outsourcing of services is needed in order to run the business smoothly. The attention of a businessman gets distracted from various small things and will be focused on the main activity.

4.8 SCOPE OF BPO

In modern business many outside services are used. Out of these services, the following are the important ones:

1. **Financial services:** These services mean those outside services which help the company in some way or other in the management of finance.
2. **Advertising services:** Advertisement is very necessary for increasing sales. If this service is obtained from outside agency, it will cost less and the quality of advertisement will also be good.
3. **Courier services:** These services mean delivering goods, documents, parcels from company to customers and vice-versa.
4. **Customer support service:** These services mean delivering goods to customers and to give after sale services also. Generally, the manufacturers of TV, fridge, AC, etc., use these services.

4.9 KPO (KNOWLEDGE PROCESS OUTSOURCING)

KPO refers to obtaining high end knowledge from outside the organization in order to run the business successfully and in a cost effective manner. Unlike conventional BPO where the focus is on process expertise, in KPO the focus is on knowledge expertise.

Need of KPO

In today's competitive environment focus is to concentrate on core specialisation areas and outsources the rest of activities. Many companies have come to realise that by outsourcing the non-core activities, not only costs are minimized and efficiency improved but the total business improves because the focus shifts to key growth areas of business.

Scope of KPO

1. It is the upward shift of BPO
2. It focuses on knowledge expertise instead of process expertise

3. It provides all non-core activities.
4. It has no pre-determined process to reach a conclusion.
5. It offers an alternative career path for the educated.

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SELF ASSESSMENT QUESTIONS

1. State any three differences between e-business and traditional business.
2. How does outsourcing represent a new mode of business?
3. Discuss the salient aspects of B2C commerce.
4. Evaluate the need for outsourcing and discuss its limitations.
5. Elaborate the steps involved in one-line trading.
6. Discuss the limitations of electronic mode of doing business. Are these limitations severe enough to restrict its scope? Give reasons for your answer.

5. MANAGEMENT

NOTES

STRUCTURE

5.1 INTRODUCTION

Management has now been recognised as a separate discipline, because it is a systematised body of knowledge, studied in specialised institutions and practise d in the real situations of the business. The application of management principles shows concrete and constructive results in the matter of production, sales and profit. Let us now, discuss the concept or principles of management.

5.2 MEANING OF PRINCIPLES OF MANAGEMENT

Principles are fundamental truth that explain the relationship between two or more sets or variables under given situations. Principles are based upon scientific study, enquiry and analysis. Principles establish relationship between causes and their effects. Other important features of the principles are their verifiability, universal acceptability and the predictability of results.

How principles are derived?/Steps for deriving principles

In order to derive principles following steps are taken:

1. **Choice of the problem or opportunity.** The researchers in management science identify the area, where general principles of business management are lacking or need modification.

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2. **Observation and study of the problem.** Researchers observe the problem carefully in different situations and from different angles. They have to study deeply the problem, its causes, magnitude, consequences and the solutions.
3. **Making hypothesis.** On the basis of observation and the data collection, a hypothesis is formed, under assumed situations. What is expected to happen? For example, there will be more output, as wages are paid according to piece-rate system.
4. **Conclusion and forecasting.** The next step will be to reach the logical conclusion and predict the specific happenings under assumed situations.
5. **Testing the principle.** The principle formed must be scientifically tested and verified. Before generalisation of the principle, testing under different situations is a must.

The management principles are not as exact as the principles of physical sciences, because management is a social science and thus a victim of the weaknesses of social sciences. It deals with the human beings, whose behaviour are always unpredictable, because they have got individually different socioeconomic status, needs and perceptions. Secondly, it deals with the complex problems about which too little is known, though a lot of principles have been derived out of experiments, observation and enquiry. These principles are being satisfactorily applied but we cannot say that we have attained the perfection stage. Invention and improvement of theories in every discipline is a continuous process. The existing management principles are satisfactorily effective in understanding the complex management problems. These principles are applied in the real situations of managing business enterprises and achieving handsome results.

5.3 CHARACTERISTICS/NATURE OF MANAGEMENT PRINCIPLES

Management principles are the fundamental truth, which express the relationship between two sets of variables under given situations. These principles help the management in understanding and solving complex problems of management. Nature of management principles stands for special features or characteristics of management principles. Important features of these principles are as under:

1. **Universal application.** Management principles are applied in every situation, where the objectives are attained through group efforts. All social, economic, political, cultural or even religious organisations apply management principles for the successful operations of their activities. Every organisation must make the best possible use of its available resources by the application of management principles *i.e.*, planning, organising, staffing, directing and controlling effectively and achieve the desired result.
2. **General guidelines.** Management principles are concerned mostly with human behaviour, which cannot be tested under controlled conditions *i.e.*, a laboratory. Human behaviour are always unpredictable, so management principles are not as exact as the principles of physical science. This is why, management principles are merely statements.

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3. **Flexibility.** Management principles are dynamic guidelines and not static rules. Management helps the business in multiplying its profit at minimum cost. The business situations and its socioeconomic environment is always changing, so the management principles are dynamic enough to suit the size, nature, needs and situations of the business. Improvement and modification of management principles is a continuing process, so the principles are always flexible.
4. **Mainly behavioural.** Management is really, how to get work done by workers? Human element is an essential factor of production. It activates and extracts work from other factors also. Every worker is individually, different from other workers as regards his ability, knowledge, skill, socio-economic status, attitudes and ideologies. Management is concerned with the integration of individual efforts and how to channelise them towards achieving the desired results. This is why, management is said to be a team work and group activity. Management principles thus aim at influencing individual efforts and directing them to the maximisation of profit with the minimum wastage and the best possible utilisation of available resources.
5. **Cause and effect relationship.** Management principles also form cause and effect relationship. It indicates the consequences of its principles. For instance, if wages are paid on the basis of piece-rate system the quantity of work will be more but the quality will suffer. If the principle of unity of command is adopted, the confusion, duplication and overlapping will be avoided. In the same way, other principles also indicate the relationship between principles, their consequences and results.
6. **Contingent.** Management principles are contingent or dependent upon the prevailing situation at a particular point of time in an organisation. The application of management principles depend on the nature, size and type of organisation and has to be changed as per organisation requirements.

For example, principle of unity of command is adopted when an organisation wants disciplined, stable and orderly existence. But if organisation aims at co-ordinating group efforts and wants to bring uniformity in the work then principle of unity of direction will be used.

5.4 NEED/SIGNIFICANCE/IMPORTANCE OF MANAGEMENT PRINCIPLES

Management principles are very important for the successful management of organisation in its real situations. These principles are guidelines to the management. They highlight the areas, where management should pay immediate attention. These principles simplify the process of management, increase the all round efficiency of the management and help in the achievement of the desired objective of the business. The significance of management principles is summarised herewith:

1. **Providing managers with useful insights into reality.** The management principles generate sound understanding of the complex problems of business

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enterprises. They develop scientific approach for the solution of problem. The management will adopt 'Trial and Errors' method for managing the enterprise and incur wastage of resources, if they do not understand management principles.

2. **Optimum utilisation of resources and effective administration.** The understanding of the management principles provide guidelines to the managers for handling effectively the complex problems. It facilitates managers in performing their duties smoothly. The efficiency of the management is increased and the manager adopts systematic and scientific approach towards the solution of the problems.
3. **Scientific decision.** The management principles should provide such kind of decisions which must be based on facts, thoughtful and justificable in terms of the intended purposes. The principles of management develop scientific approach for the solutions of problem.
4. **Directing the areas of training.** The management principles identify the present and prospective areas of management, wherein managers should be specially trained. Business situations are themselves complex and they change considerably with the changes in socio-politico-economic situations. Management principles identify these areas and impart requisite training to business executives.
5. **Meeting the needs of changing environment.** Management principles are guidelines which require necessary modifications with the changing situations. In order to make management meaningful and of practical utility, researchers examine these principles, justify their utility and suggest modifications, if necessary.
6. **Achieving social objectives.** Management develops spirit of co-operation and co-ordination among workers and employees. It also helps in the optimum utilisation of the social resources. It eliminates unnecessary wastage of resources. These days, principles of management are directed at maximising profit without loss of social values. The management must supply requisite commodities at fair price, not indulge in adulteration and make payment of fair wages to workers. The modern management has to fulfil its social obligations also.

5.5 HENRI FAYOL, THE FATHER OF ADMINISTRATIVE MANAGEMENT

Henri Fayol, the *universalist* and the *father of General Management* was born in France in 1841. He graduated in 1860 as mining engineer and joined a French Mining Company the same year. He worked as a junior executive in the company upto 1892. Thereafter he was promoted as General Manager of the company. In 1898, he was appointed as the Chief Executive of the Company. His managerial excellence was reflected by the fact that he turned the losing company into flourishing organisation.

After his retirement in 1916 he devoted himself for writing principles and practice of management. Fayol's original classic book *Administration Industrielle General*, was written in French and published in 1916. It was translated into English as *General and Industrial Administration'* in 1929 but remained unnoticed until it was translated as *General and Industrial Management* in 1949.

Fayol developed theory of management. He opined that managerial excellence is a technical ability and can be acquired. He developed theories and principles of management which are universally accepted and make him *universalist*. He was pioneer of the formal education in management. Fayol's principles of management meet the requirements of modern management as such he is rightly accepted as the **Father of General Management**.

5.5.1 Fayol's Theory of Management

Fayol classified the business operations into the following six categories:

(*i*) *Technical* (Production)
(*ii*) *Commercial* (Buying, selling and exchange)
(*iii*) *Financial* (Financial planning and capital management)
(*iv*) *Security* (Protection of person and property)
(*v*) *Accounting* (Recording transactions and compiling statistics)
(*vi*) *Managerial or Administrative* (Planning, organising, commanding, co-ordinating and controlling).

According to **Fayol** the first five activities are well-known, so he concentrated himself on the sixth managerial activity. According to him the management is the process of five elements i.e., planning, organising, commanding, co-ordinating and controlling.

5.5.2 Fayol's General Principles of Management

Henri Fayol views management to be *more technical at lower level and more administrative at higher level*. In order to illustrate his general theory of management, **Fayol** suggests the following 14 principles:

1. **Division of work. Henri Fayol** has stressed on specialisation of jobs. It requires that every job and its parts should be identified as separate work and entrusted to the most suited person. The quality and quantity of production will improve, if every job is assigned to the right person. According to **Henri Fayol** under the division of work, *The worker always on the same post, the manager always concerned with the same matters, acquire an ability, sureness and accuracy which increases their output*.
2. **Parity of authority and responsibility.** *Authority and responsibility are co-existing*. If authority is granted to a person, he should also be made responsible. In the same way, if anybody is made responsible for any job, he should also have the concerned authority. An efficient manager makes the best possible use of his authority and does not escape from the responsibility.
3. **Discipline.** According to **Fayol** *discipline means sincerity* about the work and enterprise, carrying out orders and instructions of superiors and to have faith

in the policies and programmes of the business enterprise. **Fayol** does not advocate warning, fines, suspension and dismissals of workers for maintaining discipline. These punishments should be rarely awarded. A well disciplined working force is essential for improving the quality and quantity of production.

4. **Unity of command.** According to **Fayol** *every employee should receive orders and instructions from one boss and he should be responsible and accountable to him only.* The violation of this principle will have the following consequences:

Adverse effect on violation of the principle of unity of command:

(*i*) There will be confusion and indiscipline.
(*ii*) Duplication of work.
(*iii*) Over-lapping of orders and instructions.
(*iv*) Disobeying the orders of superiors and divided loyalty.
(*v*) Escaping responsibility.
(*vi*) Disrespect to the work and officers.

If the enterprise adopts the principle of unity of command. It will have the following benefits:

(*i*) Orders and instructions of every boss will be honoured.
(*ii*) Employees will receive exact orders.
(*iii*) Fixing responsibility in case of default.
(*iv*) Achieving predetermined objectives.
(*v*) No duplication of work.

In this way, the principle of unity of command provides the enterprise disciplined, stable and orderly existence. It creates harmonious relationship between officers and subordinates and provides congenial atmosphere of work. This is an essential principle of Fayol's functional management.

Basic Difference between Unity of Command and Functional Foremanship

According to the principle of unity of command prepounded by Henri Fayol every employee/subordinate must receive instructions from one boss and he should be responsible and accountable to him alone. On the other hand, in case of functional foremanship of F.W. Taylor the employee receives orders and instructions from eight bosses and he is made responsible to all of them. It shows that unity of command honours centralisation, whereas functional foremanship adopts the principle of decentralisation.

5. **Unity of direction. Fayol** advocates one head and one plan which means that group efforts on a particular plan be led and directed by a single person. This will enable effective co-ordination of individual efforts and energies. This fulfils the principle of unity of command and brings uniformity in the work of same nature.

Difference between Unity of Command and Unity of Direction

Points of Difference	*Unity of Command*	*Unity of Direction*
1. *Guiding Principle*	One subordinate and one boss.	One head and one plan.
2. *Aim*	Aims at avoiding duplication, overlapping and confusion and fixes responsibility.	Aims at co-ordinating group efforts and brings uniformity in the work.
3. *Emphasis*	It stresses the need for the subordinate to be accountable to the boss.	It emphasises the attainment of common goal under one head.

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Truly speaking unity of direction is an extension to the principle of unity of command:

6. **Subordination of individual interest to general interest.** Employees should surrender their personal interest before the general interest of the enterprise. Sometimes the employees due to their ignorance, selfishness, laziness, carelessness and emotional pleasure overlook the interest of the organisation. This attitude proves to be very harmful to the enterprise.

   In order to achieve this end it is essential that:

   (*i*) Employees should be honest and sincere.

   (*ii*) There is proper and regular supervision of work.

   (*iii*) Reconciling mutual differences and clashes of interests is done by mutual agreement.

7. **Fair remuneration to employees.** According to **Fayol** *wage-rates and method of their payment should be fair, proper and satisfactory*. Both employers and employees should agree to it. Logical and appropriate wage-rates and methods of their payment reduce tension and differences between workers and management, create harmonious relationship and a pleasing atmosphere of work. **Fayol** recommends that non-financial benefits, such as free educational, medical and residential facilities be provided. There should be proper arrangement of electricity, water and other facilities.

8. **Centralisation and decentralisation**. *Confinement of authorities in restricted hands is centralisation and disintegration of authorities to more persons is decentralisation*. **Fayol** does not favour centralisation or decentralisation of authorities but suggests that there should be proper and effective adjustment between centralisation and decentralisation in order to achieve maximum objectives of the business. The choice between centralisation and decentralisation should be made after taking into consideration the nature of work and the efficiency, experience and decision-making capacity of the executives.

   According to Fayol there should be centralisation in small units and proper decentralisation in big organisations.

9. **Scalar chain. Fayol** defines scalar chain as *the chain of superiors ranging from the ultimate authority to the lowest rank*. The flow of information between the management and workers is must. Orders, instructions, messages, requests, explanations etc., are communicated between them. These messages should pass through established scalar chain but in case of urgency the established

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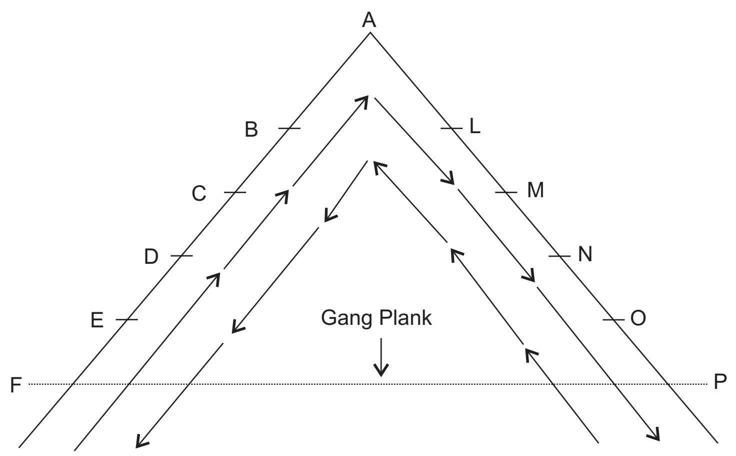
chains can be violated and **Gang Plank** (direct contact) between the two concerned authorities, departments and between superior and subordinate may be established. This has further been illustrated by the diagram.



Scalar Chain and Gang Plank (Direct Contact)

In normal practice messages should pass through the established chain *i.e.*, F → E → D → C → B →A → L → M → N → O → P. In case of urgency or greater loss in following established route direct contact between 'F' and 'P' may be established as shown in the figure.

Utility of Gang Plank (Direct Contact)

The idea of gang plank (direct contact) suggested by **Henri Fayol** shows that management principles are flexible and not absolute. If we follow the principle of scalar chain strictly, there is possibility of unnecessary delay in the communication and execution of task. Sometimes business opportunities may be lost due to the communication not reaching the concerned person at proper time.

Business opportunities must be immediately availed of, so we must make direct contact with the concerned employee. Business problems need immediate solution, so we cannot always depend on the established scalar chain. It requires that direct contact should be established, whenever required.

10. Order. There should be safe, appropriate and specific place for every article and every place to be used effectively for specific activity and commodity. This means that every piece of land and every article should be used properly, economically in the best possible way.

Selection and appointment of the most suitable person be made on every job. There should be specific place for every one and every one should have specific place. This stresses scientific selection and appointment of employees on every job.

Adverse effect of violation of the principle of order

(*i*) There will be chaos in the organisation

(*ii*) There will be wastage of resources

(*iii*) Unplanned utilisation of resources will maximise cost of production with minimise profit.

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11. **Equity.** The principle of equity should be followed at *every level*. There should not be discrimination as regards, caste, sex and religious. An effective management always accords sympathetic and humane treatment. In order to seek whole-hearted co-operation of employees, the management should be kind, honest and impartial in its dealings with the employees. *Workers should be treated at par at every level*.
12. **Stability of tenure of personnel.** Production being a team work, an efficient management builds a team of good workers. If the members of the team go on changing, the entire production process will be disturbed. It is always in the interest of the enterprise that its trusted, experienced and trained employees do not leave the organisation. *Stability of job creates a sense of belongingness among workers, who with this feeling are encouraged to improve the quality and quantity of work*.

Adverse effect of violation of the principle of stability of tenure of personnel

(*i*) Repeated changes of employees will disturb production process

(*ii*) It will generate feeling of insecurity among employees

(*iii*) It will adversely effect efficiency of workers

13. **Initiative.** The successful management provides an opportunity to its employees to *suggest their new ideas, experiences and more convenient methods of work*. The employee, who has been working on the specific job since long discovers new, better, alternative approach and technique of work. It will be more useful, if it is communicated to management, which is only possible, if initiative to do so is provided to employees.
14. **Espirit de Corps *(*Spirit of cooperation*)*.** In order to achieve the best possible results, individual and group efforts are to be effectively integrated and co-ordinated. Production is team work for which the whole-hearted support and co-operation of all the members is required. Every individual should sacrifice his personal interest and contribute his best energies to achieve the best results. *It refers to the spirit of loyalty and faithfulness on the part of the members of the group*. It can be achieved by:

    (*i*) Strong motivation

    (*ii*) Recognition and importance of the members for their valuable contributions.

    (*iii*) Effective coordination.

    (*iv*) Informal mutual social relationship between members of the group.

    (*v*) Positive and constructive approach of the management towards workers' welfare.

Conclusion. According to Fayol, the list of 14 principles discussed above is not final. With the development of management science, the list can be modified on the basis of experience and needs.

Now let us see what Fayol's principles mean in the contemporary business situations especially service based and high tech economies like USA. Carl A. Rodrigues of Mont Clair State University, Upper Montclair, New Jersey, USA has come out of the following conclusions in his paper "Fayol's 14 Principles of Management Then and Now A Framework For Managing Today's Organisations Effectively" published in Journal "Management Decision" 39/10(2001) PP 880–889.

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S. No.	Name of Principle	Then	Now
1.	Division of Work	Specialisation in workers Job design.	Generalisation in workers' Job design.
2.	Authority and Responsibility	Managers are empowered.	Employees are empowered.
3.	Discipline	Formalised Controls.	Informal, Peer pressure controls.
4.	Unity of Command	Subordinates report to only one boss.	Subordinates report to multiple bosses.
5.	Unity of Direction	Functions have only one plan and one boss.	Functions have multiple plans and multiple bosses.
6.	Subordination of individual interest to common goals	Employees are committed to the organisation.	Organisation is committed to the employees and vice versa.
7.	Remuneration of personnel	Reasonable Pay reward system.	Performance based reward system.
8.	Centralisation	"Trickle down decision making".	Task relevant and hoc decision making.
9.	Scalar Chain	Hierarchical, formalised communication channel.	Less formalised, flatter communication structure.
10.	Order	Orderliness facilitates control	Orderliness facilitates co-ordination and vice versa
11.	Equity	Commitment obtained through kindness.	Commitment obtained through a "sense of ownership".
12.	Stability of tenure of personnel	Train employees and encourage them to remain.	On-going employee training and development.
13.	Initiative	Managers conceive and implement new ideas.	Workers conceive and implement new ideas.
14.	Espirit de corps	Maintaining high morale among employees is imperative.	Maintaining high morale among employees is not as imperative.

5.5.3 Fayol's Contribution to Management

Henri Fayol is the *father of Administrative Management*. His functional approach towards management is based upon his practical experience. **Fayol's** contribution to the science of management may be summarised as follows:

1. **Development of universal principles of management. Henri Fayol** developed certain principles of management which are universally accepted until now. These principles are applicable everywhere, whether the size of business is small or large or whether it is social, religious, cultural and Government organisation. Management, both at higher and lower level have to adopt it. These principles are:

(*i*) Unity of command. (*ii*) Unity of direction.
(*iii*) Division of work and specialisation. (*iv*) Spirit of co-operation.
(*v*) Scalar chain etc.

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2. **Clear and acceptable classification of managerial functions. Henri Fayol** was the first to make clear, definite and acceptable classification of managerial functions. This classification is accepted even now. Certain management authorities have suggested minor adjustment, improvement and moderations but even then the main functions are the same.
3. **Management as a separate significant function. Henri Fayol** categorised management as a separate function and justified it to be the essential factor of production. Before **Henri Fayol**, management was supposed to be a technique of 'Trial and Error'. It was thought that anybody can manage the affairs of the business. No specific qualification, training and aptitude is required for it. Thus, management is not only a systematised body of knowledge but a profession.
4. **Sound principles of organisation. Fayol** developed fundamental and sound principles of organisation such as, division of labour, centralisation, specialisation and scalar chain etc.
5. **Macro-approach to management.** Management science, as developed by **Fayol** is not merely a solution to a specific problem but it is general in nature. It is not restricted to a particular problem but it has macro application. It is not restricted to factory alone but it can be applied to every field and department of the business.
6. **Stress on human aspect.** It was realised by **Fayol** that human factor in the business is active and sensitive factor, as such he advocated principles of stability in the tenure of service, initiative, fair wages and humane treatment to workers.

Fayol's theories and principles of management are universally accepted.

5.6 SCIENTIFIC MANAGEMENT

The practice of management is as old as human civilisation. According to the records of Egypt, Rome and China, management was being practised by different people in different forms as old as 1300 B.C. Truly speaking management started the moment, when two or more persons were engaged in a certain activity. In other words, management itself emerges, when 'I' is changed to 'We' with reference to certain specific activity.

The origin of scientific management can be traced back around 1850, when Industrial revolution took place in England. Invention of new machines, use of power, development of transportation and communication and rapid increase in demand for commodities necessitated large scale production. The factory system caused conflict between the management and workers and labour problems emerged. Production process due to introduction of new technologies became complex and scientific approach towards management became necessary. Though **Robert Owen** stressed human contribution in factories and **Charles Babbage** initiated study of production function/division of physical and mental labour and introduction of profit sharing scheme between workers and management. In real sense, scientific management owes its origin to **Frederick Winslow Taylor**, who is commonly regarded as **father of Scientific Management**.

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Brief History of Frederick Winslow Taylor

Taylor, commonly known as the father of scientific management was born in **1856** in **Philadelphia, USA.** He started his career as an operator in small machine making shop in **1870** and rose to the position of **Chief Engineer** of Midvale Steel Works in **1884** at the age of **28**. He conducted a series of experiments in management science for two decades. After leaving Midvale Steel Works he joined *Bethlehem Steel Company*, where he introduced his scientific management. He was opposed by both workers and management and unceremoniously terminated in **1901**.

Taylor contributed to management science by presenting the following papers and books:

(*i*) A piece-rate system—**1895**.

(*ii*) Shop Management—**1909**.

(*iii*) Principles and Methods of Scientific Management—**1911**.

(*iv*) Testimony before the Special House Committee—**1912**.

(*v*) The third and fourth Works were Combined in one book entitled 'Scientific Management' in **1947** by **Harper and Brothers**.

Taylor was the first person to introduce scientific approach to management.

FREDERICK WINSLOW TAYLOR—founder of scientific management movement.

LIFE TIME: March 20, 1856 to March 21, 1915

PROFESSION: American Mechanical Engineer

EDUCATION: Degree in Mechanical Engineering from Stevens Institute of Technology in 1883.

POSITIONS HELD:

1. Apprentice Machinist in 1874
2. Executive at 'Midvale Steel Company in 1884.
3. At Bethlehem Iron Company in 1898, which later became Bethlehem Steel Company.
4. Professor at 'Tuck School of Business' founded in 1900.
5. President of 'American Society of Mechanical Engineers' from 1906 to 1907.

WRITINGS:

1. 'The Principles of Scientific Management' series of articles published in 'The American Magazine'.

   During March-May 1911, later published in book form.
2. 'Concrete, Plain and Reinforced' in 1906.

   (*i*) 'Notes on Belting' in 1893.

   (*ii*) 'On the Art of Cutting Metals' December 1906.

   (*iii*) 'A Piece Rate System' in June 1895.

   (*iv*) 'The making of a putting green' a series of articles published in 1915.

   (*v*) 'Not for the genius but for the average man' published in 'The American Magazine' in March 1918.

(***Adapted from:*** *www.wikipedia.org and www.stevens.edu/library)*

5.6.1 Meaning of Scientific Management

Scientific management is logical approach towards the solution of management problems. The traditional management applied *trial and error method* in finding correct solution to the management problems. According to traditional approach, equipment, methods and techniques were applied at random and changes were made from time to time. It was an uneconomical approach, wherein a lot of resources were misused lost and wasted.

When **F.W. Taylor** assumed the responsibility of management, he realised the weaknesses of traditional method and consequentially made factual study of every work independently and advocated the use of standardised raw material, equipments, methods and techniques and the most appropriate worker on every job.

Definitions of Scientific Management

According to **Diemer**, "*Scientific management is obtaining and arranging all obtainable knowledge, relating to conditions, methods, processes and relations in the field of management and developing these into an organised body of principles.*"

In the words of **H.S. Person**, "*The term scientific management characterises that form an organisation and procedure in purposive collective effort, which rests on principles or law derived by the process of scientific investigation and analysis, instead of tradition or policies determined empirically and usually by the process of Trial and Error.*"

According to **Drucker**, "*The cost of scientific management is the organised study of work, the analysis of work into its simplest elements and the systematic management of the workers, performance of each element.*"

According to **Jones**, "*A body of rules together with their appropriate expressions in physical and administrative mechanism and specialised executives to be operated in co-operation as a system for the achievement of a new stickness in the control and Process Productions.*"

After making the careful study of the above definitions we can summarise that the scientific management includes:

(*i*) Scientific study and analysis of work.

(*ii*) Scientific selection and training of employees.

(*iii*) Standardisation of raw material, equipment and working conditions.

(*iv*) Reasonable remuneration to employees.

(*v*) Scientific management is economical method which makes the best possible use by integration and co-ordination of available resources.

Scientific management as such, is the logical approach, towards the scientific solution of management problems through scientific study and analysis of work, scientific selection, training, remuneration and development of employees, standardisation of raw material, machines, equipments and working conditions and making the best possible integration and utilisation of available resources.

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Taylor's Contribution to Scientific Management

The following extracts are taken from Taylor's testimony before the U.S. House of Representatives Special Committee in 1912 and also from his most important work "THE PRINCIPLES OF SCIENTIFIC MANAGEMENT" published in 1911.

"Scientific management requires first, a careful investigation of each of the many modifications of the same implement, developed under rule of thumb; and second, after time and motion study has been made of the speed attainable with each of these implements, that the good points of several of them shall be unified in a single standard implementation, which will enable the workman to work faster and with greater easy than he could before. This one implement, then is the adopted as standard in place of the many different kinds before in use and it remains standard for all workmen to use until superseded by an implement which has been shown, through motion and time study, to be still better." (Scientific Management Page 119)

The main elements of the Scientific Management are:

(Pages 129–130, Scientific Management)

"Time studies
Functional or specialised supervision
Standardisation of tools and implements
Standardisation of work methods
Separate Planning Function
Management by exception principle
The use of "slide-rules and similar time-saving devices"
Instruction cards for workmen
Task allocation and large bonus for successful performance
The use of the 'differential rate'
Mnemonic systems for classifying products and implements
A routing systems
A modern costing system etc."

Taylor called these elements "merely the elements or details of the mechanisms of management". He saw them as extensions of the four principles of management. (Page 130, Scientific Management)

1. The development of a true science
2. The scientific selection of the workman
3. The scientific education and development of the workman
4. Intimate and friendly co-operation between the management and the men.

*(**Adapted from:** Taylorism (F.W. Taylor and Scientific Management) at http://www.quality.org/TQM-MSI/taylor.html)*

5.6.2 Principles/Assumptions of Scientific Management

1. **Science, not the rule of thumb.** *(Scientific Study and Analysis of work).* **F.W. Taylor** made study and analysis of every job and fixed standard time to be taken, methods to be applied and motions to be made in the performance of every job, so that every worker should know what, when and how he is required to perform a piece of work. In the traditional management '*rule of thumb*' also known as '*Trial and error method*' or '*Hit or miss method*' was prevailing. This principle meant that go on trying, failing and wasting the resources and finally perfecting the job. Workers were careless, because no specific amount of work was expected from them. Even the employer did not know the real worth of his employee. Every thing was left to '*Trial and Errors method*'. **Taylor** introduced scientific management and advocated the following studies to be made regarding jobs.
   (*a*) *Methods Studies.* The study aims at identifying the best possible method of doing specific operation.
   (*b*) *Time Studies.* It is an art of observing and recording time required for every piece of work and operation.
   (*c*) *Motion Studies.* It is the science of eliminating wasteful unnecessary motions and retaining the least waste-motions of every job.
   (*d*) *Fatigue Studies.* It is the science of reducing fatigue among workers, so that the operational efficiency of workers may be maintained.
2. **Harmony in group or harmony not discord** *(Co-operation between Labour and Management)*. **Taylor** advocates that there should be harmonious relationship between labour and management in order to achieve the best possible results of business activities. Workers should have sense of belongingness towards the enterprise. Employers should also deal with the employees sympathetically. If there is close relationship between labour and management, maximum output may be obtained at minimum cost.
3. **Co-operation not individualism.** Human element comprising of workers and management is essential but it is very sensitive factor of production. It requires that there should be perfect co-operation, co-ordination and adjustments between the efforts of labour and management. **Taylor** rightly views that *most of clashes are due to economic considerations i.e.*, wages allowances, bonus etc. **F.W. Taylor** felt that the adoption of scientific management will increase the profit to such an extent that every one will get handsome share. Both labour and management will be suitably rewarded and thus there will be no mutual differences.

There will be change of attitude among workers and management towards each other. The handsome remuneration being received by workers will revolutionise their thinking. It will create a sense of belongingness among workers towards the enterprise. There will emerge more production and economic growth at faster rates.

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According to **Taylor** mental revolution involves:

(*i*) Generating scientific attitude towards problems

(*ii*) Creating spirit of mutual trust and confidence

(*iii*) Directing integrated efforts for increasing production.

4. **Development of workers to their greatest efficiency and prosperity.** Under scientific management right men are selected for right jobs. The first step in the selection is determining the jobs for which workers are required. After that the most appropriate qualification, training, experience and the level of efficiency for the requisite post is determined. Employees are selected according to predetermined standard in an impartial way.

Workers are specifically trained for the jobs, they are appointed, so that they can perform their jobs effectively in the real situations of the enterprise.

The management also provides opportunities to employees to grow professionally by acquiring higher degrees, qualification and rich experience.

5.6.3 Techniques of Scientific Management

In order to achieve the desired result through the introduction of scientific management, techniques of work studies, standardisation, administrative reorganisation and scientific rate setting should be adopted.

Functional Foremanship

F.W. Taylor in his administrative reorganisation advocated functional foremanship *i.e.*, the appointment of specialist foreman for specific jobs. He classified specialist foremen into two departments viz. Planning and Production Department and thus differentiated his views from the traditional approach, wherein foremen were responsible for both planning and productive activities. Both the departments have four foremen each. The names and the functions of these specialist foremen are as follows:

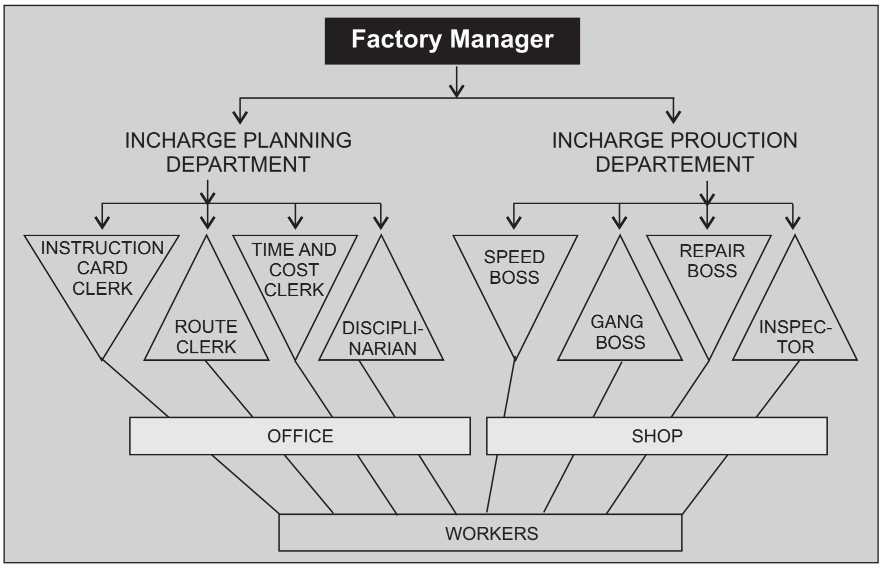
Specialist Foremen in the Factory and their Function

Name of the Boss	*Functions*
Planning Department	
1. *Route Clerk*	Determining the process of production and deciding the route through which the raw material will pass.
2. *Instruction Card Clerk*	Laying down instructions according to which workers are required to perform their jobs.
3. *Time and Cost Clerk*	Setting the time-table for doing a job as per predetermined route and time schedule. Specifying the material and labour costs in respect to each operation.
4. *Shop Disciplinarian*	Maintaining proper discipline in the factory, so that predetermined objective in respect to production may be achieved. Offering immediate solution to clashes and making provisions for punishment.

Production Department	
1. *Gang Boss*	Making arrangement of workers, machines, materials, tools etc. for the job.
2. *Speed Boss*	Maintaining the planned speed of production. Investigating the causes for the delay and to remove them.
3. *Repair Boss*	Maintenance of the machines and equipments, Proper arrangements of their oiling, greasing, cleaning and repairs.Preventing the misuse of machines and equipments.
4. *Inspector*	Seeing that the work conforms to the standard of quality laid down by the planning department.

The concept of Functional Foremanship is presented herewith through a diagram to give an idea of its practical application.

Administrative Reorganisation-Functional Foremanship



Standardisation and Simplification of work

According to **Taylor** *maximum objectives of the business can be achieved only when the raw material, labour, machines, equipment, methods and techniques are standardised and predetermined, so that nothing could be left to trial and error*. Standardisation may take the following forms:

1. **Standardisation of product.** The produced articles, their design, size, type, weight and quality must have uniformity. Standardisation of product must be based upon the needs and tastes of customers.
2. **Standardisation of raw material.** Standardisation of product is possible, if the raw material used in the different operations are standardised. The use of standardised raw material reduces wastages, improves quality of production and simplifies productive operations.

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3. **Standardisation of machines and equipments.** Machines, tools and equipments used in the production of standard commodities should also be standardised with reference to the requirements of the product. This will enable the most appropriate and economical use of resources.
4. **Standardisation of methods.** Methods and techniques of production should also be predetermined after careful studies and testing, otherwise considerable amount of time and energy may be lost in the selection and determination of the most suitable method for every operation. **Taylor** suggests that the methods of production should be standardised even before the commencement of actual operation.
5. **Standardised working conditions.** An efficient manager makes the requisite arrangement of space, lighting, temperature, ventilation and refreshing atmosphere of work.

Method Study

The main objective of method study is to find out the best method to perform a job. It helps in eliminating the defects of 'hit or miss' method of traditional management

Method study simplifies the operations by:

(*i*) Reducing the distance between the place of storing and consuming raw material.

(*ii*) Simplifying the use of tools and equipments.

(*iii*) Improving the storing and inspection facilities.

(*iv*) Eliminating unnecessary actions and movements.

(*v*) Integration of identical activities.

Motion Study

Every action requires certain motions, such as holding, moulding, folding, putting, fixing, moving, removing, carrying and pressing etc. The purpose of the motion study is to eliminate unnecessary motions and to reinforce necessary motions.

According to **Frank Gilbreth**, "*Motion Study is the science of eliminating wastefulness resulting from unnecessary, ill-directed and inefficient motions. The aim of motion study is to find and perpetuate the schemes of the least waste-methods of labour*".

Mr. Frank Gilbreth identified 17 basic motions involved in every human operation. These motions are as under: (*i*) Search (Sh) (*ii*) Select (St) (*iii*) Grasp (G) (*iv*) Transport Empty (TE) (*v*) Transport Loaded (TL) (*vi*) Hold (H) (*vii*) Release Load (RL) (*viii*) Position (P) (*ix*) Proposition (PP) (*x*) Inspect (I) (*xi*) Assemble (A) (*xii*) Disassemble (DA) (*xiii*) Use (U) (*xiv*) Unavoidable Delay (UD) (*xv*) Avoidable Delay (AD) (*xvi*) Plan (Pn) (*xvii*) Rest for overcoming fatigue (R).

Motion Study includes the following process:

Process of Motion Study

(*i*) Selection of efficient workers.

(*ii*) Analysis of the motions involved in every job.

(*iii*) Finding the minimum time of every operation with the help of stop watches.

(*iv*) Keeping record of the best motions and the minimum time taken.

(*v*) Advocating the most appropriate motions and discarding the unnecessary ones.

Purpose of Motion Study. The motion study increases the efficiency and productivity of workers. It helps in replacing unnecessary and wasteful energies and motions of workers with most productive motions.

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Time Study

Every job or if necessary parts thereof are studied as regards their nature and the time taken by different employees in the performance of that job is noted, and the time taken by the average worker is standardised. Every worker is expected to perform the job in the standard time.

Time Study includes the following operations:

Operations/Process of Time Study

(*i*) Sub-dividing the work.

(*ii*) Noting time taken by different employees in performing that piece of work.

(*iii*) Selection of the average worker.

(*iv*) Noting time taken by the average worker in normal conditions.

(*v*) Standardising time taken by the average worker for other workers.

Time study may be defined primarily as the art of observing and recording the time required to do each detailed element of an industrial operation.—**Kimball and Kimball**

Purpose of Time Study. Time study, no doubt restricts carelessness of employees, differentiates between efficient and inefficient workers, increases the efficiency of workers and helps in the development of the enterprise.

Difference between Time Study and Motion Study

Points of Difference	*Time Study*	*Motion Study*
1. *Meaning*	It is an **art of observing**, studying and recording time required to perform every job.	Motion Study is a **science of eliminating** unnecessary motions in the works.
2. *Objective*	Time study aims at increasing the output by **eliminating carelessness of workers** by setting standard time.	Motion study aims at increasing the product and productivity by **eliminating unnecessary motions**.
3. *Improvement*	It aims at improving the performance of workers by **discriminating them** as efficient and inefficient.	It improves the performance of the workers **without any discrimination**.
4. *Equipment used*	**Stopwatch** procedure is used for study.	**Slow motion camera** is used for study.

Fatigue Study

Fatigue in the work is natural. When a worker is required to work continuously, his zeal, speed and efficiency in the work goes on diminishing *i.e.*, he is tired and needs rest to recapture his energies and refresh himself. Scientific management studies the

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nature of jobs and determines the standard time when the worker on the specific job will be tired and need rest. The nature, time and the period of rest is also predetermined. Necessary changes may also be made in the working methods and conditions to reduce the fatigue. Taylor suggested to take into consideration an average worker while he is performing his job and to note the time when he starts getting tired or his efficiency starts declining. It helps in determining the frequency of rest intervals and to ascertain that after how much time a worker become fresh to resume his duty and to regain his energy. Observing the worker for the purpose of fixing rest intervals makes this technique more scientific.

Differential Piece-Wage System

Differential piece-wage system is also a part of **F.W. Taylor's** scientific management. In this method, increase in efficiency is co-related with an increase in the wage rates. This is why, an efficient worker gets more wages, whereas inefficient gets lesser. The system is a source of incentive to workers, who go on improving their efficiency to get more wages. The important characteristics of the system are as under:

(*a*) *Differential piece-wage system* has two different rates:

(*i*) Higher rates for those, who produce standard quantity or more.

(*ii*) Lower rates for those who produce lesser than the standard quantity.

(*b*) Minimum wages is not guaranteed.

(*c*) Standard time is fixed for the standard amount of work.

Example. Let us suppose output per day to be 15 units. Wage rates are rupees two per unit for the daily production of 15 units or more and ₹ 1.50 for lesser than 15 units. Wages will be determined as follows:

for a production of 15 units = 15 × 2 = ₹ 30

for a production of 18 units = 18 × 2 = ₹ 36

for a production of 20 units = 20 × 2 = ₹ 40

for a production of 12 units = 12 × 1.50 = ₹ 18

Mental Revolution

Mental revolution on the part of management means creation of congenial and refreshing working conditions and solution of all problems scientifically. Mental revolution on the part of workers requires performing their work with utmost devotion, sincerity and efficiency.

It includes change of attitude among workers and management towards each other. The handsome remuneration received by workers will revolutionise their thinking. It will create a sense of belongingness among workers towards the enterprise. These will emerge more production and economic growth at faster rates.

According to Taylor Mental revolution involves:

(*i*) Generating scientific attitude towards problems.

(*ii*) Creating spirit of mutual trust and confidence.

(*iii*) Directing integrated efforts for increasing production.

2.7 DIFFERENCE BETWEEN TRADITIONAL AND SCIENTIFIC MANAGEMENT

NOTES

The traditional management and the scientific management are different approaches towards management. The difference between the two is pointed as under:

Points of Difference	*Traditional Management*	*Scientific Management*
1. *Science and Philosophy*	It is neither science nor philosophy.	It is both science and philosophy.
2. *Training*	There is no provision for training.	Training is offered before the worker is placed on specific job.
3. *Standardisation*	Standardisation of any kind is not there.	Raw material, equipment methods etc. are standardised.
4. *Cost Accounting*	Working are not graded according to their efficiency.	Workers are graded according to their efficiency.
5. *Gradation of Workers*	Workers are not graded according to their efficiency.	Workers are graded according to their efficiency.
6. *Type of Organisation*	Line organisation is adopted.	Functional organisation is adopted.
7. *Shirkers*	Labour is shirker.	Labour is not shirker.
8. *Method of Wage Payment*	Time wage system is commonly used. Sometimes piece-wage system is also used.	Incentive wage system is adopted.
9. *Studies*	No study regarding time, motion and fatigue is done.	Work studies *i.e.,* time, motion and fatigue are made.
10. *Mental Revolution*	No question arises.	Mental revolution emerges in the minds of both workers and management.
11. *Methods of Work*	Trial and error method is adopted. Workers learn effective method by committing many errors.	The method of work is determined after careful scientific studies and analysis.

2.8 DIFFERENCE BETWEEN TAYLOR AND FAYOL AND THEIR SCIENTIFIC AND ADMINISTRATIVE MANAGEMENT

Both **F.W. Taylor** and **Henri Fayol** are the universally recognised and accepted authorities of management. Both have practical experience of business operations. They have studied and experienced the various business problems and have stressed on the technical, functional and practical side of management. They developed the management as a systematised body of knowledge, which can be effectively used in

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the day-to-day operations of the business. With certain similarities in their views, the following differences are there:

Points of Difference	*F.W. Taylor*	*Henri Fayol*
1. *Period*	1856–1915	1841–1925
2. *Place*	America	France
3. *Post in the Beginning*	General turner and operator.	Mines engineer.
4. *Approach*	It has micro approach, because it is restricted to Factory only.	It has macro approach and discusses general principles of management which are applicable in every field ofmanagement.
5. *Scope of the Principles*	These principles are restricted to production activities.	These principles are applicable in all kinds of organisation as regards their managerial affairs.
6. *Human Aspect*	Disregards human element. More stress on increase in the production by improving men, machines, material and methods.	Due regards are paid to human elements. Certain principles like initiative, stability of service and spirit of co-human support the operation to approach of Fayol.
7. *Stress on Efficiency/ Administration*	Taylor's scientific management stresses on efficiency.	Fayol's management theory stresses on general administration.
8. *Achievement*	Scientific management is the achievement of Taylor's efforts.	Administrative management is the achievement of Fayol's efforts.
9. *Status*	Father of scientific management.	Father of modern management.
10. *Expression*	Taylor used the expression scientific management.	Fayol expressed his ideas as general theory of administration.
11. *Concerns*	Taylor's main concerns were tasks, workers and supervisors.	Fayol was concerned with efficiency of managers.
12. *Emphasis*	Taylor laid greater emphasis on standardisation of work and tools. The principles were more applicable at the factory level.	Fayol laid emphasis on the principles of general management and functions of managers.

SUMMARY

- **Principles of Management Principles** are fundamental truth that explain the relationship between two or more sets or variables under given situation.
- **Steps for deriving Management Principles**

  (1) Choice of the problem or opportunity (2) Observation and study of the problem (3) Making hypothesis (4) Conclusion and forecasting (5) Testing the principle.

- **Characteristics/Nature of Management Principles**

  (1) Universal application (2) General guidelines (3) Flexibility (4) Mainly behavioural (5) Cause and effect relationship (6) Contigent.

- **Need/Significance/Importance of Management Principles**

  (1) Providing managers with useful insights into reality (2) Optimum utilisation of resources and effective administration (3) Scientific decision (4) Directing the areas of training (5) Meeting the needs of changing environment (6) Achieving social objectives.

- **Henri Fayol**

  Fayol, the father of general management was born in France in 1841, graduated in 1860 as mining engineer, worked as General manager and Chief executive, Published 'General and Industrial Administration' in 1929, which was translated as General and Industrial Management in 1949.

  Fayol is accepted as *universalist* and *father of general management*.

- **Fayol's Theory of Management**

  Fayol classified business operations into the following six categories:

  (1) Technicalt (2) Commercial (3) Financial (4) Security (5) Accounting and (6) Managerial or Administrative.

- Fayol's General Principles of Management

  Fayol suggests the following 14 principles :

  (1) Division of work (2) Parity of authority and responsibility (3) Discipline (4) Unity of command (5) Unity of direction (6) Subordination of individual interest to general interes (7) Fair remuneration to employees (8) Centralisation and decentralisation (9) Scalar chain (10) Order (11) Equity (12) Stability of tenure of personnel (13) Initiative (14) Espirit *de* Corps.

- **Fayol's Contribution to Management**

  (1) Development of universal principles of management (2) Clear and acceptable classification of managerial functions (3) Management as a separate significant function (4) Sound principles of organisation (5) Macro-approach to management (6) Stress on human aspect.

- **Scientific management** may be defined as the scientific study and analysis of work, scientific selection and training of employees, standardisation and scientific rate setting. It is an art of knowing exactly what you want your men to do and seeing it that they do it in the best and cheapest way.

- **Principles/Assumptions of Scientific Management**

  (1) Science, not the rule of thumb (2) Harmony in group or Harmony not discord (*Co-operation between labour and management*) (3) Co-operation, not individualism (4) Development of workers to their greatest efficiency and prosperity.

- **Techniques of Scientific Management**

  – Functional foremanship – Standardisation and simplification of work –Method study – Motion study – Time study – Fatigue study – Differential piece-rate system –Mental revolution.

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- **Bases of Difference between Traditional and Scientific Management**

  (1) Science and philosophy (2) Training (3) Standardisation (4) Cost Accounting (5) Gradation of workers (6) Types of organisation (7) Shirkers (8) Methods of wage payment (9) Studies (10) Mental revolution and (11) Methods of work.

- **Bases of Difference between Taylor and Fayol**

  (1) Period (2) Place (3) Post in the beginning (4) Approach (5) Scope of the principles (6) Human aspect (7) Stress on efficiency/administration (8) Achievement (9) Status (10) Expression (11) Concerns (12) Emphasis.

SELF ASSESSMENT QUESTIONS

1. Name and explain that principle of Fayol which suggests that communication from top to bottom should follow the official lines of command.

2. Inspite of several advantages, scientific management was opposed by labour, employees and trade unions. Discuss critically.

3. *Taylor's principles of scientific management and Fayol's principles of management are mutually complementary*. Do you agree with this view ? Give any four reasons in support of your answer.

4. Define scientific management. State any three of its principles.

5. Explain any five techniques of *scientific management*.

6. What is meant by '*Work study*' ? Briefly explain the role of '*Time*' and '*Motion*' studies while setting the standard task.

7. Explain any four characteristics of principles of management.

8. Explain the following principles of management.

(*a*) Scalar chain (*b*) Harmany not discard

9. Karan Nath took over 'D' Narth Motor company from his ailing father three months ago. In the past the company was not programing well. Karan was determined to improve the company's performance. He observed that the methods of production as well as situation of employees in the company were not scientific.

He believed that there was only one best method to maximise efficiency. He also felt that once the method is developed, the workers of the company should be trained to learn that method.

He asked the production manager to develop the best method and carry out the necessary training. The production manager developed this method using several parameters right from deciding the sequence of operations, place for men, machines and raw materials till the delivery of the product to the customers. This method was implemented throughout the organisation. It helped in increasing the output, improving the quality and reducing the cost and wastage.

Identify and explain the principles and the technique of scientific management followed by the production manager in the above case.

10. Vishesh completed his MBA at a reputed business school in Lucknow. He was impressed by the Principles and Techniques of Scientific Management developed by F.W. Taylor. On completing his MBA, he wanted to apply Scientific Management in his family's business of fast food chain of restaurants named 'Burger Mania'.

His main goal was to reduce costs with increased output. To begin with, he wanted to develop a standard method which would be followed throughout the organisation. So, he investigated traditional methods through work study and unified the best practices. The standard method. *i.e.* the best way of doing the job was then developed taking into account all parameters right from the procurement of raw material till the delivery of the final product to the customer. Vishesh also believed that each person should not only be scientifically selected but should also be given the required training to increase efficiency. For this, he set up a Special Training Unit called 'Hamburger' in Bengaluru where the workers were given the required training to learn the best method. At the factory, the ingredients making up a burger were strategically placed to reduce the time taken for excess movements. The standard time and other parameters were determined on the basis of work study and Vishesh rewarded the workers for meeting the standard output.

Now, 'Burger Mania' has standardised processes, raw material, time, machinery, product and working conditions that ensure that the food they send out to their customers has the same high standards of excellence and level of quality in every chain or franchise. The application of Scientific Management to every aspect of restaurant operations led to 'Burger Mania's' widespread success.

Quoting the lines from the above, explain the Principles and Techniques of 'Scientific Management' used by 'Burger Mania'.

11. Explain the following techniques of scientific management.

(*a*) Fatigue study; and (*b*) Differential piece wage system

12. Explain any five point of significance of principles of management.

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6. FUNDAMENTALS OF MANAGEMENT

STRUCTURE

6.1 PLANNING

Planning is the process of determining the objectives of the administrative effort and of devising means calculated to achieve them. In other words, planning is the preparation for action. It is an endeavor to apply foresight to human activity, and is based on knowledge and research.

Terry has defined planning in terms of future course of action. He says that, ''Planning is the selection and relating to facts and making using of assumptions regarding the future in the visualization and formalization of proposed activities believed necessary to achieve desired result. Mcfarland has defined as a concept of executive action that embodies the skills of anticipating, influencing and controlling the nature and direction of change.

According to Koontz and O'donnell, "Planning involves selecting enterprise objectives, departmental goals and programmes, and determining the ways of reaching them". Planning, thus, provides a rational approach to pre-selected objectives.

According to Philip Kotler, "Planning is deciding in the present what to do in future. It is the process whereby companies reconcile their resources with their objectives and opportunities.

6.2 TYPES OF PLANS

Planning may be of different types. We can classify some of the important types of plans according to the nature of planning below:

(*a*) Financial or Non-Financial Plans

- Most plans cannot be translated into action if there is no finance.
- Planning loses all its significance if sufficient financial resources are not mobilized.
- Plans that require financial resources are considered financial plans.
- Plans relating to the physical resources of an organization may be called non-financial plans.

(*b*) Formal and Informal Plans

- More thinking by managers refers to informal plans.
- When an informal plan is finalized and prepared for implementation, it is considered to be a formal plan.

(*c*) Specific and Routine Plans

- Any plan made with a particular object is known as a specific plan.
- Day-to-day normal activities require some type of regular plan known as a routine plan.

(*d*) Strategic and Functional Plans

- Strategic planning is the overall planning of the enterprises objectives determined by the top management.
- A plan made in a functional area like production, purchase, marketing is referred to as a functional plan.

(*e*) Long-range and Short-range Plan

- It depends upon the organizational structure, nature of business, the kind of industry, etc.
- In general, a short-term plan refers to a period covering six to twelve months.
- A long-range plan usually involves a time interval of between three and five years.
- The modern concern is to plan for a decade or two.

(*f*) Administrative and Operational Plans

- Administrative plan provides the base for operative plans.
- Administrative planning is done by the top and middle-level management.
- Operational planning by the lower-level management.

6.3 STRATEGIES, POLICIES AND PLANNING PREMISES

Strategies

- The term strategy has originally come from Greece around 400 BC and it refers to the technique of directing a military force in the light of the enemy force's action.

- In management, it has the same competitive implications. It is also regarded as interpretative planning.
- Strategy is related to the environment and its impact on the organization.

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Policies

- Policies are guidelines to action.
- They are the basic statements serving as guides to the thinking and action of subordinates in repetitive situations. They provide broad guidelines.
- According to Alford and Betty, "the mode of thought and the principles underlying the activities of an organization or an institution". It is a regular decision which is applicable to repetitive situations.
- Policy statement must be definite, clear and easily understandable.
- Policy made by the management should be reasonable and stable, flexible, based on proper and correct information and sound judgment, and to accomplish their purpose, be communicated. Policies should be in writing.

Planning Premises

- A plan is based on certain assumptions called premises.
- The assumptions or premises are for a future setting or happenings.
- Premises are made about market conditions, price trends, tax policy, government policy, business cycles, etc.
- Premises represent the plan environment.
- Planning premises, their choice, evaluation and usefulness depends upon the abilities of the planner.
- Planning premises are :
  (*a*) External and Internal
  (*b*) Tangible and Intangible
  (*c*) Controllable, Semi-controllable, and Uncontrollable

6.4 IMPORTANCE OF PLANNING

The following points are the importance of planning.

(*a*) Selection of Optimum Goals

- Planning involves rational thinking and decision-making concerning a proposed course of action. It also implies selection of one course of action and rejection of outer possible courses of action,
- The selected course of action is naturally the one that promotes the overall organizational goals within the frame work of the resource availability and economic, social and political factors.
- For optimization of overall organizational operations, it may sometimes be necessary to sub-optimize i.e., to reduce the efficiency of some departments.

(*b*) Tackling Increasing Complexities

- An organization is a heterogeneous group of human beings who differs from one another in many respects.
- It is unlikely that they will work effectively and harmoniously in the interest of the organization,
- Unless they have a plan in the making of which they have had a share and, which they regard as common property.
- So, planning is essential' to any goal-directed activity.

(*c*) Meeting Environmental Changes

- Business environmental changes move rapidly and sweepingly than can be imaged.
- Change in social values, increase in competition, new product discoveries, change in consumer tastes and preferences, have each the potential to upset any organization.
- Management should discern and exploit the emerging situation by adjusting and adapting the inputs and transformation process to suit the environmental changes.
- Only proper and effective planning can help the management to do so.

(*d*) Safeguard Against Business Failures

- Business failures are blamed on cut-throat competition, unpredictability of consumer tastes and preferences, rapid technological changes and abrupt economic and political development.

(*e*) Unity of Action

- Planning enables the people within on organization to work effectively and harmoniously for accomplishment of common goals.
- It provides them a stake in their own future and thus induces them to do their utmost to meet the challenge.

(*f*) Effective Co-ordination and Control

- Planning makes it easy to exercise effective control and co-ordination.
- The work to be done, the persons and the departments which have to do it, time-limit within which it is to be completed and the costs to be incurred, are all determined in advance.
- This facilitates proper and timely measurement of actual performance and its comparison with the planned performance.
- In case, actual performance is not as per the plans, factors responsible for the same can be ascertained.
- In he absence of planning, there will be no scientific standards to measure and evaluate performance.

6.5 PRINCIPLES OF PLANNING

NOTES

The following are the principles of planning.

1. **Principle of the Contribution to Objectives:** Every plan and its components should help in the achievement of organizational objectives.
2. **Principle of the Primacy of Planning:** Planning is considered as the first and the foremost function to be performed in the process of management. It is followed by other managerial functions like organizing, staffing, directing and controlling.
3. **Principle of the Pervasiveness of Planning:** Planning is all-pervasive and it percolates to all the levels of management from top to bottom.
4. **Principle of the Flexibility of Planning:** Every plan should be made in such a way that it adjusts an adapts itself to charged circumstances. There must be a high degree of flexibility in every good plan.
5. **Principle of Periodicity:** Long-term plans, medium-term plans and short-term plans are to be integrated and interrelated in such a way as to achieve the organizational objectives effectively and economically.
6. **Principle of Planning Premises:** To develop consistent and co-ordinated plans, it is essential that planning be based upon carefully considered assumptions and predictions, known as planning premises.
7. **Principle of Efficiency of Operations:** Every plan should be designed with its components like objectives, strategies, policies, procedures, schedules, budgets, etc., to accomplish efficient realization of the plans.
8. **Principle of Limiting Factors:** There are various limiting factors like money, manpower, machinery, materials and management, which are to be taken into consideration while drafting a plan or taking a policy decision or devising a strategy.
9. **Principle of Revision:** Every plan has to be executed, and in the execution, managers should check periodically the events and decisions, and if there is any necessity, to redraw and readjust their plan to achieve the organizational objectives. They should make provision for such change.

6.6 STEPS IN PLANNING

There are various steps involved in planning. These are as follows :

1. **Defining the Problem:** The manager has to identify and define the problems which may appear at a future date and which may require proper planning.
2. **Establishing Objectives:** Every Manager should clearly establish the objectives to be achieved by the enterprise. Objectives must be specific, informative and functional.
3. **Establishing the Planning Premises:** Every plan has to be based on certain carefully considered assumptions and predictions, which are known as planning premises.

4. **Determining Alternative Courses of Action:** The next step is to search for and examine alternative courses of action.
5. **Evaluation of Alternative Courses of Action:** Every alternative course of action has to be evaluated, and the relative importance of each one of them should be ascertained.
6. **Selecting the Course of Action:** After analyzing and evaluating the available alternatives, the manager has to select the best course of action.
7. **Formulating Derivative Plans:** Every major plan has to be supported and developed by the preparation of other derivative plans. With in the framework of the basic plan, derivative plans are developed in each area of the business.
8. **Timing and Sequence of Operations:** For every work, the manager has to prescribe the time frame, and within that, the work has to be started and completed. For smooth flow of work, it is better to maintain a sequence of operations.
9. **Participation and Follow-up:** Each and every plan has to be communicated and explained in great detail to subordinates so that they are kept fully informed. It also helps in securing the co-operation and complete participation of the workers in executing the plans. Every plan and programme requires good follow-up. It helps in making some adjustments and modifications in the plan if necessary. Continuous follow-up can result in the effective execution of the proposed course of action.

6.7 LIMITATIONS OF PLANNING

Planning is, and should be, the primary function of management. It sets the frame of organization, direction, control and co-ordination of activities in any enterprise.

(*a*) Uncertainty

- Planning concerns the future, and nothing about the future is certain, except that it must be different from the present.
- Assessment of future can only be in terms of guesswork, probabilities, speculations, assumptions and conjectures.
- Uncertainty preferring the certainty of the present and past.

(*b*) Action-Packed Routine

- Managers are ever pre-occupied of rapping with day-to-day problems.
- This leaves them little time to think and plan about the problems of tomorrow.
- It is common to be over-concerned with the issues at hand which, if left unattended, might cause an immediate loss.
- Planning for the future does not appear to have the same urgency and can be conveniently postponed without fear of any loss for the present.

(*c*) Abstraction

- The planning process involves thinking about vague alternatives and concern with 'what if' question.

- Almost every conceivable thing is included in the realm of possibility.
- There seems to be nothing hard and fast, just assumptions, estimates, speculation and guess work, which can be tested only when the thing to which they relate actually take place.
- This often brings in distortion in planning.

(*d*) Rigidity

- Planning involves setting of objectives, and determination of the ideal course of action for their implementation.
- It implies that there will be no deviation from the chosen path.
- However, pursuit of vague, though predetermined, goals is against the very concept of business.

(*e*) Costly

- Planning is an expensive exercise both in terms of time and money.
- It necessitates the formulation of estimates, collection of necessary information and facts, and a careful analysis and evaluation of the various courses of action.
- To decide on the best and the most economical course of action for the enterprise, as also for each of its workers and departments.

SUMMARY

- Planning is the process of determining the objectives of the administrative effort and of devising means calculated to achieve them. In other words, planning is the preparation for action. It is an endeavor to apply foresight to human activity, and is based on knowledge and research.
- Strategy is related to the environment and its impact on the organization. Policies are guidelines to action.
- According to Alford and Betty, "the mode of thought and the principles underlying the activities of an organization or an institution". It is a regular decision which is applicable to repetitive situations.
- A plan is based on certain assumptions called premises.
- Planning involves rational thinking and decision-making concerning a proposed course of action. It also implies selection of one course of action and rejection of outer possible courses of action.
- An organization is a heterogeneous group of human beings who differs from one another in many respects.
- Management should discern and exploit the emerging situation by adjusting and adapting the inputs and transformation process to suit the enviromental changes. Only proper and effective planning can help the management to do so.

REVIEW QUESTIONS

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1. What is planning? What are the steps involved in it?
2. What are the planning premises?
3. Discuss the importance of planning. What should be done to overcome its limitations?
4. Why are strategies important?
5. What do you understand by the term policy?
6. Distinguish between a policy and a strategy.
7. Explain the principles of planning.

NOTES

7. DECISION-MAKING

STRUCTURE

7.1 INTRODUCTION & DEFINITIONS

Decision-making is an integral part of every manager's job. Decision-making has a wide-range, covering matters from selection of the venue for holding a meeting, to significant issues such as, assignment of resources, hiring and firing of personnel, rate of dividend, merger, etc. In the words of John MacDonald, "The business executive is by profession a decision-maker. Uncertainty is his opponent, overcoming it is his mission. Whether the outcome is a consequence of luck of wisdom, the moment of decision-making is without doubt the most creative event in the life of the executive."

Decision making is not the monopoly of top management alone, through it is true that decisions made at this level are of far-reaching importance for the organisation as a whole. In fact, managers at all levels are engaged in decision-making of one kind or another, the significance of their decisions differing in proportion to the duties assigned and authority delegated to them.

Definitions

George R. Terry: "Decision-making is the selecting of an alternative, from two or more alternatives, to determine an opinion or a course of action."

Andrew Szilagyi: "Decision-making is a process involving information, choice of alternative actions, implementation, and evaluation that is directed to the achievement of certain stated goals."

Henry Sisk and Cliffton Williams: "A decision is the selection of a course of action from two or more alternatives; the decision-making process is a sequence of steps leading to that selection."

7.2 IMPORTANCE OF DECISION-MAKING

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Decision-making is an indispensable component of the management process. It permeates all management and covers every part of an enterprise. In fact whatever a manager does, he does through decision-making only; the end products of manager's work are decisions and actions. For example, a manager has to decide (*i*) what are the long term objectives of the organization, how to achieve these objectives, what strategies, policies, procedures to be adopted (planning); (*ii*) how the jobs should be structured, what type of structure, how to match jobs with individuals (organizing); (*iii*) how to motivate people to peak performance, which leadership style should be used, how to integrate effort and resolve conflicts (leading); (*iv*) what activities should be controlled, how to control them, (controlling). Thus, decision-making is a central, important part of the process of managing. The importance of decision-making in management is such that H.A. Simon called management as decision-making. It is small wonder that Simon viewed decision-making as if it were synonymous with the term 'managing'. Managers are essentially decision makers only. Almost everything managers do involves decision-making. Decision-making is the substance of a manager's job. In fact, decision-making is a universal requirement for all human beings. Each of us makes decisions every day in our lives. What college to attend, which job to choose, whom to marry, where to invest and so on. Surgeons, for example, make life-and-death decisions, engineers make decisions on constructing projects, gamblers are concerned with taking risky decisions, and computer technologists may be concerned with highly complex decisions involving crores of rupees. Thus whether right or wrong, individuals as members in different organizations take decisions. Collectively the decisions of these members give 'form and direction to the work an organization does'. Some writers equate decision-making with planning. In fact, Koontz and O'Donnell viewed 'decision-making as the core of planning', implying that is not at the core of organizing or controlling. However, instead of taking extreme positions it would be better to view decision-making as a pervasive function of managers aimed at achieving goals. According to Glueck there are two important reasons for learning about decision-making: (*i*) Managers spend of great deal of time making decisions. In order to improve managerial skills it is necessary to know how to make effective decisions. (*ii*) Managers are evaluated on the basis of the number and importance of the decisions made. To be effective, managers should learn the art of making better decisions.

7.3 FACTORS INVOLVED IN DECISION-MAKING

There are two kinds of factors to be considered in decision-making in favor of any alternative. These may be classified as (*a*) tangible and (*b*) intangible factors.

Tangible factors

Among the tangible factors relevant to decision-making the important ones are (*a*) sales; (*b*) cost; (*c*) purchases; (*d*) production; (*e*) inventory; (*f*) financial; (*g*) personnel and (*h*) logistics.

The effect of any decision on one or more of the tangible factors can be measured and therefore it is easy to consider the pros and cons of every decision. Decisions based on these factors are likely to be more rational and free from bias and feelings of the decision-maker.

Intangible factors

Among the intangible factors which may influence decision-making in favor of any alternative, the important ones are the effects of any particular decision (*a*) prestige of the enterprise; (*b*) consumer behavior, (*c*) employee morale; and so on.

Accurate information and data about these factors is not easy to obtain. Therefore, intuition and value-judgment of the decision-maker will assume a significant role in the choice of a particular alternative.

7.4 TYPES OF DECISIONS

Though managers are constantly called upon to make decisions and all managerial decisions are important in their own ways, some decisions have a limited scope while others involve the entire organization in a significant manner. For better understanding of the managerial decisions, we may classify them as follows:

1. **Personal and organizational decisions:** This classification was first mooted by Chester Barnard. Accordingly, personal decisions are concerned with the managers as individuals rather than the organizations. As against this, organizational decisions are made by the managers in their official capacities and within the constraints set by their formal authority. Since personal decisions are based on subjective evaluation of the managers, these can neither be delegated nor there any interference or influencing from the top. But organizational decisions may be, and often are delegated to subordinates.

   In order to avoid bias in decision-making, which may be harmful both to the organization and the decision-maker, a clear distinction between personal and organizational decisions has constantly to be maintained, though it is often a difficult task.

2. **Strategic and operational decisions**. Strategic decisions, which are often table for their novelty and complexity and involve uncontrollable factors such as actions of competitors or the state of the economy, are invariably made by the top management. Increasing the rate of dividend, expansion of business, etc., are the examples of strategic decisions.

   Operational decisions are concerned with day-to-day operations of the enterprise. They do not involve much discretion or independent judgment on the part of managers, as the parameters within which the decisions have to be made, are often clearly defined.

3. **Structured and unstructured decisions**. Structured decisions are those which are made within the limits set by the policies, procedures, tradition or custom. They do not require creativity or independent judgment on the part of the manager. As against this, unstructured decisions have neither any existing

policies or procedures, nor any tradition or custom as their basis. For this reason, they call for a great deal of imagination and independent judgment, and hence are often within the purview of the top management only.

4. **Crisis and research decisions.** Crisis decisions are those which are made to meet unanticipated situations which do not allow much scope for extensive investigation and analysis of the factors relevant to them. They have to be made instantaneously under pressure of circumstances.

   As against this, research decisions are those which are made after a thorough analysis of pros and cons without any pressure.

5. **Initiative or forced decisions.** Initiative decisions are the hall-mark of aggressive managers who search for or create situations calling for decision-making by them. Most of such decisions may not be needed in many cases. As against this, forced decisions are those where the managers have no alternative but to make decisions, either under orders from their superiors or due to pressured persuasion by subordinates.

6. **Problem and opportunity decisions.** Problem decisions are concerned with resolving problem situations which have arisen as anticipated, or otherwise. On the other hand, opportunity decisions pertain to taking advantage of an opportunity for increased profits, growth, etc. The frequency of opportunity decisions will depend on how far the manager is prepared to take risks and his skill for recognition of an opportunity.

7.5 COMMON DIFFICULTIES IN DECISION-MAKING

Some common difficulties faced in making decisions and implementing them are as follows.

Incomplete information

This is a major problem for every manger. Lack of information leaves a manager adrift in a sea of uncertainty. Not only this, most decisions involve too many complex variables for one person to be able to examine all of them fully.

Un-supporting Environment

The environment - physical and organizational - that prevails in an enterprise affects both the nature of decisions and their implementation. If there is all round goodwill and trust and if the employees are properly motivated, the manager is encouraged to take decisions with confidence. On the other hand, under the opposite circumstances he avoids decision-making.

Non-Acceptance by Subordinates

If subordinates have a stake in the decision or are likely to be strongly affected by it, acceptance will probably be necessary for effective implementation. On the other hand, subordinates may not really care what decision is reached. In such situations, acceptance is not an issue. Democratic leadership style which encourages subordinates to suggest, criticise, make recommendations or decide upon policies or projects is an effective device for gaining their acceptance and commitment.

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Ineffective Communication

Another important problem in decision-making is the ineffective communication of a decision. This makes implementation difficult. The manager should, therefore, take care to communicate all decisions to the employees in clear, precise and simple language.

Incorrect Timing

In decision-making, the problem is not merely of taking a correct decision. It is also of selecting an appropriate time for taking the decision. If the decision is correct but the time is inopportune, it will not serve any purpose. For example, if the manager wants to decide about introducing a new product in the market, he should take the decision at a correct time. Otherwise, he may lose the market to his competitors.

7.6 GUIDELINES FOR EFFECTIVE DECISION-MAKING

Decision-making is an arduous task. A successful and correct decision is gratifying to the decision maker but he also experiences frustration when he faces ill-structured and uncertain situations and when his decision fails to achieve the decision objectives. Yet, managers must make decisions as it is their most important responsibility to their organization. They cannot afford to display an attitude of "sailing around the world without landing", and "talking about a subject without getting it". The success of an executive depends on his ability to make the right decision at the right time and to pursue its effective implementation. The following guidelines are offered as an aid to effective decision-making.

1. **Define the Goals:** The decision-maker should define the goals that he seeks to achieve by making a decision. The goal of a decision is derived from his objectives which in turn are a part of the total organizational objectives. Thus, the goal of a decision should be compatible with and contribute to larger goals.
2. **Ensure that the Decision Contributes to the Goal:** Once the goal has been determined, it becomes the criterion for making the decisions, as well as for evaluating its results. Often, an executive seeks to achieve not one but more than one goals through a decision. For example, the goal of a marketing decision may be not only to increase the sales volume but also increase the profit margin. These goals may not always be compatible. It requires the decision maker to balance the conflicting goals in such a manner that he can achieve all the goals simultaneously.
3. **Adopt a Diagnostic Approach:** A decision-maker has to be a diagnostician in many ways. He has to identify and define the problem. Further, he has to diagnose what and how much information is relevant to the problem being attacked, and where he will get it. Development and evaluation of alternative also require diagnostic abilities. He also has to diagnose the surrounding situation comprising the internal and external environmental forces. Thus, effectiveness in decision making significantly depends on an executive's diagnostic abilities.
4. **Involve Subordinates in Decision-Making Process:** Involvement of subordinates in decision-making process serves many purposes. It improves

the quality of the decision, particularly if the decision-maker does not possess all the special abilities required for making a particular decision. It is more likely to happen than not, as every decision has several aspects such as administrators, technical, human relations and financial aspects. The most important stage at which subordinates' participation can enhance the decision quality is the stage of development and evaluation of alternative solutions to problems. Their participation can bring not only new insights to the problem but also elicit their commitment to implement the decision. Those who participate in making a decision tend to become ego involved in it, and thereby committed to its successful implementation.

5. **Ensure successful implementation of the Decision:** Event he best decision will not yield satisfactory results unless it is implemented effectively. Successful implementation of a decision significantly depends on the extent of understanding of the decision and its implications, and motivation of the subordinates who have to carry it. An executive can enhance his effectiveness in both these directions by promoting upward communication. He should also be able to know when and what kind of guidance is needed by them, and be willing to extend it to those who need it. He can be more effective if he successfully welds his subordinates into a team with himself as the team leader.
6. **Evaluate the Results:** The purpose of a decision is to accomplish some goal which will not be attained without it. The results of the decision should, therefore, be `evaluated in terms of its predetermined goals.
7. **Be Flexible:** The decision-maker should adopt a flexible approach not only in making the decision but also after the decision has been put into implementation. If it is not yielding the desired results, he should modify, discard, or replace it with another decision which may produce better results.

7.7 DECISION-MAKING-THE QUANTITATIVE WAY

Introduction

The administrative of a modern business enterprise has become an enormously complex exercise. There has been an increasing tendency turn to quantitative techniques and models as a potential means for ring many of the problems that arise in such as enterprise. Management action is decision-making. We consider decision-making in business be a process whereby management, when confronted by a problem, sets a specific course of action or solution from a set of possible courses of actions. Since there is generally some uncertainty about the future, we cannot be sure of the consequences of a decision made. The process of making decisions in a business has the same essential characteristics as problem-solving behaviour in general.

Business Decisions

The business manager wants to choose the course of action that is most effective in attaining the goals of the organisation. In judging the effectiveness of different possible decisions. We must use some measuring unit. The most commonly used measure in

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making decisions is the amount of profit amount of profit in monetary terms but for our purpose here, we will take only a few of these.

1. Decisions under certainty or uncertainty.
2. Decisions made for one time-period only or a sequence of inter-related decisions over several time-periods.
3. Decisions where the opponent is nature (a family planning, a picnic) or a thinking opponent (setting the price of a product after considering the actions of the competitors).

The following general process of solution is adopted for all types of decision situations:

1. Establish the criteria that will be utilized. One of the criteria may be maximization of profit. In a capital budgeting decision, we choose the project with the highest payoff.
2. Select a set of alternatives for consideration.
3. Determine the model which will be used and the values of the parameter of the process, e.g., we may decide that the algebraic expression of the model of total expenses is:

   $$\text{Total Expenses} = a + b \text{ units sold.}$$

   The parameters are "*a*" and "*b*" and their values would have to be determined in order to use the model.
4. Determine that alternative which optimizes or falls in line with the criterion that has been chosen in item 1 above.

Abstraction

Real life problems are very complicated in nature. In empirical situation, there is a large number of inherent "facts," Moreover, every potential course of action triggers off a chain reactions - of course an effect and interaction-and there is no end to this process. Consider the problem of erection of a factory building. Much time is spent on gathering factual information about the project, e.g., the exact location, the physical features of the building; a minute study of the climatic conditions of the potential sites and their bearing on most of the construction; the raising of finance and the cost of finance raised. By far the most important decision is in respect of the alternative uses to which these funds can be put in the present and future periods. If the manager as a decision-maker prefers to collect all the facts before he acts, it follows that he will never act. It is to be appreciated that it is beyond the comprehension of human mind to consider every aspect and dimension of an empirical problem. Some characteristics of the problem must be ignored if at all a decision is to be made. In other words, it is for the decision-maker to abstract from the empirical situation those factors which he considers to be the most relevant to the problem he faces. In this way, abstraction initiates the solution of many a human problem.

Model Building

Once the selection of the critical factors or variables has been made by the decision-maker, the next step is to have their combination in a logical manner so as to form a counter-path or model of the empirical situation; ideally, it strips a natural phenomenon of its complexity. It, therefore, duplicates the essential behavior of the natural phenomenon with a few variables, simply related. The more the simplicity of the model, the better it is for the decision-maker, provided the model serves as a reasonably reliable counter-path of the empirical order.

The advantages of a simple mode are:

1. It economizes on time as well as on thought.
2. It is within the reach of comprehension and ability of the decision-maker.
3. If occasion arises, the model can be modified quickly and effectively.

The aim of the decision-maker in constructing a model is to approximate reality as far as possible. In other words, a model is a de facto approximation of reality. Replication of reality seems to be a lofty aim and meeting it would consume an infinite length of time. Besides, such as elaborate model would be beyond the reach of human comprehension. Therefore, the manager, as a decision-maker wants to simplest possible modal that predicts outcomes reasonably well and consistent with effective action on his part.

Solutions

Having constructed the mode, it is possible to draw certain conclusions about its behavior by means of a logical analysis. The decision-maker bases his action or solution on these conclusions. The effectiveness of a model depends upon the logical analysis used in drawing conclusions and the abstraction of critical variables from our example. The decision-maker may decide that an interest rate of 12% matches the annual opportunity cost of money for his firm. He can make his decisions on the construction of the factory premises by calculating the present value of the cash flows and would not have to consider the alternative uses of which his funds can be put to in detail.

Errors

Generally, there are two possible types of errors in decision-making to start with. He can err in applying logic to the process of reasoning from premises to conclusions to solutions. The concern may be able to obtain funds at the cost of 12% but management may have decided not to raise any new capital. The premise that one can use the interest rate to represent an opportunity cost is valid, but the conclusion that the use of interest rate applies to all investments is erroneous.

Secondly, there may be a mistake in selecting the variables or the variables selected are not adequate for the construction of the model in our example. The decision-maker has taken into account the time value of money but has ignored the risk element that is associated with the use of money. It is not possible to eliminate errors of this type altogether because it would amount to a consideration of all conceivable pertinent variables and would preclude decisive action. Abstraction does violate reality to some extent but it is a necessary condition for problem-solving. This is one reason why decision-making carries with it the possibility of errors.

Model-Building Techniques

There are several ways of representing the models. Common place repetitive problems as those of eating, walking and opening doors are a matter of thinking in the mind of the decision-maker in an informal and intuitive manner. Such problems are resolved without the aid of a formal model. If the problem is somewhat more complex or unusual, we spend more time on it. It is possible to express to the extent of selecting the important

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elements of the problem and proceeding to examine and experiment with them. The nature of variables determines the technique of describing and relating selected variables. If the variables are amenable to a quantitative representation, then there are strong reasons for selecting a mathematical representation of the model. Mathematics has a theoretical rigour of its own, and so it ensures a certain orderly procedure on the part of the investigator. It demands specificity in respect of the variables that have been abstracted and the relationships assume to be existing amongst them. For example, it is more difficult to make implicit assumptions in a mathematical model than in a literary model. Secondly, mathematics is a potent tool for relating variables and for deriving logical conclusions from the given premises. Mathematics facilitates the solution of problems of bewildering complexities and also facilitates the decision-making process where quantitative analysis is applicable.

In the recent past, especially since World War II, a host of business problems have been quantified with some degree of success, leading to a general approach which has been designated as operations research.

Undoubtedly, the quantitative representation of business problems is much older than operations research, considering the practice of accountancy. However, recently, the use of quantitative techniques has covered all the areas of modern business.

A word of caution is necessary for those businessmen who are found to employ quantitative techniques for business decisions. The conclusion derived from a mathematical model contains some degree of error because of the abstraction process. It is a matter of judgement as to when to modify the conclusion in view of the magnitude of error. Operations research supplements business judgement; it does not supplant it. Moreover, there are many business problems which cannot be given a quantitative representation and so they require the use of qualitative models and solutions. Within the constraints mentioned here, quantitative analysis can become an extremely productive technique for managerial decision-making. Problems which would perplex the initiation of the most experienced executives may, on some occasions, be resolved with relative case.

SUMMARY

- Decision-making is a process involving information, choice of alternative actions, implementation, and evaluation that is directed to the achievement of certain stated goals.
- The effect of any decision on one or more of the tangible factors can be measured and therefore it is easy to consider the pros and cons of every decision. Decisions based on these factors are likely to be more rational and free from bias and feelings of the decision-maker.
- Structured decisions are those which are made within the limits set by the policies, procedures, tradition or custom.
- Successful implementation of a decision significantly depends on the extent of understanding of the decision and its implications, and motivation of the subordinates who have to carry it.

SELF ASSESSMENT QUESTIONS

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1. Define ‘decision-making’.
2. What is the importance of decision-making?
3. Discuss tangible and intangible factors relevant to decision-making

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8. ORGANISING

STRUCTURE

8.1 INTRODUCTION

Organisation is coordinated efforts of the different individuals working in an enterprise to achieve its goal. Man is a born troublemaker. Every human being is different from others as regards his values, beliefs, intellect, likes and dislikes, as such there are conflicts of interests and preferences. No enterprise can allow the individuals working in it to behave and work in their own way, because it will not only upset the work but may uproot even the enterprise. As such, the employees have to be motivated, guided and if necessary forced to cooperate and coordinate their activities for the accomplishment of the organisational objectives. **Chaude S. George, Jr.** rightly says about organisation. It integrates the various jobs of the enterprise into an effective organisation system for accomplishing the firms's objectives. In this way, the manager combines and co-ordinates individual as well as group activities to achieve the goal of the business in an efficient and effective manner through organisation.

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8.2 MEANING AND DEFINITION OF ORGANISING

The term 'organisation' is derived from the work '*organizm*', which means a structure of body divided into parts. The different parts of human body performing different activities combine themselves into sound body structure. In the same way, organisation in an enterprise means the integration and coordination of individual efforts to achieve the cherished goal of the business enterprise.

Before defining organisation, it will be proper to consider the following elements of organisation:

(*i*) Organisation is a group activity.

(*ii*) Organisation consists of—Assigning duties, granting authority, fixing responsibility and coordinating activities.

(*iii*) Organisation is the means to achieve the objectives of the enterprise.

It shows that organisation is used in the following two forms in the business.

(*a*) Organisation as a structure. (*b*) Organisation as a process.

8.3 STEPS IN THE PROCESS OF ORGANISING

Organising means identifying, arranging and integrating different elements of organisation into efficient working order. It requires the management to follow the following process of organising:

> "Organising is the establishing of effective authority relationships among selected work, persons and work places in order for the group to work efficiently."
> **—G.R. Terry**
>
> "In its broad sense organising refers to relationship between various factors present in a giving endeavour or enterprise." **—William Spriegal**
>
> "To organise a business is to provide it with everything useful to its functioning raw materials, machines and tools, capital and personnel."
>
> "Organisation is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority relationships for the purpose of enabling people to work most effectively together in accomplishing objectives." **—Lous. A. Allen**

1. **Identification and division of work.** The main function is divided into sub-functions and entrusted to the different departmental heads. The result is the establishment of departments like Purchase, Sales, Production, Accounts, Publicity and Public relations. The departments can be further classified just as production department into (*i*) Planning, (*ii*) Designing, (*iii*) Operations, (*iv*) Production control and (*v*) Repairs and Maintenance. The division of the work is based upon the fact that specialisation is keynote of efficient organisation.
2. **Grouping job and departmentation.** The second step is to group similar or related jobs into larger units, called departments, divisions or sections.

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Grouping process is called departmentation.

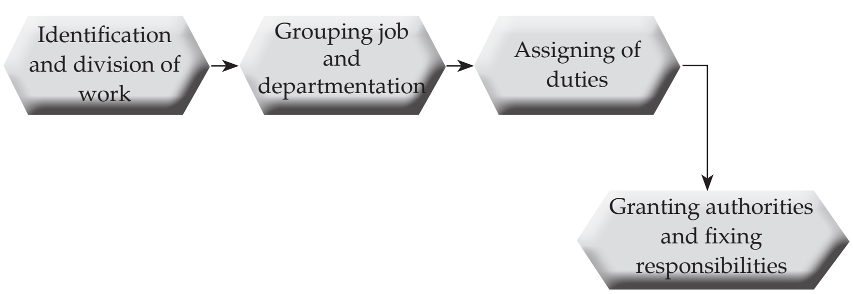
The department may be based upon functions such as manufacturing, marketing and financing etc. Departments may also be based on products, such as textiles, cosmetic, stationery etc. These departments may have different sections as per requirement.

Grouping jobs or departmentation aims at achieving coordination and facilitates unity of efforts. The departments are linked together on the basis of interdependence. The divided task is assigned to specific individual or group of individuals who are supposed to be the most qualified and specialised persons for the task.

3. **Assigning of duties.** The work to be performed by every individual is clearly defined and made known to him. Everyone must know, what he is required to do in order to avoid any misunderstanding, duplication or overlapping in the work.
4. **Granting authorities and fixing responsibilities.** Assigning of duties to individuals must coincide with the appropriate and relevant authorities. Every employee must know, what are the authorities granted to him and for what and to whom he will be responsible, liable and accountable.

   The establishment of such clear relationship helps to create a hierarchical structure and helps in coordination amongst various departments.

Process of Organising



8.4 IMPORTANCE/PURPOSE OF ORGANISING

Effective organisation is the means to achieve the objectives of the enterprise. It is the basic function of management. Organisation makes the proper arrangements of the requisite resources and make its most useful and efficient application. It provides right direction to the efforts of individuals and groups. The organisation structure results in the proper, balanced, coordinated and controlled development of the enterprise. It is the only means to achieve the maximum objective of the business at minimum sacrifice and wastages.

No doubt, organisation is an important tool to achieve the objectives of the enterprise, which can be proved by the following facts:

1. **Benefits of division of work and specialisation.** Organisation makes clear division of work. Every job is assigned to the right person. The duty, authority and responsibility of every employee is predetermined which enables easy

control of business affairs. The scientific analysis and classification of job results in specialisation and its related advantages.

2. **Clarity in working relationship.** A good organisation structure honours the principle of the unity of command which specifies that every employee has to receive orders from the one specific person and he is responsible for his work given to him only. This enables proper execution of work and at the same time eliminates confusion, duplication and misunderstanding. The principle of unity of direction makes provision of the equal authority and responsibility at all uniform levels, so the employees feel that they are not subject to injustice and inequality.
3. **Optimum utilisation of resources.** Organising enables the enterprise to make optimum utilisation of physical and human resources. An effective organisation reduces the wastages of physical and human resources and makes their most economical use resulting in reduction of the cost of production.
4. **Adaption to change.** Elasticity in the organisation helps in the requisite changes in the organisation structure and also in the introduction of new plans and appointment of technocrats.
5. **Development of personnel.** The training facilities enable the employees to make the optimum use of business resources economically, otherwise the employees would have adopted 'trial and errors method' and caused a lot of wastage of resources.
6. **Effective administration.** An effective organisation integrates and coordinates the efforts of individuals and departments. The coordination results in the achievement of the maximum business objectives at minimum sacrifice. Thus, it brings effectiveness in administration.
7. **Expansion and growth.** Organisation helps in the growth and diversification of an enterprise by enabling it to deviate from existing rules and regulation and taking up new challenges.

K.C. Towe rightly says, *A sound organisation is the answer to every business problem, that a poor organisation could run a good product into the ground and that a good organisation with a poor product could run a good product out of the market*.

8.5 ORGANISING AS A STRUCTURE

Organisation as structure means *organisation as structure of relationship between formal positions and jobs*. It is a *classical or static concept*, because it establishes relationship between various positions in the enterprise instead of maintaining cordial relationship between persons occupying the position. According to this view organisation as structure means coordinated relationship. The view is not accepted by modern thinkers, because it ignores informal relationship between individuals.

Some of the important definitions of organisation by those who consider organisation as a structure:

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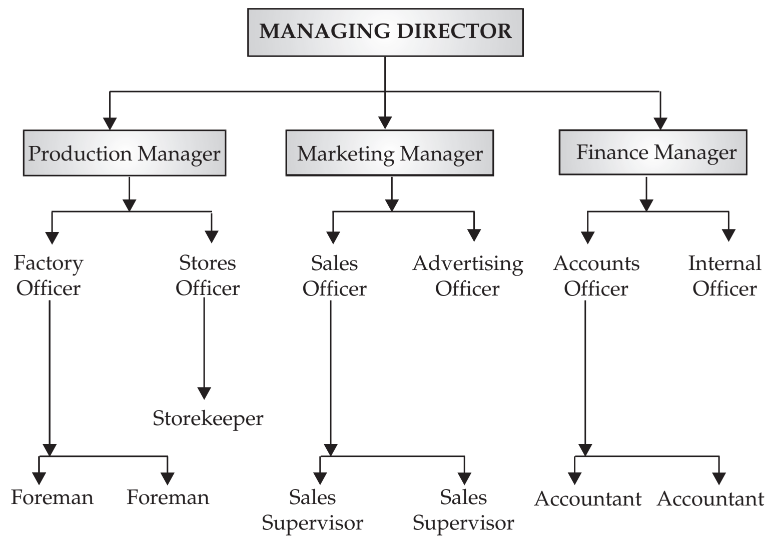
Organisation as Structure

"Organisation is a harmonious adjustment of specialised parts for the accomplishment of some common purpose or purposes." **—Haney**

"Organisation is the establishing of effective behavioural relationship among selected work, persons, and work places in order, for the group to work together effectively." **—Terry**

"Organisation is the structural frame work within which the various efforts are coordinated and related to each other." **—Theo Haimann**

ORGANISATION STRUCTURE



Special Features of Organisation as Structure

Organisation as structure of relationship has the following important features:

1. **Relationship between members of groups.** Organisation as a structure is the formal relationship among positions and jobs of the enterprise to a greater extent. It also stresses close relationship between individuals of group, whether large or small.
2. **Means to attain desired objectives.** Organisation is a tool to achieve the predetermined goal of the business. It is the means to attain the common objective.
3. **Cooperation between members.** In order to achieve the common goal of the business individual efforts are coordinated and integrated.
4. **Formal relationship.** Formal structure of the organisation is governed by the established rules and regulations. The authority and responsibility of various positions is clearly defined.
5. **Communication.** The persons occupying positions have communication links among themselves and share their views as and when required.

8.6 TYPES OF ORGANISATION STRUCTURE

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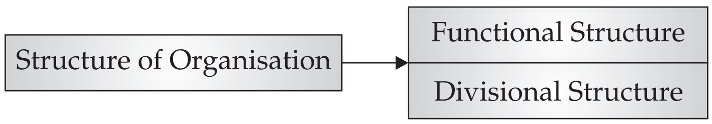
In order to achieve the desired goals, sound and effective organisational structure is necessary. The organisational structure can be classified under two categories which are as follows:



Functional Structure of Organisation

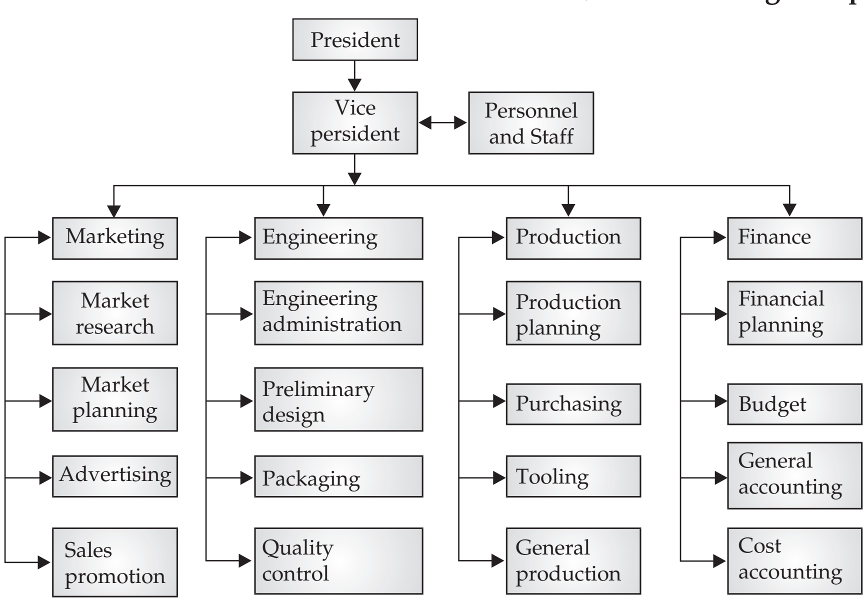
Grouping together the entire work into major functional departments and entrusting these departments to functional specialists is known as functional structure of organisation. Each major function of the enterprise is organised as a separate department. These departments may be Engineering, Production, Personnel, Finance and Marketing in a manufacturing company. If it is a retail store, these departments may be purchase, sales and stores etc., as per requirement. The names of the departments can change as per the requirements, nature and size of the enterprise.

Major functions of the enterprise differ from each other on account of technicalities involved, specialised education and training needed. However, these functions have common goal of achieving maximum efficiency to maximise overall returns of the enterprise. The functional heads are provided functional authority over the subordinates under their command.

Functional organisation is the developed form of Taylor's functional foremanship. In practice, modern functional organisation is restricted to top level of the organisation structure and not carried down to the lowest level as recommended by Taylor.

Functional structure of organisation is extensively used these days by almost every enterprise at different levels. The sales, production, finance and marketing functions are so widely recognised that almost every enterprise uses it as the basis of departmentation.

FUNCTIONAL ORGANISATION STRUCTURE (Manufacturing Company)



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Advantages of Functional Structure

1. **It is a logical reflection of functions.** It differentiates functions in such a manner that each function is organised on a logical pattern for its performance. This helps in integrating the diverse organisational activities towards achievement of common goal.
2. **It maintains power and prestige of major functions.** Major functions like production, marketing, finance etc., are assigned to departmental head to drive major activities concerning these functions.
3. **It follows principle of occupational specialisation.** Each function is separated and taken special attention in overall organisational set-up. This facilitates division of labour and specialisation for each function. Each department is managed by a specialist.
4. **It simplifies training.** Due to success of specialisation, it becomes easy to train new entrants. Simplified training methods are used to reduce learning curve of new employees.
5. **It furnishes means of tight control at top.** Each functional head is responsible for the performance of his function. Budget is allocated to these functional heads on the basis of which their performance is measured.
6. **Convenient supervision.** The manager becomes acquainted with the activities under his command. It facilitates supervision.

Disadvantages of Functional Structure

1. **De-emphasis of overall company objectives.** Due to separation of each function from each other, overall organisational objectives suffers. Each functional head emphasis on the performance of his function and lacks emphasis on the overall objectives of the company.
2. **Overspecialises and narrow viewpoint of key personnel.** Personnel concentrate on their own functions without caring about its impact on the overall organisation. This narrows their viewpoint and they miss the broader view of organisational achievement.
3. **Responsibility for profits is at the top only.** Responsibility for profits lies with the president or CEO while each functional head looks after his assigned area of activity. This makes it difficult to integrate diverse functions towards achievement of common objectives.
4. **Slow adaptation to changes in environment.** Due to lack of inter-functional interaction personnel tend to become less responsible to any change. Their style of functioning does not remain as dynamic as the external and internal environmental changes taking place in the organisation.
5. **Limits development of general managers.** General managers act as mere supervisor rather than learning in depth the organisational activities. Each functional head reports to general manager, who has little interference in the performance of that function. This limits the development of general managers.

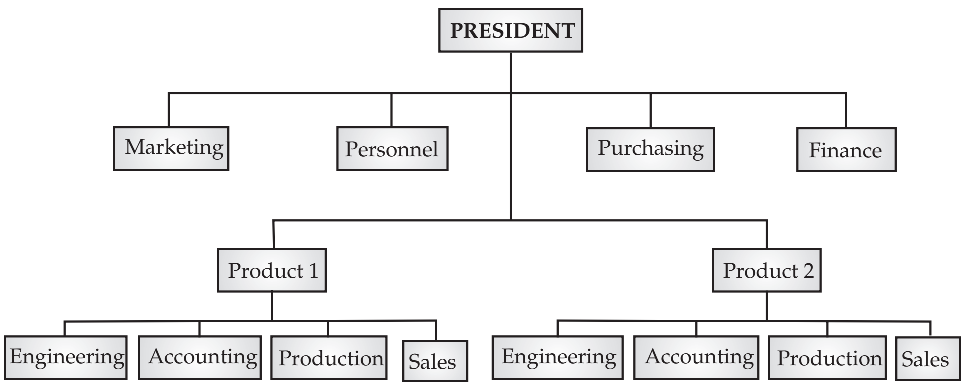
Divisional Structure of Organisations

Grouping of activities or departmentation on the basis of product, product lines and areas is known as divisional structure of organisation. Divisional structure has been finding favour with the multiple large scale enterprises. Under this structure the top level delegates extensive authorities to the divisional heads. The divisional head is the incharge of the manufacturing, purchase, sales, engineering and other departments of the division under his command. He is also made responsible for the profit or loss of his division.

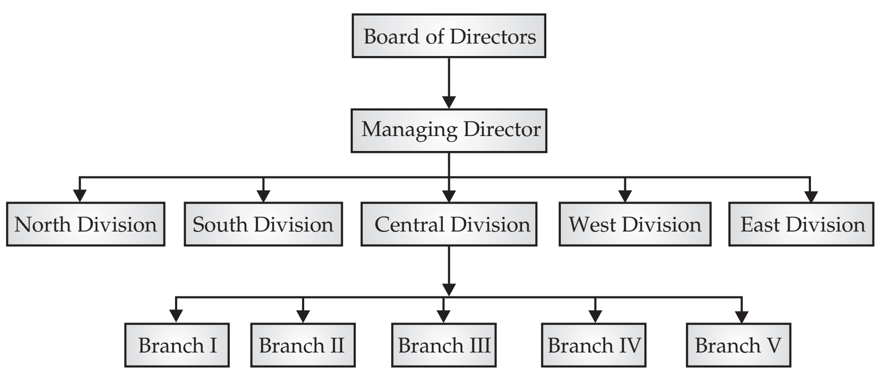
Product based Divisional Structure

Product and product line is an important basis for departmentation. It facilitates the use of specialised and specialist services of the divisional managers in their product line. He can use his personal skill and his specialised knowledge for the development of his department.

DIVISIONAL STRUCTURE
(*Product Based*)



(Area/Territory Based)



Advantages of Divisional Structure

1. **Places attention and effort on product line.** It facilitates attention on individual product line so that highest efficiency in terms of production and sales can be achieved in that product line.
2. **Facilitates use of specialised capital, skills and knowledge.** The resources are used for a single product line to bring specialisation in its performance. Allocation of resources is made between different product lines.
3. **Permits growth and diversity of products and services.** Attention on individual product line permits its growth and facilitates diversification of enterprise.

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4. **Improves coordination of functional activities.** Activities like sale, marketing, production are better coordinated due to their clear-cut attention on different product lines. Overlapping of functional activities is avoided.
5. **Places responsibility for profits at the divisional level.** Responsibility can be fixed according to product lines. Each responsibility centre has to take care of its performance in terms of profitability.
6. **Furnishes measurable training ground for general managers.** Separation of responsibility according to product lines facilitates smooth and specialised training for managers. It helps in achieving maximum benefit out of their efforts.

Disadvantages of Divisional Structure

1. **Requires more persons with general manager abilities.** It requires more managerial resources especially in enterprises, where single product lines are not vast enough to need separate managerial resource.
2. **Tends to make maintenance to economical central services difficult.** Centralized services like lighting, furnishing etc. become difficult to maintain due to their distribution amongst separate product lines. If they are used in a centralized manner, it would have been more economical.
3. **Overlapping of functions.** Top management has to monitor each product line separately which makes it difficult to analyse the overlapping of the functions.
4. **Excessive expenditure.** Separate departments with separate entire set of activities become the victim of excessive expenditure. Multiplication of the same efforts and selfish attitude of the department adds to the cost of operation.
5. **Duplication of efforts.** Generally certain set of activities are found in every departments. Repetition of these activities results in the duplication and multiplication of efforts and expenditure.
6. **Self-centred.** Every division tries to maximise its own profit, sometimes at the cost of other divisions. The divisions become selfish and self-centred. Consequently overall performance of the enterprise suffers. Lack of coordination and mutual distrust disturbs the smooth functioning of the enterprise.

Difference between Functional and Divisional Structure

Bases of Difference	*Functional Structure*	*Divisional Structure*
1. *Meaning*	Every major function has separate department.	Every major product or area has separate divisions.
2. *Utility*	It is useful for all types of enterprises.	It is useful for diversified organisations.
3. *Nature of Specialisation*	Its specialisation is based upon occupations having functional departments.	It is product or territory based specialisation having separate divisions and sub-divisions.
4. *Cost of the Structure*	It is economical as compared to Divisional Structure.	It is expensive as compared to Functional Structure.

5.	*Coordination and Control*	Coordination between departments is difficult but control of the departments is simple.	Coordination between divisions is simple but control of divisions is difficult.
6.	*Responsibility for Performance*	Responsibility of poor or excellent performance is joint.	Every division is responsible for its poor or excellent performance.
7.	*Autonomy*	Its departments have lesser autonomy.	Its divisions have more autonomy.

NOTES

8.7 FORMAL AND INFORMAL ORGANISATION

Organisation builds harmonious relationship between individuals. It integrates the individual efforts and leads to the achievement of common objectives of the enterprise. Relationship between individuals in the organisation can be classified into formal and informal organisation.

Formal Organisation

The formal organisation is legally, deliberately and rationally constituted by defining the duties, authorities and responsibilities of employees individually and collectively. The mutual relationship between different individuals and groups is determined as per rules, regulations and policies of the enterprise. According to **J.A.C. Brown** "formal organisation refers to structure of well defined jobs each bearing a definite measure of authority, responsibility and accountability."

Characteristics of Formal Organisation

(*i*) This organisation is *predetermined and deliberately* constituted.

(*ii*) The organisation is *based upon scientific analysis* and serious considerations.

(*iii*) The relationship is determined *according to the jobs* and its nature.

(*iv*) The organisation is *based upon the jobs to be performed* not according to the individuals whom it has been entrusted.

(*v*) Organisation structure is *determined by the top level*.

(*vi*) The relationship established by formal organisation has *to be honoured*.

(*vii*) The organisation does *not take into consideration emotional aspect*.

Advantages of Formal Organisation

(*i*) *Fixing of responsibilities* in case of failures.

(*ii*) *Clear determination of duties*, authorities and responsibilities.

(*iii*) *Reasonable and balanced division* and sub-division of the activities.

(*iv*) *Easy and effective co-ordination* and control over activities.

(*v*) *Stability in the organisation through rules and regulation.*

(*vi*) *Ensures optimum utilisation of the available resources.*

In this way, formal organisation is a planned organisation structure describing the set pattern of authority and responsibility. It is a power structure to achieve corporate goals.

Limitations of Formal Organisation

(*i*) *Delay in action* as in a formal organisation chain of command is followed which increases the time taken for decision making.

(*ii*) Formal organisation *does not give importance to social needs* of employees which demotivates them.

(*iii*) A formal organisation *does not understand human relationship*, it emphasises more on structure and work.

(*iv*) *If reduces creativity as employees are bound to follow the policies and rules.*

Informal Organisation

Informal organisation is a psycho-social system developed due to inter-personal and social relationship. It arises spontaneously on the basis of friendship and common interest, which may or may not be work related. This organisation is formed informally between worker, employees, travellers, pilgrims, players and friends etc. According to Keith Davis "Informal organisation refers to the relationship between the people in the organisation based on personal attitudes, prejudices, likes, dislikes etc."

Informal organisation arise because man by nature is a social animal.

Characteristics of Informal Organisation

(*i*) Informal *relationship is established spontaneously*.

(*ii*) The relation is based upon friendship and *common interest*.

(*iii*) It is a *voluntary* organisation.

(*iv*) The relationship is based upon *social, emotional* and *psychological needs*.

(*v*) The relationship is based upon *personal preferences* and understanding.

(*vi*) It is *not pre-planned* and not even determined officially.

(*vii*) It *reflects human relationship*.

(*viii*) Management does not create informal organisation and cannot abolish it.

In this way, it is *voluntary and independent organisation, developed automatically and spontaneously between individuals to satisfy their social and human needs*.

Role/Importance/Advantages of Informal Organisation (Relationship with Formal Organisation)

(*i*) Informal organisation *influences the attitudes* of human element in the enterprise towards the work and enterprise.

(*ii*) *Satisfies human desire of co-existence*, fellow-feeling and brotherhood.

(*iii*) It *provides social status* and sense of social security.

(*iv*) It removes the weaknesses of formal organisation. Thus, it is *complementary to formal organisation*.

(*v*) It is an *effective means of communication*. It is a grapevine communication and spreads where formal organisation fails to do.

(*vi*) It keeps a *check on the authoritative behaviour* of managers.

Informal organisation may sometimes be dangerous to the management, because it may spread rumours against the management, its policies and intentions, but management cannot stop it, just as it cannot form it. The best course for the management will be to utilise the informal organisation in the best interest of the enterprise.

Limitations of Informal Organisation

(*i*) Most of the information passed through informal structure are rumours which can mislead the employees.

(*ii*) Informal organisation does not have a systematic working structure for smooth running of the business.

(*iii*) It is very difficult to implement change if the informal organisation opposes them.

(*iv*) Informal organisation emphasises more on individual interests and satisfaction rather than organisational interests.

(*v*) Informal organisation may lead to situation and circumstances which are against the interest of the organisation. It may resist changes in the organisation which can adversely affect the growth of the enterprise.

Difference between Formal and Informal Organisation

Both formal and informal organisations co-exist in an enterprise. Though formal organisation is formed but informal organisation emerges itself spontaneously. In order to keep the enterprise working, both formal and informal organisations are necessary as the two blades of a scissors.

Bases of Difference	*Formal Organisation*	*Informal Organisation*
1. *Formation*	It is the result of company's rules, policies regulations and is deliberately planned.	It is the result of working together, and social interactions.
2. *Predetermined purpose*	It achieves predetermined purpose and planned goals.	It has no predetermined purpose. It achieves social satisfaction.
3. *Stability*	It is well thought, and predetermined so enjoys stability.	It is spontaneously and automatically developed, so, it has no stability.
4. *Relationship/ Behaviour*	The relationship between boss and subordinates and even employees is clearly ascertained. Behaviours are directed and governed by the rules and procedures laid down by the management.	There is no specific and clear relationship. Behaviours are spontaneous over-flow of heart and governed by the personal beliefs, values and attitudes.
5. *Structure*	It is official organisation, consciously constructed.	It is sentimental organisation, automatically developed.
6. *Examples*	Formal groups exist in every organisation. Committees, project, teams, small sections or cells and task forces are its examples.	Its examples are the relationship between travellers, passengers, players and pilgrims. It develops on the basis of common interest.

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7.	*Flow of authority*	Authority flows vertically.	Flow of authority in horizontal.
8.	*Effective Co-ordination*	Organisation is planned to result in balanced and effective co-ordination between individuals and their efforts.	There is no planned relationship as such the question of integration and coordination between individuals and their efforts does not arise.
9.	*Emphasis*	It emphasises jobs and functions of enterprise.	It emphasises emotions of members.
10.	*Cherished goal*	It intends to achieve organisational goals.	It provides social satisfaction to people.
11.	*Adherence to rules*	Rules are written and rigidly followed.	There are no set rules. It is a grapevine.
12.	*Communica-tion*	Communications have to pass through prescribed channels.	There is no prescribed channel of communication. It is informal.
13.	*Leadership*	Appointed managers are leaders.	Leaders are voluntarity chosen.

8.8 DELEGATION OF AUTHORITY

Large scale and complex nature is the notable features of modern business. Management has to perform various, varied and diverse activities, which he cannot do all alone. It is, therefore necessary that the management must share its work with others, so that the task assigned must be performed. In this way, the process of sharing task with its corresponding authority with the subordinates is known as delegation of authority.

A competent manager is able to perform a lot of work through delegation. It is rightly said that, A manager multiplies himself through delegation. Only ordinary and routine authorities are delegated. Delegation does not mean avoiding responsibility and decisions. The idea behind the delegation is to enable the management to devote and concentrate himself to important tasks. The management is required to perform a lot of work. It is quite difficult for him to concentrate on every piece of work, so he shares the task and the authority with subordinates. **Delegation of authority as such means granting authority and responsibility regarding specific job to the subordinates.** With the expansion of business it becomes difficult for an officer to perform all the jobs entrusted to his efficiency, therefore he delegates certain routine work to his competent and reliable subordinate with requisite authority and responsibility. **The sharing of routine authority and responsibility with the subordinate is delegation of authority.**

Delegation of authority is based upon the simple principle of 'Division of work'. No manager can perform the entire work assigned to him, so he has to get a part of it done through others by delegating the task and its corresponding authority.

Delegation is the important element of organisation. It is a systematic process not an adhoc arrangement.

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Definition of Delegation of Authority

"Delegation of authority merely means the granting of authority to subordinates to operate within prescribed limits." **—Haimen**

"Delegation means assigning work to others and giving them authority to do it." **—Moore**

"Delegation means in brief the passing on to other of a share in the four elements of the management process." **—E.F.L. Brech**

"Delegation is in a way an elementary art of managing." **—Koontz and O' Donnell**

The analysis of the above definitions reveals that delegation of authority is an important element of organisation. It has got the following characteristics.

8.9 ELEMENTS OF DELEGATION

Authority

Authority is the power to command employees and instruct them to do a piece of work. The authority enables the employee to know certain facts, to enjoy a privileged position and to command respect and obedience from subordinates.

Authority in the opinion of management experts:

In the words of **F.W. Moore,** "*Authority is the right to decide and the power to act and carry out decisions*."

In the opinion of **Koontz and O' Donnell,** "*Authority is legal or rightful power, a right to command or to act*."

According to **Henri Fayol**, "*Authority is the right to give order and the power to exact obedience*."

According to **Davis Filley**, "*Authority consists principally of the rights to decide and command*."

G.R. Terry, defines, "*Authority as the power to exact others to take actions considered appropriate for the achievement of predetermined objective*."

Special Features of Authority

(*i*) It is the *legitimate right to command* and control subordinates.

(*ii*) Authority has *social, legal and biological limits*.

(*iii*) Authority is granted to *achieve the cherished goal* of the enterprise.

(*iv*) Authority is exercised *through persuasion and sanctions*.

(*v*) Authority is the *right to direct* others to get things done.

(*vi*) Authority is also a *commanding force* binding different individuals.

(*vii*) Authority is delegated downward.

It is now obvious, that the term authority is used in various ways in management literature, depending upon the perspective of authority. However we shall define, Authority is as the right of the managers to guide, lead and direct the efforts of the subordinates to achieve organisational goals.

It is a right to decide, command and exact obedience from subordinates.

Difference between Authority and Power

(*i*) Authority is the right to influence others, whereas power is the capacity to influence.

(*ii*) Delegation of authority is possible and usually done but power cannot be delegated.

(*iii*) Power is the personal capacity, while authority is linked to official status.

Authority is classified as formal, technical and acceptance. Formal is an official authority delegated through chain of command. Technical authority emerges from specialised knowledge and skill. Acceptance authority is the results of obedience due to faith or fear.

Responsibility

It is closely related to authority and power. Responsibility is the obligation to do something. In organisation, responsibility is the duty that one has to perform in organisational tasks, functions or assignments. A manager can delegate his authority but responsibility cannot be delegated.

Responsibility as defined by Management Authorities

"Responsibility is the obligation of the individual to perform assigned duties to the best of his abilities under the direction of his executive." **—Davis**

"Responsibility may be defined as the obligation of a subordinate to whom a duty has been assigned to perform." **—Koontz and O' Donnell**

"Responsibility is the obligation to carry out assigned activities to the best of his abilities." **—George R. Terry**

Special Features of Responsibility

(*i*) Responsibility is *assigning duty* to human beings only.

(*ii*) Responsibility *always flows upward* from juniors to seniors.

(*iii*) Responsibility is the *result of duty assigned*.

(*iv*) Responsibility is the *obligation to complete* the job as per instruction.

(*v*) Responsibility *can never be delegated*. It is *personal obligation*, and *absolute also*. The manager remains responsible to his superiors for the job even after its delegation.

Responsibility is therefore an obligation to perform the assigned task to the best of one's worth.

Delegation is aimed at reducing the workload of executives, so that they may make the best possible use of their time and energies in solving important matters, thus the manager cannot delegate all of his work. If it is done, there will be no necessity of the executive himself.

Jobs-which can be Delegated

(*i*) Works of routine nature.

(*ii*) Works, which do not require specialised competence.

(*iii*) Jobs, which are not confidential.

(*iv*) Jobs, which are to be performed by subordinates in the interest of organisation.

(*v*) The performance of job will increase the knowledge, competence and experience.

Following Functions should Not be Delegated

(*i*) All confidential works.

(*ii*) Functions of planning, organisation, direction and controlling.

(*iii*) Disciplinary work.

Accountability

It means holding an individual answerable for final results. The subordinate is held accountable to superiors. The subordinate has to give explanations, before his superiors for the failure in case of accountability. Accountability arises from responsibility.

The important principle of accountability is the principle of *single accountability, which means accountability refers to individuals not groups*.

Special Features of Accountability

(*i*) Accountability *can neither be shared nor delegated*.

(*ii*) Accountability is a *legal responsibility*.

(*iii*) Accountability is *unitary*.

(*iv*) Accountability *relates to assigned duties*.

(*v*) Accountability is always from *downward to upward*.

(*vi*) Accountability is *different from responsibility*.

Responsibility relates to the work to be done, whereas accountability is the obligation to do the work satisfactorily.

Comparison of Authority, Responsibility and Accountability

Bases	*Authority*	*Responsibility*	*Accountability*
1. *Meaning*	It is legal right to command and extract work from others.	It is an obligation to perform the assigned task.	It refers to the answerability for the outcome.
2. *Origin*	Authority originates from laws, rules and regulations.	Mutual relation of superiors with their subordinate leads to origin of responsibility.	It originates from responsibility or duties assigned.
3. *Delegation*	Authority can be delegated.	Responsibility cannot be delegated.	Since it is absolute it cannot be delegated.
4. *Flow or direction*	Authority always flows downward.	Responsibility always flows upward.	It flows in an upward direction.
5. *Nature*	Authority is power	Responsibility is duty or obligation.	Accountability is answerability.

Relationship between Authority and Responsibility

Authority and responsibility go together. They are intimately related. If management is supposed to be cycle, authority and responsibility are its two wheels. In order to achieve the desired goal of the enterprise, authority and responsibility must flow together.

Special Features of Delegation of Authority

(*i*) *Obtained authorities* only can be delegated.

(*ii*) The officer who delegates the authority *remains liable* even after the delegation of authority to subordinates.

(*iii*) Authorities granted as per delegation *can be withdrawn*.

(*iv*) Authorities regarding *ordinary* and *routine works* only can be delegated.

(*v*) There should be *control of the officer* over subordinates in case of delegation.

(*vi*) The subordinates work *according to* order and instructions of the original officers.

(*vii*) Authority, responsibility and duty are clearly specified.

In this way, *Delegation of authority is an art of granting certain ordinary, routine and exact authorities to competent subordinates, so that they can perform the work as per instruction efficiently*.

8.10 IMPORTANCE/ADVANTAGES OF DELEGATION

Delegation of authority is an essential tool for effective organisation. Every executive has to perform wider range of activities. His scope of authority is wide enough but his capacity to work and supervise is limited, so it is always in the interest of the organisation that the routine, ordinary and general work should be delegated to competent subordinates. This will result in the effective accomplishment of work on the one hand and on the other hand, it will increase efficiency of the executive. The manager will be in a position to get a major part of work done by competent subordinates, and he will multiply himself as regards the quantity of work done on his behalf by delegatees. We can now summarise the advantages of delegation of authority:

1. **Effective management.** Delegation enables the executives' jobs to be performed by the subordinates, which no doubt, multiplies executive services. He is spared from routine affairs and attends to important complicated matters.
2. **Facilitating employee development.** The subordinate performs the work of the executive as per delegation and becomes competent and capable of replacing him in case of absence and retirement of the manager. He performs his piece of work intelligently in case of his promotion.
3. **Facilitation of growth.** The delegatee learns the executive's job and becomes capable of doing it, which increases his ability, understanding and competency and thus results in professional growth.
4. **Helping the expansion of business.** If the enterprise expands, well-trained, experienced and competent persons are readily available to take up the positions. These persons are also habituated of working in the real situations of the business.
5. **Motivation of employees.** The subordinate performs the work of executive as per delegation and thereby their morale and self-confidence is increased. He works with zeal, and improves his efficiency to get promotion.

6. **Better coordination.** Delegation enables managers and subordinates to establish close relationship with each other. It improves the atmosphere and maintains effective co-ordination at all levels of management.
7. **Achieving business goals.** Delegation is made in such a way, that it integrates and channelises the efforts and energies of individuals to the desired goal of the business and facilitates in achieving it.

8.11 PROCESS OF DELEGATION OF AUTHORITY

Delegation is the systematic process of sharing routine duty and the corresponding authority with the subordinates.

The process of delegation has the following three important elements:

1. Assigning duty or task or responsibility 2. Granting authority 3. Creation of obligation or accountability.

1. Assigning duty or task or responsibility. Responsibility refers to the task assigned to a person, positions or job. Responsibility involves all those mental and physical activities which need to be performed to carry out a certain duty.

The expansion of business makes it very difficult for the management to perform all the work entrusted to him effectively, therefore, he shifts a part of his routine duty to competent subordinates. The delegated piece of work should be complete in itself, so that the delegatee may not escape from the responsibility. All the details regarding the work delegated and the result expected should be clearly defined and explained to the delegatee.

The delegatee should be *under control* of and *in contact* with the original officer for effective accomplishment of the work. The assigned duties must be *ordinary, general, routine* and less important from organisational point of view. The original officer should himself perform the important, secret and complicated work.

The person who delegates duty is himself responsible for its successful accomplishment to his superior, therefore, he should get the work done under his guidance and supervision.

2. Granting authority. The authority regarding the assigned duty should also be delegated otherwise the work cannot be done efficiently. Authority according to Allen is the sum total of the power and rights entrusted to make possible the performance of work delegated.

According to **Koontz and O' Donnell,** *Actually the authority vested in a managerial position is the right to use discretion, the right to create and maintain an environment for the performance of individual working together in a group*. There are the following three types of authorities:

(*i*) Authority of knowledge (*ii*) Authority of position (*iii*) Legal authority.

Authority in this way, is the power to incur expenses, purchase essential articles, appoint employees, order workers to do certain work and to carry out orders. An authority, wherein the subordinate employees cannot be compelled to do a piece of work is useless. It means that the requisite and relevant authority in accordance with the duty assigned must be delegated, whether it is authority of knowledge or position.

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3. Creation of obligation or accountability. Accountability means holding an individual answerable for final results. The subordinate is held accountable to superior. Accountability originates, because the manager has a right to require an accounting for the authority delegated and task assigned to a subordinate.

Accountability, according to **Allen** *is the obligation to carry out responsibility and exercise authority in terms of performance standard established.*

Dalton E. McFarland has put it as *Accountability refers to the fact that each person who is given authority must recognise that the executive above him will judge the quality of his performance*.

The delegatee is accountable to superior for the piece of work delegated to him. Likewise the superior will also be accountable before his superior for the entire work even if a part of it was delegated by his subordinate. It means *delegation is the art of getting work done effectively, not escaping from accountability to superiors. Accountability on the part of delegatee means giving explanation of work delegated to him to his superior*.

8.12 CENTRALISATION OF AUTHORITY

Retention or concentration of authority at top level for decision-making with one or few managers is known as centralisation of authority. In case, all the decisions are retained with the top management, the organisation is said to be highly centralised. As such, there is little delegation of authority in case of highly centralised organisation. Every command and instruction flows from owners of the enterprise.

For example, a private company consisting of three members Mr. Ansar, Mrs. Ansar and their son has purchase officer, sales marketing and finance officers as employees. The departmental heads are not independent in taking decisions. The decision is taken by the proprietors. Every decision, command and instructions originate from the owners. It is the example of highly centralised enterprise. Strict discipline, control, better performance, quick response and no initiative is the feature of this organisation.

8.13 DECENTRALISATION OF AUTHORITY

Decentralisation of authority means the dispersal of decision-making authority to lower levels. In case of decentralisation important authorities regarding planning, organising, directing and controlling is retained at top level and other functions are delegated at lower level.

Decentralisation is the result of effective delegation of authorities. Decentralisation transfers authorities to subordinates and thus the authority instead of being centralised in few hands in spread over a number of employees. Decentralisation is this way, is the division of business functions into certain units and entrusting each unit to different persons with overall authority and responsibility.

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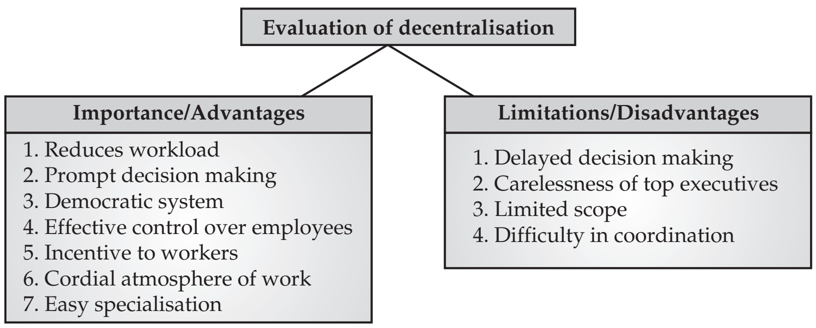
Decentralisation as Defined by Management Experts

According to **Koontz and O' Donnell,** *"Decentralisation of authority is a functional phase of delegation to the extent that authority is not delegated, it is centralised."*

In the words of **Allen, L.A.,** *"Decentralisation refers to systematic effort to delegate to the lowest level of authority except the one which can be exercised at Central Points."*

In the opinion of **Henri Fayol**, *"Every thing that goes to increase the importance of the subordinate's role is decentralisation."*

8.14 EVALUATION OF DECENTRALISATION



Importance/Advantages of Decentralisation

1. **Reduces workload.** Decentralisation is the technique of distributing authority, responsibility and duty among managers, so the workload of the manager is reduced and restricted to the job assigned to him.
2. **Prompt decision-making.** Managers are free to make their own decision promptly within the specific area of task assigned to them. The enterprise enjoys the benefit of quick decision-making.
3. **Democratic system.** Decentralisation shares authority and responsibility between managers. It avoids concentration of power, which is a democratic approach towards management.
4. **Effective control over employees.** Decentralisation provides managers at lower level adequate authority to take their own decisions regarding production schedule and disciplinary action against shirkers. Efficient supervision leads to effective control.
5. **Incentive to workers.** Decentralisation boosts the morale of employees. It provides them job satisfaction by providing them independence, status and participation in the activities of the enterprise.
6. **Cordial atmosphere of work.** There is cordial atmosphere of work due to harmonious relationship between employees caused by job satisfaction. Morally-boosted employees enjoy sense of pleasure in performing their job.
7. **Easy specialisation.** Under decentralisation, authority in all departments and at all levels are dispersed systematically and assigned to the experts of the departments. It enables the emergence of specialisation easily. The enterprise avails of the economies of specialisation.

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Limitations/Disadvantages of Decentralisation

1. **Delayed decision-making.** Decision making at different levels by different managers delays the process of decision making whereas in case of centralisation decisions are taken collectively and quickly for all departments. It is also due to the lack of coordination due to large number of decision making authorities.
2. **Carelessness of top executives.** Decentralisation makes top executives careless in performing their duty. They rely too much on their juniors, which is sometime injurious to the enterprise.
3. **Limited scope.** Decentralisation cannot be made in all sorts of work *i.e.*, Planning and Accounting etc. Decentralisation in all organisations and at all levels is not useful. Complete decentralisation is not possible.
4. **Difficulty in coordination.** Decentralisation is responsible for the emergence of large number of decision making managers. It is very difficult to maintain coordination among them.

Difference between Delegation and Decentralisation

Delegation and Decentralisation, both concern with the transfer of authorities to low level employees but even then they differ from each other. In case of delegation full responsibility and accountability is not transferred to delegatee, whereas decentralisation transfers full authorities, rights and accountability to the subordinates. Delegation is the result of interpersonal relations and understanding between the executive and subordinate and decentralisation is the result of organisational policies.

Difference between Delegation and Decentralisation of Authority

Bases of Difference	*Delegation of Authority*	*Decentralisation of Authority*
1. *Compulsion*	There is delegation in every organisation at every level. Delegation is more or less compulsory in the enterprise.	Decentralisation may not be in the organisation. It is the top level management, which decides introduction of decentralisation in the organisation.
2. *Control*	There is more control of top level executive over the medium and bottom level executive.	There is lesser control over low level executive.
3. *Process*	Delegation of authority is a process.	Decentralisation is not a process, it is result of the policy of the organisation.
4. *Relationship*	Delegation is interpersonal relationship between manager and his subordinates.	Decentralisation is related process, it is result of the organisation.
5. *Coverage*	Delegation is restricted to different executive and their subordinates.	Decentralisation covers entire organisation. The authority is spread and entrusted to executive according to their level.

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6. *Responsibility and Accountability*	Full responsibility and accountability is not transferred. The executive remains liable to his superior even after delegation of authority.	Full responsibility and accountability is transferred. The executives holding authority are held liable.
7. *Purpose*	The purpose of delegation is the multiplication of the manager. It means that large amount of work can be performed with the delegation of authority.	The purpose of the decentralisation is to increase subordinates' role in the organisation and achieve the objective of the business.
8. *Parties Involved*	Delegation involves two Parties, the officer delegating the authority and the subordinate whom authority is delegated.	It involves the entire organisation. It is concerned with all managerial levels.
9. *Withdrawal of Authority*	Delegation of authority can be withdrawn by the officer, who had delegated the authority. It is the individual officer's sweet will to continue or withdraw the authority.	Decentralisation of authority of cannot be withdrawn easily. These authorities can be withdrawn when decision to discontinue the policy of decentralisation is takes.

SUMMARY

- **Organising.** Organising means the integration and coordination of individual efforts to achieve the desired objectives of the business.
- Steps in the Process of Organising. (1) Identification and division of work (2) Grouping job and departmentation (3) Assigning of duties (4) Granting authorities and fixing responsibilities.
- **Importance/Purpose of Organising**

  (1) Benefits of division of work and specialisation (2) Clarity in working relationship (3) Optimum utilisation of resources (4) Adaption to change (5) Development of personnel (6) Effective administration (7) Expansion and growth.
- **Organising as a Structure.** Special features of organisation structure.

  (1) Relationship between members of groups (2) Means to attain desired objectives (3) Co-operation between members (4) Formal relationship (5) Communication.
- **Types of Organisation Structure**
  1. Functional structure of organisation.
  2. Divisional structure of organisation.

  Functional Structure of Organisation

  Grouping together the entire work into major functional departments and entrusting these departments to functional specialists is known as functional structure.

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Advantages of Functional Structure

(1) Logical reflection of functions (2) Maintaining power and prestige of major function (3) Following principle of occupational specialisation (4) Simplifies training (5) Furnishes means of tight control at top (6) Convenient supervision.

Disadvantages of Functional Structure

(1) De-emphasis of overall company objectives (2) Overspecialises and narrows viewpoint of key personnel (3) Responsibility for profits is at the top only (4) Slow adaptation to changes in environment (5) Limits development of general managers.

Suitability of Functional Structure

(1) For larger sized enterprise (2) For high degree specialisation (3) For uneven workload on managers (4) Where authority is decentralised (5) Where specialist services are required and activities are diversified.

Divisional Structure of Organisation

Grouping of activities or departmentation on the basis of product, product lines and area is known as Divisional structure.

Advantages of Divisional Structure

(1) Places attention and effort on product line (2) Facilitates use of specialised capital, skills and knowledge (3) Permits growth and diversity of products and services (4) Improves coordination of functional activities (5) Places responsibility for profits at the divisional level (6) Furnishes measurable training ground for general managers.

Disadvantages of Divisional Structure

(1) Requires more persons with general manager abilities (2) Tends to make maintenance to economical central services difficult (3) Overlapping of functions (4) Excessive expendi-ture (5) Duplication of efforts (6) Self-centred.

Difference between Functional and Divisional Structure. Bases of difference: (1) Meaning (2) Utility (3) Nature of specialisation (4) Cost of the structure (5) Coordination and control (6) Responsibility for performance (7) Autonomy.

- **Formal Organisation.** It is deliberately and scientifically designed and legally constituted by defining authorities and responsibilities of employees individually and collectively.

Characteristics of Formal Organisation

(1) Predetermined and deliberately constituted

(2) Based upon scientific analysis (3) Relationship is determined according to job (4) Based upon jobs to be performed (5) Structure determined by top level (6) Honouring relationship (7) Emotional aspect not taken into consideration.

Advantages of Formal Organisation

(1) Fixing of responsibilities (2) Clear determination of duties (3) Reasonable and balanced division of activities (4) Easy and effective coordination (5) Stability in the organisation through rules and regulation (6) Ensures optimum utilisation of the available resources.

Limitation of Formal Organisation

(1) Delay in action (2) Does not give importance to social needs (3) Does not understand human relationship. (4) If reduces creativity as employees are bound to follow the policies and rules.

- **Informal Organisation.** It is psychosocial system of organisation developed due to inter-personal and social relationship.

Characteristics of Informal Organisation

(1) Spontaneous relationship (2) Relationship based upon common interest (3) Voluntary organisation (4) Meets emotional needs (5) Based upon personal preferences and understanding (6) Not pre-planned (7) Reflects human relationship (8) Management cannot abolish.

Advantages of Informal Organisation

(1) Influences human attitude (2) Satisfies human desire of co-existance (3) Provides social status (4) Complementary to formal organisation (5) Effective means of communication (6) Check on authoritative behaviour of managers.

Limitations of Informal Organisation

(1) Information passed through informal structure are rumours (2) Does not have systemic working structure (3) Does not implement changes (4) Emphasises more on individual interests and satisfaction (5) Informed organisation may lead to situation and circumstances which are against the interest of the organisation.

Bases of difference between Formal and Informal Organisation.

(1) Formation (2) Predetermined purpose (3) Stability (4) Relationship/behaviour (5) Structure (6) Examples (7) Flow of authority (8) Effective coordination (9) Emphasis (10) Cherished goal (11) Adherence to Rules (12) Communication and (13) Leadership.

- **Delegation of Authority.** The process of sharing task with its corresponding authorities, with the subordinates is known as Delegation of authority.
- **Elements of Delegation**

Authority

It is the right to command, decide, direct, take actions and exact obedience from subordinates. The authority enables the employees to enjoy privileged position, to command respect and obedience from subordinates.

Responsibility. Responsibility is the obligation to do something. It is the duty, which has to be performed as per assignments. It always flows upward. It is personal obligation and absolute also, so it can never be delegated.

Accountability. Accountability means holding an individual answerable to final results. Accountability refers to individuals not groups. Accountability can neither be shared nor delegated.

Special Features of Delegation

(1) Delegation of obtained authorities (2) Executive remaining liable even after delegation (3) Delegated authorities can be withdrawn (4) Delegation of routine authorities only (5) Control of officer over subordinate (6) Work according to order and instructions (7) Clear specification of authority, responsibility and duty.

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- **Bases of difference between Authority and Responsibility**

  (1) Meaning (2) Origin (3) Delegation (4) Flow or Direction (5) Period (6) Nature.
- **Importance/Advantages of Delegation**

  (1) Effective management (2) Facilitating employee development (3) Facilitation of growth (4) Helping the expansion of business (5) Motivation of employees (6) Better coordination and (7) Achieving business goals.
- **Process of Delegation of Authority**

  (1) Assigning duty or task or responsibility (2) Granting authority (3) Creation of obligation or accountability.
- **Centralisation of Authority.** Concentration of authority regarding decision-making with an individual or few managers is known as centralisation of authority.
- **Decentralisation of Authority.** It is dispersal of decision-making authority to lower levels. It divides business functions into certain units and entrusting the different units to certain persons with appropriate authority and responsibility.
- **Evaluation of Decentralisation**

  Importance/Advantages of Decentralisation

  (1) Reduces workload (2) Prompt decision-making (3) Democratic system (4) Effective control over employees (5) Incentive to workers (6) Cordial atmosphere of work (7) Easy specialisation.
- **Limitations/Disadvantages of Decentralisation**

  (1) Delayed decisionmaking (2) Carelessness of top executives (3) Limited scope (4) Difficulty in coordination.
- **Bases of Difference between Delegation and Decentralisation**

  (1) Compulsion (2) Control (3) Process (4) Relationship (5) Coverage (6) Responsibility and Accountability (7) Purpose (8) Parties involved and (9) Withdrawal of authority.

SELF ASSESSMENT QUESTIONS

1. What is meant by 'divisional structure' of an organisation ? Explain any two of its advantages and two limitations.

2. Explain the steps involved in the process of organisation.

3. Briefly explain the considerations that need to be kept in mind while designing the organisational structure of a company.

4. What is meant by 'Functional Organisational Structure'? State any two advantages and two disadvantages of such structures.

Or

Describe the steps involved in the process of 'organising'.

5. Explain the organisational structure. Distinguish between Functional and Divisional structure on the following bases:

(*i*) Formation (*ii*) Managerial development

(*iii*) Responsibility (*iv*) Suitability.

6. Discuss briefly the principles of parity of authority and responsibility and 'unity of command'.
7. The concept of centralisation and decentralisation are related to the concept of delegation. Explain.
8. A manager is of the view that he is not responsible for the quality of work that he has delegated to subordinate. Do you agree with this viewpoint? Justify your answer by giving appropriate answer.

   [We do not agree because of 'the principle of absoluteness of responsibility.']
9. Define the terms '*Responsibility*' '*Authority*' and '*Accountability*'.
10. Explain, in brief, any six points which highlight the importance of decentralisation in an organisation.
11. Differentiate between functional and divisional structure of organisation an any six basis.
12. The functional structure of organisation has certain advantages and disadvantages which an enterprise must take into consideration before adopting it. Explain any such three advantages and any three disadvantages of this structure.
13. Decentralisation is an important philosophy that implies selective dispersal of authority. In the sight of this statement, explain any four points of importance of decentralisation.
14. Put simply, decentralisation refers to delegation of authority throughout all the levels of the organisation. In the light of the above statement give the meaning of and difference between delegation of authority and decentralisation.
15. Aman Chadha started 'Bulls Eye' a company for providing cyber security solutions to businesses. Its objective is to prevent, detect and respond to cyber attacks and protect critical data. He was a hardworking software engineer and an expert in cyber security. His reputation grew by leaps and bounds as he was not only a person of integrity but also did his work with utmost honesty and sincerity.

    The business started growing day by day.

    He was delighted when he was offered a big project by the Ministry of Defence. While working on the project, he found that the volume of work made it impractical for him to handle all the work by himself. He decided to expand the team. The company maintained a close liaison with a local engineering college. During a campus placement, Ishan and Vrinda were appointed to work for the new project.

    He found the new employees capable, enthusiastic and trustworthy. aman Chadha was thus, able to focus on objectives and with the help of Ishan and Vrinda, The project was completed on time. Not only this Aman Chadha was also able to extend his area of operations. On the other hand Ishan and Vrinda also got opportunities to develop and exercise initiative.

    (*i*) Identify the briefly explain the concept used by Aman Chadha in the above case which helped him in focusing on objectives.

    (*ii*) Also, state any four points of importance of the concept identified in (*i*) above.

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16. Explain any four differences between delegation and decentralisation specifying the basis of difference.

17. Voltage fluctuations have been common and quite high in India. They harm our electrical appliances like televisions, refrigerators and air conditioners, often leaving them in a permanently damaged conditions. N-Guard company decided to manufacture stabilizers for North India where the voltage fluctuation ranges from 220 V to 230 V. Once the demand for North India was taken care of, they decided to launch stabilizers in other regions of India also. Three engineers were appointed for South, West and East regions of India, as the voltage was different in all the three regions.

Though all the engineers were appointed to manufacture stabilizers but the product differed from region to region.

(*a*) Identify the organisational structure of N-Guard company.

(*b*) State any two advantages and two limitations of the structure identified in the above para.

9. DEPARTMENTATION

NOTES

STRUCTURE

9.1 DEPARTMENTATION

Departmentation is a means of dividing the large and complex organization into smaller, flexible administrative units. It is the organization-wide division of work into various manageable units or departments. It refers to horizontal differentiation in an organization. It is the grouping of activities and employees into departments. It is a method of arranging activities to facilitate the accomplishment of organizational objectives.

Departmentation is defined as the establishment of a distinct area, unit or subsystem of an organization over which a manager has authority for performance of specified activities and results. In simple words, the organizational process of determining how activities are to be grouped is called departmentation.

9.2 THE NEED FOR DEPARTMENTATION

Departmentation is necessary because it involves grouping of people or activities into a single department or unit to achieve organizational goals. Departmentation is essential because of the following reasons:

- Departmentation permits an organization to take advantage of specialization.
- Departmentation enables each person to know the particular part he is expected to play in the total activities of the company.
- Departmentation facilitates communication, coordination and control and contributes to the organizational success.

- Departmentation provides an adequate platform around which the loyalties of organizational members may be built.
- It enables a manager to locate the sources of information, skills and competence to take certain vital managerial decisions.

9.3 IMPORTANCE'S OF DEPARTMENTATION

The major importance of the departmentation is along following lines.

1. **Advantages of Specialisation.** Probably the most important single principle in an analysis of the classical approach to organisational design is specialisation of work. This principle affects everyone every day. The basic advantage of the specialisation lies in terms of efficiency with which the work is performed because a person focuses his attention on a narrow aspect of the work and he gets mastery over that aspect. Naturally this results into performing the work more efficiency. Thus if the managerial function is conceived as a set of activities facilitating the work of the organisation, these activities can be carried out more efficiently and effectively through the division of work leading to a specialisation of managerial function.
2. **Fixation of Responsibility.** Departmentation helps in fixing the responsibility and consequently accountability for the results. Responsibility can be discharged properly when it is clear, precise, and definite. Through departmentation, the work is divided into small units where it can be defined precisely and responsibility can be fixed accurately. The manager concerned to whom responsibility is given can be delegated corresponding authority. When both responsibility and authority are clearly specified, a manager knows what exactly he has to do in the organisation. This helps the manager to become more effective.
3. **Development of Managers.** Departmentation helps in the development of managers. Development is possible because of two factors. First, the managers focus their attention on some specific problems which provides them effective on-the-job training. Second, managerial need for further training can be identified easily because the managers' role is prescribed and training can provide them opportunity to work better in their area of specialisation. Thus need for training and its methods can be easily identified.
4. **Facility in Appraisal.** Managerial performance can be measured when the area of activities can be specified and standards in respect of these can be fixed. Departmentation provides helps in both these areas. When a broader function is divided into small segments and a particular segment is assigned to each manager, the area to be appraised is clearly known; the factors affecting the performance can be pointed out more easily. Similarly, standards for performance can be fixed easily because factors affecting the work performance can be known clearly. Thus performance appraisal will be more objective when departments have been created.

5. **Feeling of Autonomy.** Departmentation provides motivation by developing feeling of autonomy to the extent possible. Normally departments are created in the organisation with certain degree of autonomy and freedom. The manager in charge of a department can take independent decisions within the overall framework of the organisation. Thus he enjoys satisfaction of being important to the organisation. This feeling itself is a source of better performance among managers.

9.4 ADVANTAGES OF DEPARTMENTATION

Following are the advantages of departmentation:

(*i*) **Advantage of Managerial Specialisation.** Departmentation enables enterprises to avail of the advantages of managerial specialisation. Infact, in whatever way are departments created; it is sure that each departmental head is a specialist in matters pertaining to his department. This specialisation means increased efficiency of operations, leading to more profits for the enterprise.

(*ii*) **Expansion and Growth of Enterprise Facilitated.** The device of departmentation facilitates growth and expansion of the enterprise. Depending on growth requirements of business, more departments may be created in the enterprise; or within the same department, more sub-departments may be created—to handle additional work load.

(*iii*) **Decentralization Facilitated.** Departmentation facilitates the implementation of the policy of decentralization of authority. In fact, many departmental heads may be granted full powers to run their departments efficiently—through systematic decentralization. Decentralization is likely to motivate departmental heads and boost their morale-all leading to higher efficiency and increased profits for the whole organisation.

(*iv*) **Fixation of Responsibility Facilitated.** Departmentation facilitates fixation of responsibility on departmental heads, as their roles and functions are clearly specified. Management, accordingly, can also install a system of 'Responsibility Accounting'; and ensure its advantages to the organisation.

(*v*) **Performance Appraisal and Managerial Development.** On the basis at the functioning of departments, it is easier for management to undertake performance appraisal of departmental heads and their subordinates. Performance appraisal findings may provide useful clues to initiating schemes of managerial development.

(*vi*) **Facilitates Intra-departmental Co-ordination.** Since people in a department perform interrelated jobs and tasks pertaining to the subject matter of that department; therefore, it could be said that departmentation facilitates intra-departmental co-ordination. Moreover, people in the department develop better social informal relations because of frequent interactions.

(*vii*) **Administrative Control Facilitated.** Departmentation facilitates administrative control on the part of top management. In view of the nature and functioning of departments; top management can devise and implement broad but suitable controls over departmental heads.

9.5 BASIS OF DEPARTMENTATION

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The activities of an organization can be grouped into departments on any of the following bases:

1. **Function:** Departments can be created on the basis of functions like production, sales, personnel, finance, etc. This is the most popular basis of departmentation.
2. **Product or Service:** Large companies with different product lines can set up separate departments for each product or service that it produces or provides. Specialized product knowledge and fixing of specific responsibilities are the merits of this division. This is also called divisionalization.
3. **Customers:** Departmentation may be done on the basis of the customers of the concern. A marketing company may have separate departments to cater to the wholesalers, retailers, mail-order customers, etc.
4. **Location:** This is also called territorial division or departmentation. A company may have separate departments to serve the southern region, northern region etc. It has the advantage of the intimate knowledge of local conditions.
5. **Time:** When a working unit called a department works in different shifts, for each shift the working unit or department may be separate.
6. **Process:** Different departments can be created on the basis of functional processes, e.g., bleaching department, drying department, printing department, etc.
7. **Combination:** One or more bases can be adopted to constitute a department according to the necessity of the organization.

The following factors are to be considered in forming departments is an organization.

1. **Cost Factor:** The cost of creating a new department should be considered. It should be economical.
2. **Functional Specialization:** A new department should be based on this important factor of functional specialization. For every separate function like marketing, personnel or purchase, a separate department has to be created to secure the economies and benefits of functional specialization.
3. **Control Centre:** One should see whether creation of a department can serve an as effective control centre for that particular group of activities.
4. **Integration of Different Activities:** Various connected activities can be brought together into one department. Sometimes even different activities which are not closely related can be brought together.
5. **Personnel Factors:** While creating a department, one has to see whether there is a proper personnel manager to manage the department effectively.

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9.6 IDEAL PRINCIPLES OF DEPARTMENTATION

Some of the ideal principles of departmentation are suggested below:

(*i*) **Principle of Attainment of Enterprise Objectives:** According to this principle, the basis of departmentation must be such that there is greatest facility, in the most effective and efficient attainment of enterprise objectives.

(*ii*) **Principle of Comprehensive Departmentation:** By the principle of comprehensive departmentation, we mean that the entire organisational functioning is covered by the chosen basis of departmentation i.e., no aspect of organisational functioning is overlooked, in creating departments, in the organisation.

(*iii*) **Principle of Inter-departmental Co-operation:** Departmentation must be so done in an organisation, that there is maximum inter-departmental co-operation; and that the possibilities of interdepartmental conflicts are minimized.

(*iv*) **Principle of Promotion of Specialisation:** The process of department creation must promote both managerial and operational specialisation so that maximum organisational efficiency is achieved; as a result of such specialisation.

(*v*) **Principle of Cost-Benefit Analysis:** The notion of 'cost-benefit analysis' must be kept in mind, by management; while creating departments, in the organisation. According to this principle, the benefits obtained from creation of departments must exceed their operational costs; otherwise organisational profitability will be reduced.

(*vi*) **Principle of Top-Management Control:** According to this principle, the basis of departmentation must facilitate top-management's overall control overall departments.

A derivative principle here is that departmentation basis must ensure exact fixation of responsibility on departmental heads vis-à-vis the performance of their departments. Then only, is it possible for top-management to exercise control over departmental performances.

(*vii*) **Principle of Special Attention to Key-Result Areas (KRA):** Departments must be created on such a basis, in an organisation; that special attention is paid to key-result areas (KRA), during departmental performance.

KRA are those which vitally affect the long-term survival and growth of an enterprise. KRA may include profitability, market standing, public relations etc., as determined by the top management.

(*viii*) **Principle of Best Utilization of Resources:** According to this principle, departmentation must be so done in an organisation; that there is ensured a best utilization of precious organisational resources like raw materials, manpower, machinery, technology and other inputs. There must not be any duplication of efforts or wastage of resources, by the departments created in the organisation.

(*ix*) **Principle of Autonomous Feeling to Departmental Heads:** According to this principle, the basis of departmentation must be such that departmental

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heads have the feeling of maximum autonomy in their operational life; so that they function with creativity and innovative considerations in mind. Such autonomy will motivate them to work according to the best of their abilities and competence.

(*x*) **Principle of Flexibility.** The basis of departmentation must lead to the emergence of a flexible departmental set-up; so that in view of volatile and turbulent external environmental influences, more departments (or sub-departments) may be added to the existing set-up or some departments (or sub-departments) deleted from the existing set-up.

(*xi*) **Principle of Human Consideration.** The ideal basis of departmentation must not only rest on technical or financial considerations; it must give due weightage to human considerations i.e., needs, values, attitudes, expectations, feelings etc., of people working in the organisation. Then only will departments created in the organisation lead to maximum organizational efficiency and maximum human satisfaction.

SUMMARY

- Departmentation is defined as the establishment of a distinct area, unit or subsystem of an organization over which a manager has authority for performance of specified activities and results.
- Departmentation facilitates the implementation of the policy of decentralization of authority.
- Departmentation facilitates administrative control on the part of top management. In view of the nature and functioning of departments; top management can devise and implement broad but suitable controls over departmental heads.

SELF ASSESSMENT QUESTIONS

1. What is departmentation? State its need and significance.
2. What are different bases of departmentation?
3. State and explain the ideal principles of departmentation.
4. Why is there a need for departmentation?
5. Point out the advantages of departmentation.

10. GROUP DYNAMICS

NOTES

STRUCTURE

10.1 INTRODUCTION

A group can be defined as several individuals who come together to accomplish a particular task or goal. Group dynamics refers to the attitudinal and behavioral characteristics of a group. Group dynamics concern how groups from their structure and process, and how they function. Group dynamics are relevant in both formal and informal groups of all types. In an organizational setting groups are a very common organizational entity ad the study of groups and group dynamics is an important area of study in organizational behavior.

The following sections provide information related to group dynamics. Specifically, the formation and development of groups is first considered. Then some major types or classifications of groups are discussed. Then the structure of groups is examined.

10.2 GROUP TYPES

One common way to classify group is by whether they are formal or informal in nature. Formal work groups are established by an organisation to achieve organizational goals. Formal groups may take the form of command groups, task groups, and functional groups.

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Command Groups

Command groups are specified by the organization chart and often consist of a supervisor and the subordinates that report to that supervisor. An example of a command groups is an academic department chairman and the faculty members in that department.

Task Groups

Task groups consist of people who work together to achieve a common task. Members are brought together to accomplish a narrow range of goals within a specified time period. Task groups are also commonly referred to as task forces. The organization appoints members and assigns the goals and tasks to be accomplished. Examples of assigned tasks are the development of a new product, the improvement of a production process, or the proposal of a motivational contest. Other common task groups are ad hoc committees, project groups, and standing committees. Ad hoc committees are temporary groups created to resolve a specific complaint or develop a process. Project groups are similar to ad hoc committees and normally disband after the group completes the assigned task. Standing committees are more permanent than ad hoc committees and project groups. They maintain longer life spans by rotating members into the group.

Functional Groups

A functional group is created by the organization to accomplish specific goals within an unspecified time frame. Functional groups remain in existence after achievement of current goals and objectives. Examples of functional groups would be a marketing department, a customer service department, or an accounting department.

In contrast to formal groups, informal groups are formed naturally and in response to the common interests and shared values of individuals. They are created for purposes other than the accomplishment of organizational goals and do not have a specified time frame. Informal groups are not appointed by the organization and members can invite others to join from time to time. Informal groups can have a strong influence in organizations that can either be positive or negative. For example, employees who form an informal groups can either discuss how to improve a production process or how to create shortcuts that jeoparadize quality. Informal groups can take the form of interest groups, friendship groups, or reference groups.

Interest Groups

Interest groups usually continue over time and may last longer than general informal groups. Members of interest groups may not be part of same organizational department but they are bound together by some other common interest. The goals and obejctives or group interest are specific to each group and may not be related to organizational goals and objectives. An example of an interest group would be students who come together to form a study group for a specific class.

Friendship Groups

Friendship groups are formed by members who enjoy similar social activities, political beliefs, religious values, or other common bonds. Members enjoy each other's company and often meet after work to participate in these activities. For example, a group of employees who form a friendship group may have an exercise group, a softball team, or a potluck lunch once a month.

Reference Groups

A reference group is a type of group that people use to evaluate themselves. According to Cherrington, the main purposes of reference groups are social validation and social comparison. Social validation allows individuals to justify their attitudes and values while social comparison helps individuals evaluate their own actions by comparing themselves to others. Reference groups have a strong influence on members behavior. By comparing themselves with other members, individuals are able to assess whether their behavior is acceptable and whether their attitudes and values are right or wrong. Reference groups are different from the previously discussed groups because they may not actually meet or form voluntarily. For example, the reference group for a new employee of an organization may be a group of employees that work in a different department or even a different organization. Family, friends, and religious affiliations are strong reference groups for most individuals.

10.3 STAGES OF GROUP DEVELOPMENT

As applied to group development, group dynamics is concern with why and how groups develop. There are several theories as to why groups develop. A classic theory, developed by George Homans, suggests that groups develop based on activities, interactions and sentiments. Basically, the theory means that when individuals share common activities, they will have more interaction and will develop attitudes (positive or negative) toward each other. The major element in this theory is the interaction of the individuals involved.

Social exchange theory offers and alternative explanation for group development. According to this theory, individuals from relationships bnased on the implicit expectation of mutually beneficial exchanges based on trust and felt obligation. Thus, a precipitation that exchange relationships will be positive is essential if individuals are to be attracted to and now affiliate with a group.

Social identity theory offers another explanation for group formation. Simply put, this theory suggests that individuals get a sense of identity and self-esteem based upon their membership in salient groups. The nature of the group may be demographically based, culturally based, or organizationally based. Individuals are motivated to belong to and contribute to identity groups because of the sense of belongingness and self-worth membership in the group imparts.

Group dynamics as related to development concerns not only why groups form but also how. The most common framework for examining the "how" of group formation was developed by Bruce Tuckman in the 1960s. In essence, the steps in group formation imply that groups do not usually perform at maximum effectiveness when they are first established. They encounter several stages of development as they strive to become productive and effective. Most groups experience the same developmental stages with similar conflicts and resolutions.

According to Tuckman's theory, there are five stages of group development: forming, storming, norming, performing, and adjoining. During these stages group members must address several issues and the way in which these issues are resolved determines whether the group will succeed in accomplishing its tasks,

1. **Forming:** This stage is usually characterized by some confusion and uncertainty. The major goals of the group have not been established. The nature of the task or leadership of the group has not been determined. (Luthans, 2005). Thus, forming is an orientation period when members get to know one another and share expectations about the group. Members lean the purpose of the group as well as the rules to be followed. The forming stage should not be rushed because trust and openness must be developed. These feeling strengthen in later stages of development. Individuals are often confused during this stage because roles are not clear and there may not be a strong leader.
2. **Storming:** In this stage, the group is likely to see the highest level of disagreement and conflict. Members often challenge group goals and struggle for power. Individuals often vie for the leadership position during this stage of development. This can be a positive experience for all groups if members can achieve cohesiveness through resolution. Members often voice concern and criticism in this phase. If members are not able to resolve the conflict, then the group will often disband or continue in existence but will remain ineffective and never advance to other stages.
3. **Norming:** This stage is characterized by the recognition of individual differences and shared expectations. Hopefully, at this stage the group members will begin to develop a feeling of group cohesion and identity. Cooperative effort should begin to yield results. Responsibilities are divided among members and the group decide how it will evaluate progress.
4. **Performing:** Performing, occurs when the group has matured and attains a feeling of cohesiveness. During this stage of development, individuals accept one another and conflict is resolved through group discussion. Members of the group make decisions through a rational process that is focused on relevant goals rather than emotional issues.
5. **Adjoining:** Not all groups experience this stage of development because it is characterized by the disbandment of the group. Some groups are relatively permanent (Luthans, 2005). Reasons that groups disband vary, with common reasons being the accomplishment of the task or individuals deciding to go their own ways. Members of the group often experience feelings of closure and sadness as they prepare to leave.

10.4 GROUPS STRUCTURE

Group structure is a pattern of relationships among members that hold the group together and help it achieve assigned goals. Structure can be described in a variety of ways. Among the more common considerations are group size, group roles, group norms, and group cohesiveness.

Group Size

Group size can vary from 2 people to a very large number of people. Small groups of two to ten are thought to be more effective because each member has ample opportunity to participate and become actively involved in the group. Large groups may waste time by deciding on processes and trying to decide who should participate next. Group size will affect not only participation but satisfaction as well. Evidence supports the notion that as the size of the group of six members has twice as many opportunities for interaction and participation as a group of three people. Beyond 10 or 12 members, increasing the size of the group results in decreased satisfaction. It is increasingly difficult for members of large groups to identity with one another and experience cohesion.

10.5 GROUP ROLES

In formal groups, roles are usually predetermined and assigned to members. Each role will have specific responsibilities and duties. There are, however, emergent roles that develop naturally to meet the needs of the groups. These emergent roles will often replace the assigned roles as individuals begin to express themselves and become more assertive. Group roles can then be classified into work roles, maintenance roles, and blocking roles.

Work roles are task-oriented activities that involve accomplishing the group's goals. They involve a variety of specific roles such as initiator, informer, clarifier, summarizer, and reality tester. The initiator defines problems, proposes action, and suggests procedures.

The informer role involves finding facts and giving advice or opinions. Clarifiers will interpret ideas, define terms, and clarify issues for the group. Summarizers restate suggestions, offer decisions, and come to conclusions for the group. Finally, reality testers analyze ideas and test the ideas in real situations.

Maintenance roles are social-emotional activities that help members maintain their involvement in the group and raise their personal commitment to the group. The maintenance roles are harmonizer, gatekeeper, consensus tester, encourager, and compromiser. The harmonizer will reduce tension in the group, reconcile differences, and explore opportunities. Gatekeepers often keep communication channels open and make suggestions that encourage participation. The consensus tester will ask if the group is nearing a decision and test possible conclusions. Encouragers are friendly, warm, and responsive to the other group members. The last maintenance role is the compromiser. This roles involves modifying decisions, offering compromises, and admitting errors.

Blocking roles are activities that disrupt the group. They make take the form of dominating discussions, verbally attacking other group members, and distracting the group with trivial information or unnecessary humor. Often times the blocking behavior may not be intended as negative. Sometimes a member may share a joke in order to break the tension, or may question a decision in order to force group members to rethink the issue. The blocking roles are aggressor, blocker, dominator, comedian, and avoidance behavior. The aggressor criticizes members values and makes jokes in a sarcastic or semi-concealed manner.

Blockers will stubbornly resist in the group's ideas, disagree with group members for personal reasons, and will have hidden agendas. The dominator role attempts to control conversations by patronizing others. They often interrupt others and assert authority in order to manipulate members. Comedians often abandon the group even through they may physically still be a part. They are attention-getters in ways that are

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not relevant to the accomplishment of the group's objectives. The last blocking role, avoidance behavior, involves pursuing goals not related to the group and changing the subject to avoid commitment to the group.

Role ambiguity concerns the discrepancy between the sent role and the received role, as shown in Exhibit 1. Supervisors, directors, or the other group leaders often send (assign) roles to group members in formal groups. Group members receive roles by being ready and willing to undertake the tasks associated with that role. Ambiguity results when members are confused about the delegation of job responsibilities. This confusion may occur because the members do not have specific job descriptions or because the instructions regarding the task were not clear. Group members who experience ambiguity often have feelings of frustration and dissatisfaction, which ultimately lead to turnover.

Role conflict occurs when there is inconsistence between the perceived role and role behavior. There are several different forms of role conflict. Interrole conflict occurs when there is conflict between the different roles that people have. For example, work roles and family roles often compete with one another and cause conflict. Intrarole conflict occurs when individuals must handle conflicting demands from different sources while performing the tasks associated with the same role.

Group Norms

Norms are acceptable standards of behavior within a group that are shared by the members of the group. Norms define the boundaries of acceptable and unacceptable behavior. They are typically created in order to facilitate group survival, make behavior more predictable, avoid embarrassing situations, and express the values of the group. Each group will establish its own set of norms that might determine anything from the appropriate dress to how many comments to make in a meeting. Groups exert pressure on members to force them to conform to the group's standards. The norm often reflect the level of commitment, motivation, and performance of the group.

Performance norms determine how quickly members should work and how much they should produce. They are created in an effort to determine levels of individual effort. They can be very frustrating to managers because they are not always in line with the organization's goals. Members of a group may have the skill and ability to perform at higher levels but they don't because of the group's performance norms. For example, workers may stop working a production machine at 20 minutes before quitting time in order to wash up, even thought they produced fewer items that day than management intended.

Reward-allocation norms determine how rewards are bestowed upon group members. For example, the norm of equality dictates equal treatment of all members. Every members shares equally so rewards are distributed equally to everyone. Equity norms suggest that rewards are distributed according to the member's contribution. In other words, members who contribute the most receive the largest share of the rewards. Members may contribute through effort, skill or ability. Social responsibilty norms rewards on the basis of need. Members who have special needs therefore receive the largest share of the reward.

The majority of the group must agree that the norms are appropriate in order for the behavior to be accepted. There must also be a shared understanding that the group supports the norms. It should be noted, however, that members might violate group norms from time to time. If the majority of members do not adhere to the norms, then they will eventually change and will no longer serve as a standard for evaluating behavior. Group members who do not conform to the norms will be punished by being excluded, ignored, or asked to leave the group.

Group Cohesiveness

Cohesiveness refers to the bonding of group members and their desire to remain part of the group. Many factors influence the amount of group cohesiveness. Generally speaking, the more difficult it is to obtain group membership the more cohesive the group. Groups also tend to become cohesive when they are in intense competition with other groups or face a serious external threat to survival. Smaller groups and those who spend considerable time together also tend to be more cohesive.

Cohesiveness in work groups has many positive effects, including worker satisfaction, low turnover and absenteeism, and higher productivity. However, highly cohesive groups may be detrimental to organizational performance if their goals are misaligned with organizational goals. Highly cohesive groups may also be more vulnerable to groupthink. Groupthink occurs when members of a group exert pressure on each other to come to a consensus in decision making. Groupthink results in careless judgements, unrealistic appraisals of alternative courses of action, and a lack of reality testing. It can lead to a number of decision making issues such as the following:

1. Incomplete assessments of the problem,
2. Incomplete information search,
3. Bias in processing information,
4. Inadequate development of alternatives, and
5. Failure to examine the risks of the preferred choice

Evidence suggests that groups typically outperform individuals when the tasks involved require a variety of skills, experience, and decision making. Groups are often more flexible and can quickly assemble, achieve goals, and disband or move on to another set of objectives. Many organizations have found that groups have many motivational aspects as well. Groups members are more likely to participate in decision-making and problem-solving activities leading to empowerment and increased productivity. Groups complete most of the work in an organization; thus, the effectiveness of the organization is limited by the effectiveness of its groups.

10.6 GROUP DECISION MAKING

Group decisions making is a type of participatory process in which multiple individuals acting collectively, analyze problems or situations, consider and evaluate alternative courses of action, and select from among the alternatives a solution or solutions. The number of people involved in a group decision-making varies greatly, but often ranges from two to seven. The individuals in a group may be demographically similar or quite diverse. Decision-making groups may be relatively informal in nature, or formally designated and changed with a specific goal. The process used to arrive at decisions may be unstructured or structured. The nature and composition of groups, their size, demographic makeup, structure, and purpose, all affect their functioning to some degree.

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The external contingencies faced by groups (time pressure and conflicting goals) impact the development and effectiveness of decision-making groups as well.

In organizations many decisions of consequence are made after some form of a group decision-making process is undertaken. However, groups are not the only from of collective work arrangement. Groups decision-making should be distinguished from the concepts of teams, teamwork, and self managed teams. Although the words teams and groups are often used interchangeably, scholars increasingly differentiate between the two. The basis for the distraction seems to be that teams act more collectively and achieve greater synergy of effort. Katzenback and Smith spell out specific differences between decision making groups and teams:

- The group has a definite leader, but the team has shared leadership roles
- Members of a group have individual accountability, the team has both individual and collective accountability
- The group of measures effectiveness indirectly, but the team measures performance directly through their collective work product.
- The group discusses, decides and delegates but the team discusses, decides, and does real work.

10.7 GROUP DECISION MAKING METHODS

There are many methods or procedures that can be used by groups. Each is designed to improve the decision-making process in some way. Some of the more common group decision-making methods are brainstorming, dialetical inquiry, nominal group technique, and the delphi technique.

Brainstomring

Brainstorming involves group members verbally suggesting ideas or alternative courses of action. The "brainstorming session" is usually relatively unstructured. The situation at hand is described in as much detail as necessary so that group members have a complete understanding of the issue or problem. The group leader or facilitator then solicits ideas from all members of the group. Usually, the group leader or facilitator will record the ideas presented on a flip chart or maker board. The "generation of alternatives" stage is clearly differentiated from the "alternative evaluation" stage, as group members are not allowed to evaluate suggestions until all ideas have been presented. Once the ideas of the group members have been exhausted, the groups members then being the process of evaluating the utility of the different suggestions presented. Brainstorming is a useful means by which to generate alternatives, but does not offer much in the way of processes for the evaluation of alternatives of the selection of a proposed course of action.

One of the difficulties with brainstorming is that despite the prohibition against judging ideas until all group members have had their say, some individuals are hesitant to propose ideas because they fear the judgement or ridicule of other group members. In recent years, some decision-making groups have utilized electronic brainstorming, which allows group members to propose alternatives by means of e-mail or another electronic means, such as an online posting board or discussion room. Members could conceivably offer their ideas anonymously, which should increase the likelihood that individuals will offer unique and creative ideas without fear of the harsh judgement of others.

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Dialetical Inquiry

Dialtetical inquiry is a group decision-making technique that focuses on ensuring full consideration of alternatives. Essentially, it involves dividing the group into opposing sides, which debate the advantages and disadvantages of proposed solutions or decisions. A similar group decision-making method, devil's advocacy, requires that one member of the group highlight the potential problems with a proposed decision. Both of these techniques are designed to try and make sure that the group consider all possible ramifications of its decision.

Nominal Group Technique

The nominal group technique is a structured decision making process in which group members are required to compose a comprehensive list of their ideas or proposed alternatives in writing. The group members usually record their ideas privately. Once finished, each group member is asked, in turn, to provide one item from their list until all ideas or alternatives have been publicly recorded on a flip chart or maker board. Usually, at this stage of the process verbal exchanges are limited to requests for clarification – no evaluation or criticism of listed ideas is permitted. Once all proposals are listed publicly, the group engages in a discussion of the listed alternatives, which ends in some form of ranking or rating in order of preference. As with brainstorming, the prohibition against criticizing proposals as they are presented is designed to overcome individuals reluctance to share their ideas. Empirical research conducted on group decision making offers some evidence that the nominal group technique succeeds in generating a greater number of decision alternatives that are of relatively high quality.

Delphi Technique

The Delphi technique is a group decision-making process that can't be used by decision-making groups when the individual members are in different physical locations. The technique was developed at the Rand Corporation. The individuals in the Delphi "group" are usually selected because of the specific knowledge or expertise of the problem they posses. In the Delphi technique, each group member is asked to independently provide ideals, input, and/or alternative solutions to the decision problem in successive stages. These inputs may be provided in a variety of ways, such as e-mail, fax, or online in a discussion room or electronic bulletin board. After each stage in the process, other groups members ask questions and alternatives are ranked or rated in some fashion. After an indefinite number of rounds, the group eventually arrives at a consensus decision on the best course of action.

10.8 ADVANTAGES AND DISADVANTAGES OF GROUP DECISION MAKING

The effectiveness of decision-making groups can be affected by a variety of factors. Thus, it is not possible to suggest that "group decision making is always better" or "group

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decision making is always worse" than individual decision making. For example, due to the increased demographic diversity in the workforce, a considerable amount of research has focused on diversity's effect on the effectiveness of group functioning. In general, this research suggests that demographic diversity can sometimes have positive or negative effects, depending on the specific situation. Demographically diverse group may have to over-come social barriers and difficulties in the early stages of group formation and this may slow down the group. However, some research indicates that diverse groups, if effectively managed, tend to generate a wider variety and higher quality of decision alternatives than demographically homogenous groups.

Despite of the fact that there are many situational factors that affect the functioning of groups, research through the years does offer some general guidance about the relative strengths and weakness inherent in group decision making. The following section summarizes the major pros and cons of decision making in groups.

Advantages

Group decision-making, ideally, takes advantage of the diverse strengths and expertise of its members. By tapping the unique qualities of group members, it is possible that the group can generate a greater number of alternatives that are of higher quality than the individual. If a greater number of higher quality alternatives are generated, then it is likely that the group will eventually reach a superior problem solution than the individual.

Group decision-making may also lead to a greater collective understanding of the eventual course of action chosen, since it is possible that many affected by the decisions implementation actually had input into the decision. This may promote a sense of "ownership" of the decision, which is likely to contribute to a greater acceptance of the course of action selected and greater commitment on the part of the affected individuals to make the course of action successful.

Disadvantages

There are many potential disadvantages to group decision-making. Groups are generally slower to arrive at decisions than individuals, so sometimes it is difficult to utilize them in situations where decisions must be made very quickly. One of the most often cited problems is groupthink. Irving Janis, in his 1972 book Victims of Groupthink, defined the phenomenon as the "deterioration of mental efficiency, reality testing, and moral judgment resulting from in-group pressure". Groupthink occurs when individuals in a group feel pressure to conform to what seems to be the dominant view in the group. Dissenting views of the majority opinion are suppressed and alternative courses of action are not fully explored.

Research suggests that certain characteristics of groups contribute to groupthink. In the first place, if the group does not have an agreed upon process for developing and evaluating alternatives, it is possible that an incomplete set of alternatives will be considered and that different courses of action will not be fully explored. Many of the formal decision-making processes (e.g., nominal group technique and brain-storming) are designed, in part, to reduce the potential for groupthink by ensuring that group members offer and consider a large number of decision alternatives. Secondly, if a powerful leader dominates the group, other group members may quickly conform to the dominant view. Additionally, if the group is used stress and/or time pressure, groupthink may occur. Finally, studies suggest that highly cohesive groups are more susceptible to groupthink.

Group polarization is another potential disadvantage of group decision-making. This is the tendency of the group to converge on more extreme solutions to a problem. The "risk shift" phenomenon is an example of polarization, it occurs when the group decision is a riskier one than of the group members would have made individually. This may result because individuals for the actions of the group as they would if they were making the decision alone.

Decision-making in groups is a fact of organizational life for many individuals. Because so many individuals spend atleast some of their work time in decision-making groups, groups are the subjects of hundreds of research studies each year. Despite this, there is still much to learn about the development and functioning of groups. Research is likely to continue to focus on identifying processes that will make group decision-making more efficient and effective. It is also likely to examine how the internal characteristics of groups (demographic and cognitive diversity) and the external contingencies faced by groups affect their functioning.

SUMMARY

1. A group can be defined as several individuals who come together to accomplish a particular task or goal. Group dynamics refers to the attitudinal and behavioral characteristics of a group.
2. Command groups are specified by the organizational chart and often consist of a supervisor and the subordinates that report to that supervisor.
3. Task groups consist of people who work together to achieve a common task. Members are brought together to accomplish a narrow range of goals within a specified time period. Task groups are also commonly referred to as task forces.
4. A functional group is created by the organization to accomplish specific goals within an unspecified time frame. Functional groups remain in existence after achievement of current goals and objectives.
5. Interest groups usually continue over time and may last longer than general informal groups. Members of interest groups may not be part of the same organizational department but they are bound together by some other common interest.
6. Friendship groups are formed by members who enjoy similar social activities, political beliefs, religious values, or other common bonds. Member enjoy each other's company and often meet after work to participate in these activities.
7. A reference group is a type of group that people use to evaluate themselves. According toe Cherrington, the main purposes of reference groups are social validation and social comparison.
8. Group structure is a pattern of relationships among members that hold the group together and help it achieve assigned goals.

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9. Norms are acceptable standards of behavior within a group that are shared by the members of the group. Norms define the boundaries of acceptable and unacceptable behavior.
10. Cohesiveness refers to the bonding of group members and their desire to remain part of the group. Many factors influence the amount of group cohesiveness.
11. Group decision making is a type of participatory process in which multiple individuals acting collectively, analyze problems or situations, consider and evaluate alternative courses of action, and select from among the alternatives a solution or solutions.

SELF ASSESSMENT QUESTIONS

1. How do you define a group?
2. What do you understand by task group and functional group?
3. Distinguish between interest group and friendship group.
4. Discuss the stages of development of group.
5. What is the ideal structure of a group? Explain.
6. State the important roles of group.
7. Write a short note on:
   (*i*) Group norms
   (*ii*) Group cohesiveness
8. State any two methods of group decision making.

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11. LEADERSHIP

STRUCTURE

11.1 INTRODUCTION

Leadership is the process of influencing others towards the accomplishment of goals. It is the ability of a manager to induce subordinates to work with zeal and confidence (Koontz and O'Donnell). In short, it is the activity of influencing people to strive willingly for group objectives. These explanations contain many more important points such as:

- **Existence of Followers:** Leadership does not flourish in a vacuum. The essence of leadership is followership. Leadership implies that followers must consent to being influenced. Leaders gain their authority over a group by group consensus alone.
- **Interpersonal Influence:** Leadership envisages the idea of interpersonal influence. It is actually the knack of getting other people to follow you and to do willingly the things you want them to do. With out influence, there can be no leadership.
- **Uneven Power Sharing:** Leadership is a relationship between two or more people in which influence and power are unevenly distributed.
- **Common Goals:** The basic objective of leadership is to rally men and women toward common goals. It involves a happy reconciliation of personal and group objectives.
- **Situational:** Leadership is situational. The qualities, skills and characteristics of a leader are determined, to a large extent, by the demands of the situation in which he is to function as leader. Leadership is a matter of removing barriers in a situation so that subordinates work with freedom and independence.

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- **Continuous Process:** Leadership, more importantly, is a continuous process of influencing behaviour. A leader breathes life into the group and motivates it towards goals. The lukewarm desires for achievement are transformed into a burning passion for accomplishment. It should also be noted that leadership is something a person does, not something he has. Leadership is something that emerges, that grows and that is achieved.

The terms "manager and leader' are often used interchangeably. However, leadership is not same as managership. Leadership can exist in unorganised groups, but managership requires an organised structure. A manager is more than a leader. By virtue of his position, a manager has to organise and control the activities of people toward the plan, accomplishment of objectives. Managership, thus, is a wider term. *All managers are leaders but all leaders are not managers.* The following table presents a summary of these viewpoints:

Leadership vs. Managership

Leadership	Managership
Narrow term	Wider term. A manager is more than a leader.
Exists in unorganised groups. No organised structure is needed.	Requires an organised structure.
Leadership is the activity of influencing people to strive willingly for group goals.	Managership implies exercising functions like planning, organising, staffing, directing and controlling to achieve group goals. Leadership is an aspect of one of these functions.
Leaders get authority by virtue of their skills, abilities and the situational demands. Followers must also consent to being influenced.	Managers get formal authority delegated from above.

Terry has captured the distinct characteristics of leadership by drawing the distinction between leadership and non-leadership thus:

Leadership vs. Non-leadership

Leadership	Non-leadership (Bossism)
• Inspires the employee	• Drives the employee
• Accomplishes work and develops the employee	• Accomplishes work at the expense of employee
• Shows employee how to do his job	• Instils fear in employee by threats and coercion
• Assumes obligations	• Passes the buck
• Fixes the breakdown for loss in production or sales	• Fixes the blame on others for loss in production or sales

Functions of Leaders

Leaders perform a variety of functions while trying to realize the organisational goals. In fact, he sets goals, establishes priorities, commits resources, assigns work to others, coordinates effort and delivers results. While doing so, he takes people along by instilling confidence and by building trust through open and transparent actions The most important functions performed by a leader may be stated thus:

- **Leader develops teamwork:** The three vital determinants of team-work are the leader, subordinates and the environment. These factors are interdependent. It is the leader's responsibility to make the environment conducive to work. He studies the employees individually and instills interest in them. By encouraging the inquisitive employees and by prohibiting insidious elements he creates a healthy environment. He inculcates the sense of collectivism in employees to work as a team. The resultant output will then be efficiency.
- **Leader is a representative of subordinates:** He is an intermediary between the work groups and top management. Leaders are called 'linking pins' by Rensis Likert. As linking pins they serve to integrate the entire organisation and the effectiveness depends on the strength of these linking pins. Leaders show personal concern for the employees. As representatives they carry the voice of the subordinates to the top management.
- **Leader is an appropriate counsellor:** Often, employees suffer from emotional problems. Inability to secure promotion, wage increase for showing good performance, obtain transfer to a good location: the reason could be any of these and many more. Such barriers keep the employees off the work track. Leaders perform a vital function here. They listen to the employees, try to remove the obstacles, offer wise counsel and keep the employees mentally happy.
- **Leader uses power properly:** If a leader is to effectively achieve the goals expected of him, he must have power and authority to act in a way that will stimulate a positive response from the workers. No leader is effective unless the subordinates obey his orders. Therefore, the leader uses appropriate power so that the subordinates willingly obey the orders and come forward with commitment.
- **Leader uses time well:** Time is precious but often overlooked in management. A leader uses his time productively by following time-preparation-charts, scheduling techniques, etc. Information, facts and statistical inputs are combined effectively so as to produce timely decisions.
- **Leader strives for effectiveness:** Leaders take certain conscious decisions in order to achieve goals effectively. In addition to the above functions, they carry out additional activities to reach the targets in time. They delegate work, invite participation from subordinates, offer proper rewards for good performance, mix up with subordinates and enforce discipline and control whenever necessary.

11.2 IMPORTANCE OF LEADERSHIP

Leadership helps an organisation in the following ways:

1. **Inspires employees**: A leader creates a strong urge in employees for higher performance. He lifts a man's visions to higher sights. By showing the proper way to do a job, a leader helps employees to give their best to the organisation. As pointed out by Terry, leadership triggers a person's will-to-do and transforms lukewarm desires for achievement into burning passions for successful accomplishment'.

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2. **Secures cooperation**: A dynamic leader breathes life into the group. He influences the behaviour of employees in such a way that they readily work for organisational objectives. He makes them realise that by translating plans into action, they can earn adequate rewards. He, thus, inculcates a sense of collectivism in the employees and forces them to work as a team. Leadership is essential to group action. Without sound leadership, cooperative action is impossible. Leadership provides character to the group and paves the way for integrated efforts at various levels.
3. **Creates confidence**: Employees often suffer from emotional problems in organisations. They get frustrated because of their inability to do certain jobs, to secure promotions, to sharpen their skills, to get along with people, etc. A leader comes in here, renders wise counsel and tries to remove barriers (real or imaginary) and instils confidence in employees. He creates a wholesome attitude among employees for successful work accomplishment. He transforms potential into reality. He makes them realise their potential by showing the right way, clearing the paths and removing the hurdles.
4. **Provides good working climate**: A leader provides a healthy work climate where individuals can work toward objectives happily. He initiates necessary changes and unifies efforts of employees. By making a judicious use of time and money, he takes up assignments on a priority basis. Important problems are tackled first through prompt actions. Subordinates are allowed to do things independently. Their problems are looked into and suggestions taken note of. He provides imagination, foresight, enthusiasm and initiative to employees and forces them to have an identity of interest, outlook and action.

11.3 LEADERSHIP STYLES

The behaviour exhibited by a leader during the supervision of subordinates is known as leadership style. There are probably as many different styles of leadership as there are leaders. Basically, three styles are listed out.

1. **Directive, Autocratic or Authoritarian Style:** An autocratic leader is one who takes all decisions himself without consulting the subordinates. He centralises power and decision-making in himself. He oversees work from close quarters and exercises full control over subordinates. Orders are issued and subordinates are expected to execute these without back-talk. The leader, thus, tries to develop obedient and predictable behaviour from group members. He permits very little freedom of action. Discipline is enforced by the use of rewards and threats of punishment. Communication tends to take a one-way route. Subordinates have to depend on the superior for everything (setting goals, determining priorities and implementing plans, etc., Figure 11.1: X = leader; A, B, C, D = subordinates)

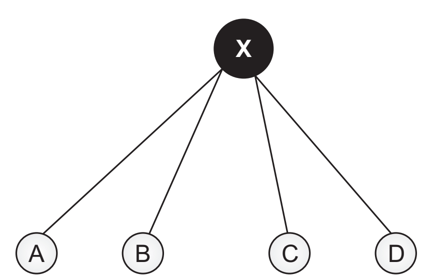

Fig. 11.1 Autocratic Style

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Style Features

- Centralised power and decision-making
- Close supervision and control
- Discipline through rewards/punishment
- One way communication
- Total dependence of subordinates on superior

Advantages	Disadvantages
Decisions can be made quickly. Control can be centralised for orderly operations	May result in low motivation. It is difficult to develop motivation when the leader makes all the decisions
Well-developed leadership skills can be applied directly to group activities	There is very little scope for developing the creative potential of people
The leader can take direct control when there is a major problem or crisis. Best suited for crisis management	Subordinates tend to develop defensiveness; they constantly look for ways and means to avoid responsibility
Suitable for managing inexperienced, insecure and incompetent subordinates	One way communication may lead to misunderstandings at various levels
Offers consistence in goals and procedures by leader making decisions	Subordinates tend to depend on leader for everything. Matters move slowly and it becomes difficult to adapt to change

Example: The world, unfortunately is full of autocratic leaders who tried to bulldoze dissent and left their ugly imprint on corporate life exercising brute force. For example, Martha Stewart—the richest woman in entertainment industry at one point of time – built her empire with personal attention to every detail. Whether you liked her or not, she was meticulous and demanding. She was also very successful in her endeavors, and in using her autocratic management style. Many industry analysts might argue that it was Martha's autocratically demanding style that allowed her to flourish in a competitive environment such as the entertainment industry. Others might argue that even more success might have awaited Martha Stewart if she had not relied so heavily on the autocratic style.

2. **Participative or Democratic Style:** The participative leader encourages his subordinates to participate in the decision making process. He consults them before taking decisions. The suggestions put forward by subordinates are taken care of. There is open, two-way communication. Good rapport is maintained with members of the group. The leader does not dominate. He gives lot of freedom to subordinates. The emphasis is on cooperation and participation to achieve the maximum potential of the group.

Box Style Characteristics

- Involves people in decision making and goal setting
- Attitudes, feelings, suggestions of members considered while making decisions
- Freedom of thinking and action available to a reasonable extent

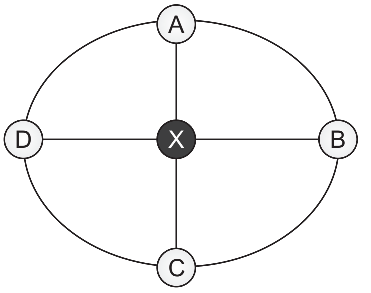

Fig. 11.2 Participative Style

- Two way, open communication between members
- Opportunity to use one's potential in the service of organisation exists

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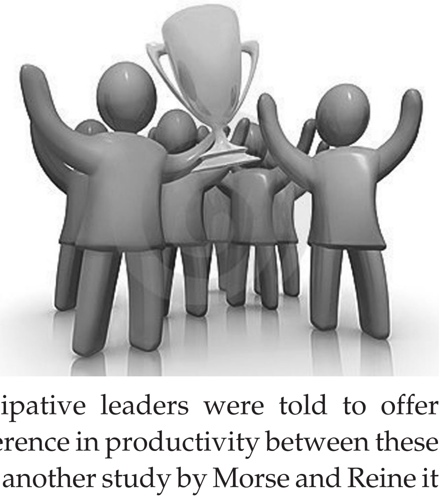
Advantages and Disadvantages of Participative Style

Advantages	Disadvantages
Motivates people to do better	Individuals may dominate the participation or make disruptive contributions
Knowledge and experience of group members can be used in decision making	Very time consuming approach from the leader's point of view—quick decisions cannot be taken
Individual abilities developed through participation	Participation may be used as an instrument to 'pass the buck' to subordinate
Members feel more committed to group goals. There is less resistance to managerial actions	Decisions get diluted, when attempts are made to please everyone
Members develop healthy attitudes toward the leader, the work and the organisation	Participation may be viewed as a sign of inefficiency on the part of the leader. Subordinates may view the leader as incompetent to handle the job independently.
Two-way communication keeps members informed about what is going on and why.	Participation may be used to manipulate people to suit personal ends.

When to use Participative Style?

Participative style is most effective when, (i) the organisation has communicated its goals and objectives to all the subordinates and the subordinates have accepted them, (ii) the leader is genuinely interested in obtaining ideas and suggestions from subordinates, (iii) the subordinates are highly interested in participating in organisational decision making, (iv) the subordinates have a reasonable amount of knowledge and experience and finally, (v) the time for task completion allows participation to take place in a meaningful way.

Is Participative Style Superior?



It is commonly believed that participative style helps subordinates to develop their talents fully. The participative leader is able to put them on the track easily and get the results without much difficulty, unlike an authoritarian leader. However, the superiority of participative style over authoritarian one is not supported by research. In one study, McCurdy and Efer investigated the effects of both these styles on subordinates' performance. The teams working under authoritarian leaders were told to simply obey orders, while those working under participative leaders were told to offer suggestions and not follow orders blindly. No difference in productivity between these two groups has been found by these researchers. In another study by Morse and Reine it has been found that democratic style results in higher job satisfaction to employees and autocratic leadership in greater productivity. If the goal is to increase output, autocratic style is appropriate and if the goal is to have a highly motivated workforce, a democratic approach is called for. According to Vroom, the choice of a particular style depends on employee expectations also. Participative style will give positive results when applied on subordinates wanting to do things independently.

Autocratic vs. Democratic Style

With the above information in the background, is it possible to draw the curtain between the autocratic and democratic styles now? The following table is developed for this purpose.

Autocratic vs. Democratic Leadership Style

Autocratic	Democratic
Manager using this style may be labelled as Theory X Leader	Manager exhibiting this style may be labelled as Theory Y Leader
The leader is task oriented and restrictive	The leader is follower-oriented and permissive
Leader structures the work, strives to find out better methods and keeps the employees busy on the task	The leader is considerate of his subordinates, recognises their needs and respects their human dignity
One way communication	Two way communication
Threads of control in the hands of one individual. Decision making is centralised.	Pushes controlling power to subordinates to a reasonable extent. Decentralised decisions
Quick decisions possible.	take time.
Employee resistance may be high; getting them committed to goal is not easy	Resistance from employees is minimum and hence commitment to objectives may be high
Developing subordinates and preparing a training ground for future managers is difficult	Develops the subordinate and prepares him for future managerial roles

3. **Laissez-Faire or Free-rein Leadership Style.** In the democratic style the leader encourages the group to think and develop a solution. The laissez-faire or free rein leader goes a step further and turns an entire problem or project over to subordinates. The subordinates are asked to set their own goals and develop plans for achieving them. The leader does not direct at all. He acts as a passive observer and does not exercise power. There is total abdication of responsibility. He offers advice when required. There is very little control over the group members.

Style Characteristics

- Group members set goals and decide things on their own
- Leader is a passive observer of things
- Leader does not decide, does not control or exercise influence over the group
- Leader abdicates responsibility
- Members operate in an unrestricted environment
- Communication is open and can take any direction

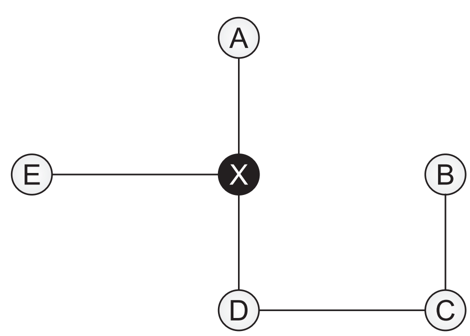


Fig. 12.3 Free-rein Style

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The Figure show the leader passing on materials and information to group members on request. There is no attempt to regulate the course of events. Free-rein leadership may be suitable where the organisational goals have been communicated well in advance and are acceptable to subordinates. The subordinates, in turn, must be well-trained and highly knowledgeable concerning their tasks and willing to assume responsibilities. They must be highly motivated, sincere and duty-conscious. When these pre-conditions are met, free-rein style may yield good results.

Advantages or Disadvantages of Free-rein Style

Advantages	Disadvantages
Working independently can be motivational for some people	Activities may suffer owing to lack of coordination
May encourage suggestions, creativity and innovations	Group objectives may be ignored and individual objectives may dominate activities
Group is flexible and can adapt quickly to change	Lack of control may lead to disruptive behaviour
Open and direct communication with opportunity for self-expression	Individuals may go their own ways resulting in confusion and chaos
May increase the 'quality of life' for some group members	

11.4 TRANSFORMATIONAL AND TRANSACTIONAL LEADERS

According to James Burns there are two types of leaders: transformational and transactional. Transformational leaders are those who recognise, exploit and satisfy the needs of followers while elevating them into high levels of motivation and morality.

Features of Transformational Leaders

- Is a model of integrity and fairness.
- Sets clear goals.
- Has high expectations.
- Encourages others.
- Provides support and recognition.
- Stirs the emotions of people.
- Gets people to look beyond their self-interest.
- Inspires people to reach for the improbable.

Precisely stated, transformational leadership is a style of leadership in which the leader identifies the needed, change, creates a vision to guide the change through inspiration, and executes the change with the commitment of the members of the group.

Transformational leadership elevates the goals of subordinates and inspires them to give their best to an organisation. Transformational leadership, primarily, consists of three dimensions: charisma, individualised consideration and intellectual stimulation.

Four Components of Transformational/ Transforming Leadership

1. **Idealized Influence (II) –** The leader serves as an ideal role model for followers; the leader "walks the talk," and is admired for this.
2. **Inspirational Motivation (IM) –** Transformational leaders have the ability to inspire and motivate followers. Combined these first two I's are what constitute the transformational leader's charisma.
3. **Individualized Consideration (IC) –** Transformational leaders demonstrate genuine concern for the needs and feelings of followers. This personal attention to each follower is a key element in bringing out their very best efforts.
4. **Intellectual Stimulation (IS) –** The leader challenges followers to be innovative and creative. A common misunderstanding is that transformational leaders are "soft," but the truth is that they constantly challenge followers to higher levels of performance.

(*a*) Charisma literally means divinely conferred gift. Charismatic behaviour is that which instils pride, faith and respect and effectively articulates a sense of vision. Examples include J.F. Kennedy, F.D. Roosevelt, General George Patton and in India Mahatma Gandhi, Jawaharlal Nehru etc. Charismatic behaviour is certainly important for elevating subordinates' goals but does not offer the necessary follow-through for successful goal accomplishment. Individualised consideration and intellectual stimulation are needed to convert expectations into reality. Boss agreed that rather than being a mystical gift rarely seen, charisma may be normally distributed and that all leaders possess varying degrees of it.

Qualities of Charismatic Leaders

- They are highly confident in their ability and judgement.
- They have a vision and they are able to sell their dreams to their subordinates clearly, emphatically and exhibit willingness to make sacrifices to make it come true
- They are unconventional and do things differently. Their quirky ways, when successful, elicit tremendous following and admiration. Much of the success of Southwest Airlines is attributed to the zany antics of its founder, Herb Kelleher who is known to dress in funny costumes aboard planes. He loved to make jokes and engage in pranks and corporate antics, prompting people to call him the clown prince of the airline industry.(See the case study at the end of chapter.)
- They make things happen. They have extraordinary ability, monumental patience and dogged determination to convert their dreams into a concrete reality. They do not quit and give up easily. They are ready to bring about change, at any cost. As one writer expressed it: they make ordinary people do extraordinary things in the face of adversity. At the same time, they are very much aware of what they can possibly achieve and where and when to say good-bye.

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(*b*) Individualised consideration involves delegating tasks to stimulate and create learning, recognising the individual needs of each subordinate and respecting each subordinate as capable of achieving the assigned goals.

(*c*) Intellectual stimulation involves introducing and encouraging new ideas as well as rethinking traditional methods, with emphasis on the many angles in doing a job.

In **Transactional leadership,** the leader exercises influence during daily leader-subordinate exchanges without any special emotional inputs or considerations. The leader offers rewards to subordinates who achieve the tasks assigned to them (or for showing appropriate behaviour). His focus is on achieving results in a practical way, clarifying things to subordinates. He is hard working, tolerant and fair minded. He generally takes pride in keeping things running smoothly and efficiently. He often emphasizes the importance of impersonal aspects of performance such as plans, schedules and budgets. He has a sense of commitment to the organization and conform to organizational norms and values.

Features of Transactional Leaders

- Task Centred
- Short-term Planners
- Practical
- Passive
- Maintain Stability
- Concrete
- Tangible

11.5 CONTINUUM OF LEADER BEHAVIOUR

Tannenbaum and Schmidt have identified the range of possible leadership styles and presented them on a continuum journeying from authoritarian leadership bahaviour at one end to free rein behaviour at the other end as shown in Figure 11.4.

The figure reveals that the manager is presented with a number of leadership behaviour alternatives. On the left side of the continuum are the leaders who enjoy a high degree of control and delegate very little authority. At the extreme right the emphasis is on the subordinates. The subordinates enjoy a greater amount of freedom to exercise initiative in work related matters. Now the question arises as to how a manager moves along this continuum? This depends upon three forces—in the manager, forces in the subordinates and forces in the situation.

(*a*) **Forces in the manager:** These forces include the value system of leader (e.g., the strong feeling that subordinates should participate in decisions that affect them), his confidence in his subordinates, his leadership inclinations and his tolerance of ambiguity.

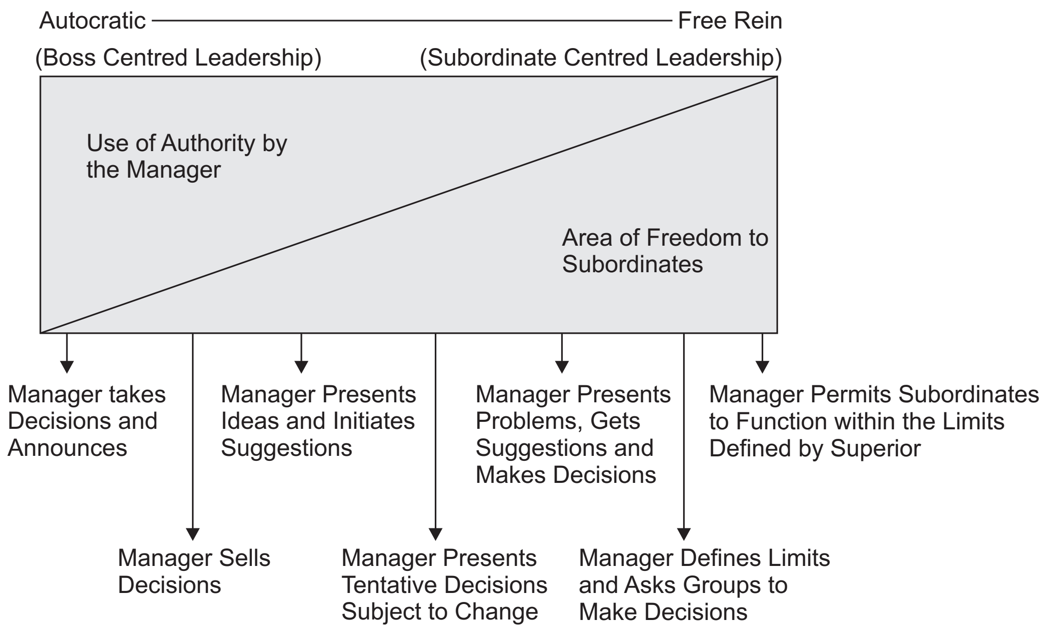

Fig. 11.4 Continuum of Leader Behaviour

(*b*) **Forces in the subordinates:** These include the subordinates' need for independence, their level of tolerance for ambiguity, readiness to assume responsibility for decision-making, their interest in and understanding of problems, understanding and identifying organisational goals, their experience with and expectations of leadership.

(*c*) **Forces in the situation:** These include the type of organisation, problems, group effectiveness, and the pressure of time.

Problems with the Continuum Approach

The leader continuum approach provides a wide range of leader behaviours. It identifies the number of behavioural alternatives available to a manager, and the success of the leadership style depends on the modification of the leader lo the needs of the situation.

The basic problem with the continuum approach is that it supports uni-dimensional thinking. A boss-centred leader, as we look at figure, is seen as greatly interested in task-oriented activities, but not very concerned with people. An increase in one type of behaviour is automatically seen as a decrease in the other type. Research evidence, however, brings out that employees-orientation and task-orientation are not opposite ends on a continuum. A manager who becomes more employee-centered does not thereby become less task-oriented. Each orientation has an independent orientation: and a manager may have both orientations in varying degrees. This has been illustrated, among others by the Ohio studies.

11.6 LIKERT'S SYSTEM—4 MODELS OF MANAGEMENT

Rensis Likert has developed four models of management (known as systems of management) after examining important factors that are closely related to the management process (such as motivation, communication, goal setting, controlling, decision making etc.). His models are based on the human resource philosophy of management. Likert felt that personnel are the precious assets and, therefore, must be treated and managed properly. Likert classified management philosophies into four convenient styles:

System 1 – Exploitative – Autocratic

In this style he sets goals and decides the means of achieving them. He decides things unilaterally, issues orders and instructions to subordinates as to how to achieve results. He seeks total compliance from his subordinates. He does not encourage subordinates to participate in any matter. Communication takes a one-way route i.e., top to bottom and is highly formal in nature. The style is marked by unfriendly relations, distrust and ill-will. There are rewards for those who achieve results. Those who fall behind in the race are punished severely (carrots for achievers and stick for those who fail to achieve the goals).

System 2 – Benevolent Autocratic

System 2 managers are autocratic in their approach but not exploitative. They adopt a paternalistic approach towards the subordinates. They grant some freedom to subordinates to carry out their tasks within certain limits. Goal setting is centralised. Decisions flow from top to bottom. Subordinates have to carry out the decisions taken by the manager sincerely. The carrot and stick policy is followed here also. Efficient employees are rewarded and inefficient ones are punished. Communication is one way; the superior – subordinate relations are marked by fear, suspicion and distrust.

System 3 – Consultative

In this system managers set goals and issue orders after discussing them with subordinates. Major decisions are taken at the top. The routine ones are left to subordinates. Subordinates can discuss work-related matters with managers freely. There is, thus, two-way communication. Managers trust subordinates to a great extent and repose confidence in their implementation abilities. Greater emphasis is put on rewards than on penalties to motivate subordinates. The control system is flexible. This system of management, thus, gives due weightage and importance to the human factor.

System 4 – Democratic

In this system managers maintain cordial and friendly relations with subordinates. Subordinates take active part in the process of goal-setting and decision making. The manager acts like a friend, counsellor and memtor. Communication is open and transparent. Greater emphasis is put on self-appraisal and self-control in place of close supervision and "control from above". Subordinates are encouraged to do things on their own, assume responsibility for their actions. There is a high degree of decentralisation of authority. Subordinates get a stimulating chance to exploit their potential and scale greater heights within the organisation.

According to Likert, System 4 is an ideal one which ought to be adopted by organisations so as to improve workers' satisfaction and performance. Likert's research also indicated that System 4 management is far superior to other models. He, therefore, suggested leadership training at all levels of management so that managers can learn the basics of System 4 management.

11.7 THEORIES OF LEADERSHIP

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Leadership theories are broadly classified into three types: trait theory, behavioural theory, situational theory. Trait theory views leadership as a combination of a set of personality traits. Behavioural theory attempts to identify the individual behaviour of leaders associated with effective leadership. Situational theory tries to identify certain situational factors that determine how effective a particular leadership style will be.

Trait Theory

The trait theory is based on the great man theory, but it is more systematic in its analysis of leaders. Like the great man theory, this theory assumes that the leader's personal traits are the key to leadership success. However, unlike the greatman theory, trait theorists do not necessarily assume that leaders are born. Leaders, as per trait theorists, differ from their followers with respect to a small number of key traits and these traits remain unchanged across time. Ghiselli has provided a list of generally accepted traits that contribute to leader effectiveness.

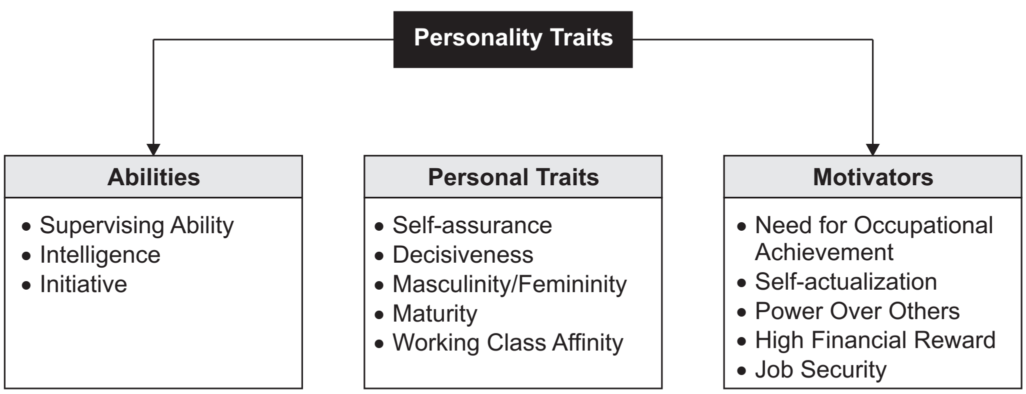

Fig. 11.5 Personality Traits

Keith Davis had pulled together the following four traits that are shared by most successful leaders:

(*a*) **Intelligence:** Leaders tend to have somewhat higher intelligence than their followers.

(*b*) **Social maturity and breadth:** Leaders tend to be emotionally mature and have a broad interest range. They are neither crushed by defeat nor over-elected by victory. They have high frustration tolerance.

(*c*) **Inner motivation and achievement drive:** Leaders want to achieve things, when they achieve one thing, they seek out another.

(*d*) **Human relations attitudes:** Leaders develop a healthy respect for people and realise that to accomplish tasks, they must be considerate of others.

Criticism

Leaders who fail as leaders and individuals who never achieve leadership positions often possess some of the same traits as successful leaders. For example, although

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taller people may generally be more successful as leaders, many tall people have neither the inclination nor the capabilities to be the leaders. At the same time many short people have risen to leadership position. Trait theory is severely criticised on the following grounds.

1. The list of personality traits is painfully long and exhaustive. Although over one hundred personality attributes of successful leaders have been identified, no consistent pattern/patterns have been found.
2. Researchers often disagree over which traits are the most important for an effective leader. There is no universal list of traits for successful leaders.
3. Leaders cannot be markedly different from their followers. Extremes in personality are not usually associated with leadership.
4. It is difficult to define traits. When posed with the question of defining a trait, executives often come out with a bewildering variety of explanations, making a mockery of the trait theory.
5. It is often difficult to measure traits. The measurement tools employed to quantify traits (in ways that will make them useful to executives) are open to doubt. For example, some of the psychological attributes (intelligence, initiative) cannot be observed but can only be inferred from the behaviour.
6. How much of a trait a person should have remains a puzzling question. It is not clear how high score a person must achieve on a given trait to make it effective.
7. Effective leadership is not a function of traits alone. Executives often behave in a way they think is appropriate for their job. There is a wealth of scientific evidence pointing the significance of situational factors as determinants of leadership behaviour. Trait theory fell into disfavour because it did not consider the whole leadership environment.
8. Finally, leadership skills vary according to the type of work a person performs in the organisation. A leader may employ three different types of skills at different levels in the organisation: technical, human and administrative skills. It is ridiculous to assume that traits are uniformly distributed at all managerial levels.

Behavioural Theory

In contrast with trait theory, behavioural theory attempts to describe leadership in terms of what leaders do, while trait theory seeks to explain leadership on the basis of what leaders are. Leadership according to this approach is the result of effective role behaviour. Leadership is shown by a person's acts more than by his traits. This is an appropriate new research strategy adopted by Michigan Researchers in the sense that the emphasis on the traits is replaced by the emphasis on leader behaviour (which could be measured).

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(a) The Michigan Studies

After studying numerous industrial situations, the Michigan researchers identified two leadership styles—employee-centred and production-centred—influencing employee performance and productivity.

Employee-centred Leader	Production-centred Leader
Treats subordinates as human beings.	Emphasises technical aspects of job.
Shows concern for their well being.	Focus on work standards close supervision.
Encourages and involves them in goal setting.	Employee seen as a tool in the production process.

They prescribed employee-oriented style of leadership to increase productivity. They contended that supervisory controls and production-centred leadership style will be frustrating to the employees; affects their morale leading to unsatisfactory performance on the job. The Michigan studies were more compatible with the prevailing system in 'post-Hawthorne America' and as such became very popular. Researchers were able to identify specific behaviours that influenced employee behaviour and productivity and advised scrupulously that a people orientation should come before a work orientation. These findings led to the widespread belief in the 1950s that the employee-oriented leadership style was always superior.

(b) The Ohio State University Studies

The Ohio State University studies identified two leadership behaviours—Initiating structure and Consideration—after analysing actual leadership behaviour in a wide variety of situations. Consideration (C) refers to the ability of the leader to establish rapport, mutual respect and two-way communication with employees. The leader is friendly, approachable and listens to the problems of employees and allows them to suggest. Initiating Structure (IS) refers to the extent to which the leaders structure and define the activities of subordinates so that organisational goals are accomplished.

During research, the Ohio State scholars have developed the Leader Behaviour Description Questionnaire (LBDQ) that contains 15 items regarding the consideration and an equal number referring initiating structure, to describe activities displayed by the leader. Research Staff also developed a Leader Opinion Questionnaire (LOQ) that reflects the self-perceptions that the leaders have about their style of leadership.

The researchers found that IS and C were independent and distinct dimensions. A high score on one dimension does not necessarily a low score on the other. Leader behaviour was plotted for the first time, on two separate axes rather than on a single continuum. Four quadrants were developed to show IS and C in varying combinations.

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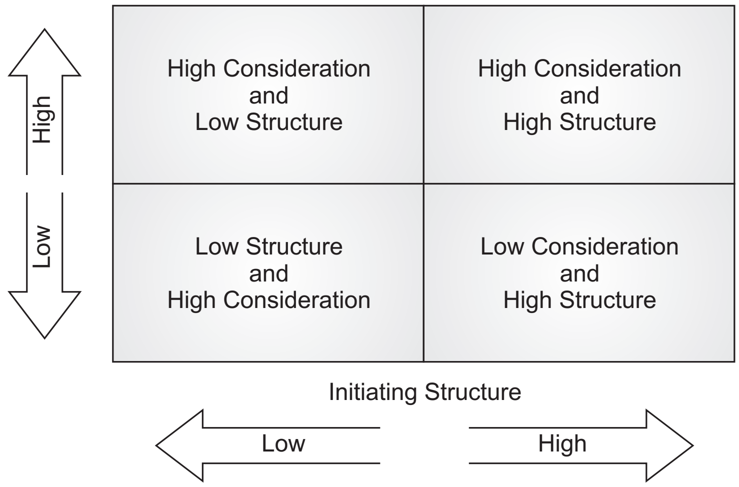

Fig. 11.6 Four Quadrants to Show IS and C in Varying Combinations

Evaluation. The two dimensional model became a 'best seller' overnight and made an epoch-making contribution to leadership studies afterwards. It has caught the imagination of the managers throughout the world due to its simple but powerful reasoning. The influence of the Ohio State studies has been extensive. The concepts of consideration and initiating structure have had a high intuitive appeal to practicing managers so that many training programmes have made use of them. It is easy to understand the intricacies of the model and 'practice' the leader behaviours. The logic behind the model appears quite reasonable and appealing.

(c) The Managerial Grid

The most significant and practical contribution to more effective management principles and organisation development to appear in many years is the Managerial Grid. The concept is created and developed by US Industrial psychologists R.R. Blake and Jane S. Mouton. The managerial grid is based on massive practical research into behavioural sciences in the industrial setting. Managerial grid is more than just a theory in human behaviour. It is a tested science of management theory employing systematic principles which can be taught and which may then be applied in the day-to-day situations. The exciting aspect of the managerial grid is its effectiveness in improving people's attitudes and behaviour throughout an entire organisation to the benefit of the organisation. It promises to turn the 'art' of managing into a 'science'. It has been successfully applied in industry and has contributed greatly to increased profits and union-management relations.

Crux of the Theory

Behavioural scientists have, for a painfully long time, separated, isolated and frequently misconstructed the two concerns; the concern for production and the concern for people. According to Blake and Mouton these concerns are two sides of the same coin and should be utilised with maximum and integrated concern to achieve, the objectives of the organisation. It is Blake and Mouton's assumption that people and production are complementary rather than mutually exclusive.

1. **Concern for production:** This is not limited to things only. Production maybe assessed through the number of creative ideas that applied research turns into useful products, procedures or processes: quality and thoroughness of staff services, work load and efficiency and measurements as well as units of output.
2. **Concern for people:** It is not confined to narrow consideration of interpersonal warmth and friendliness. It covers a variety of concerns which can include concern for degree of personal commitment to complete a job for which one is responsible; accountability based on trust rather than force; self esteem, desire for a sense of security in work; friendships with co-workers leading to a healthy working climate.

   The visual aspect of the managerial grid is portrayed in the Figure 11.7.

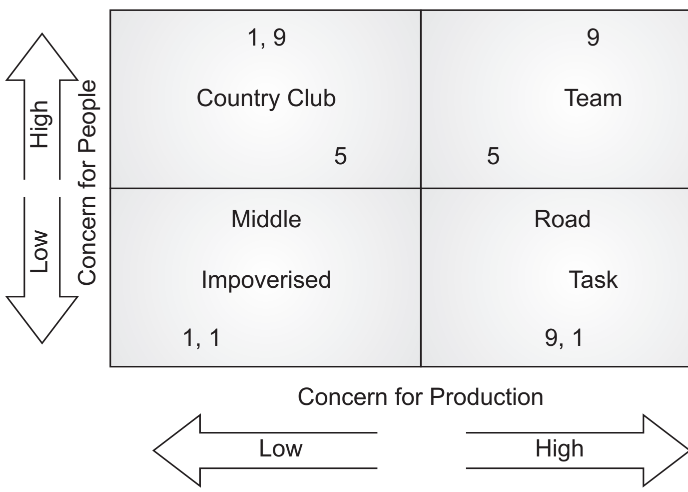

Fig. 11.7 The Visual Aspect of the Managerial Grid

Figure 11.7 shows the degrees of concerns for production and people and possible interactions between them. The horizontal axis represents concern for production while the vertical axis indicates concern for people. Each is expressed as a nine-point scale of concern. The number 1 in each instance represents minimum concern. The number 9 represents maximum concern.

(*a*) **Impoverished:** Exertion of minimum effort is required to get work done and sustain organisation morale.

(*b*) **Country club:** Thoughtful attention to needs of people for satisfying relationships leads to a comfortable, friendly organisation atmosphere and work tempo.

(*c*) **Middle road:** Adequate organisation performance is possible through balancing the necessity to get work with maintaining morale of people at satisfactory level.

(*d*) **Task:** Efficiency in organisations result from arranging conditions of work in such a way that human elements interfere to a minimum degree.

(*e*) **Team:** Work accomplishment is from committed people and interdependence through a common stake in organisation that leads to relationships of trust and respect.

Theoretically speaking there are eighty one possible positions on the grid, reflecting as many leadership styles, but the focus usually centres around five basic styles. The 9,1 leader is mainly concerned with production and has little concern for people. This person wants to meet production schedules and get the task done at all costs. The 1,9 style reflects a minimal concern for production coupled with a maximum concern for people. The 1,1 leader has little concern for both people or production. The 5,5 style reflects a moderate concern for both. The 9,9 style is viewed as the ideal leadership style: it exhibits a maximum concern for both production and people. According to the managerial grid, of all, the 9,9 style is the optimum leadership approach, often called 'super leader style' and many organisations have used training programmes to develop 9, 9 managers. Blake and Mouton assert that this is one best style of exercising most effective leadership; what changes with the situation is the tactics of application.

Evaluation. Grid approach is attractive, instructive and has a commonsense appeal. The grid helps managers to identify their own leadership styles. It serves as a useful framework for the leaders to use in assessing their styles before undertaking a rigorous training programme that is created to move them to the 9,9 style. The evidence from other sources such as Fiedler, does not square with the notion that the best leaders invariably tend toward an intense concern for both people and work. In fact, Bernadin and Alvares point out "a 9,9 orientation applied to the organisation as a whole will foster a kind of corporate Darwinism". Though the grid programme is popular among practitioners, it is highly controversial among the theorists and researchers because of its lack of empirical evidence.

Situational Theories

Leadership is a complex social and interpersonal process; and to understand it fully we need to see the situation in which a leader operates. The situational theme of leadership is highly fascinating, but is certainly a challenging orientation to implement. An effective leader must be flexible enough to adapt to the differences among subordinates and situations. Leadership effectiveness depends upon the fit between personality, task, power, attitudes and perceptions. On the lines of this new and sophisticated conception, some elegant theories have been developed. Let us examine two such theories in this section: Fiedler's contingency model and House's path goal model

(a) Fiedler's Contingency Model

Fiedler's contingency model is one of the most serious and elaborate situational theories in leadership literature. Fiedler is probably the first researcher who recognised the need for a broader explanation of leadership phenomena anchored on situational variables. Fiedler's model is called a 'contingency' model because the leader's effectiveness is partially contingent upon three major situational variables.

- **Leader–member relations:** It refers to the degree of confidence, trust and respect followers have in the leader. It indicates the degree to which group members like the leader and are willing to accept the leader's behaviour, as an influence on them. If followers are willing to follow because of charisma, expertise, competence or mutual respect, the leader has little need to depend on task structure or position power. If, on the other hand, the leader is not trusted and is viewed negatively by followers, the situation is considered less favourable.

- **Task structure:** It measures the extent to which the task performed by subordinates is routine or non-routine. Task structure refers to the degree to which the task requirements are clearly defined, (clarity of goals) the correctness of a decision can be easily verified (verifiability of decisions made) and there are alternative solutions to task problems (multiplicity of options to solve problems). In other words, task structure refers to how routine and predictable the work group's task is.
- **Leader position power:** The most obvious manner in which the leader secures power is by accepting and performing the leadership role. Position power in the contingency model refers to the power inherent in the leader's organisational position. It refers to the degree to which the leader has at his disposal various rewards and sanctions, his authority over group's members, and the degree to which this authority is supported by the organisation.
- **Favourableness of the situation:** Thus, depending on the 'high' and low' categories of these situational variables, Fiedler developed eight possible combinations ranging from highly favourable to unfavourable situations.

Fiedler's Classification of Situational Favourableness

Leader-member Relations	**Good**				**Poor**			
Task Structure	**High**		**Low**		**High**		**Low**	
Leader Position Power Situations	Strong	Weak	Strong	Weak	Strong	Weak	Strong	Weak
	I	II	III	IV	V	VI	VII	VIII

Very Favourable → Very Unfavourable

Fig. 11.8 Fiedler's Findings on How Leader Effectiveness Varies with the Situation

A favourable situation is where the leader-member relations are good, the task is highly structured and the leader has enormous power to exert influence on the subordinates. The first cell in the table is identified with this high degree of favourableness. At the other extreme, an unfavourable situation is where the leader's power is weak, relations with members are poor and the task is unstructured and unpredictable. The last cell represents this situation. Between these two extremes lies the situation of intermediate difficulty. Fiedler states that a permissive, relationship-oriented style is best when the situation is moderately favourable or moderately unfavourable. When the situation is highly favourable or highly unfavourable a task-oriented style produces the desired performance.

Leadership Style

The fundamental question remains as to what type of leadership style is to be exercised by the leader in these situations? To determine the style of leadership (to answer this question) Fiedler has introduced a scale called LPC (esteem for Least Preferred Co-worker.) LPC is a set of sixteen adjective pairs and is quite often referred to as the 'heart' of his research programme. Leaders are asked to think of a person with whom he has worked least well. They are then asked to describe this person on a series of bipolar objective scales as shown below.

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Friendly	8	7	6	5	4	3	2	1	Unfriendly
Enthusiastic	8	7	6	5	4	3	2	1	Unenthusiastic
Cooperative	8	7	6	5	4	3	2	1	Uncooperative
Helpful	8	7	6	5	4	3	2	1	Frustrating
Interesting	8	7	6	5	4	3	2	1	Boring
Distant	8	7	6	5	4	3	2	1	Close

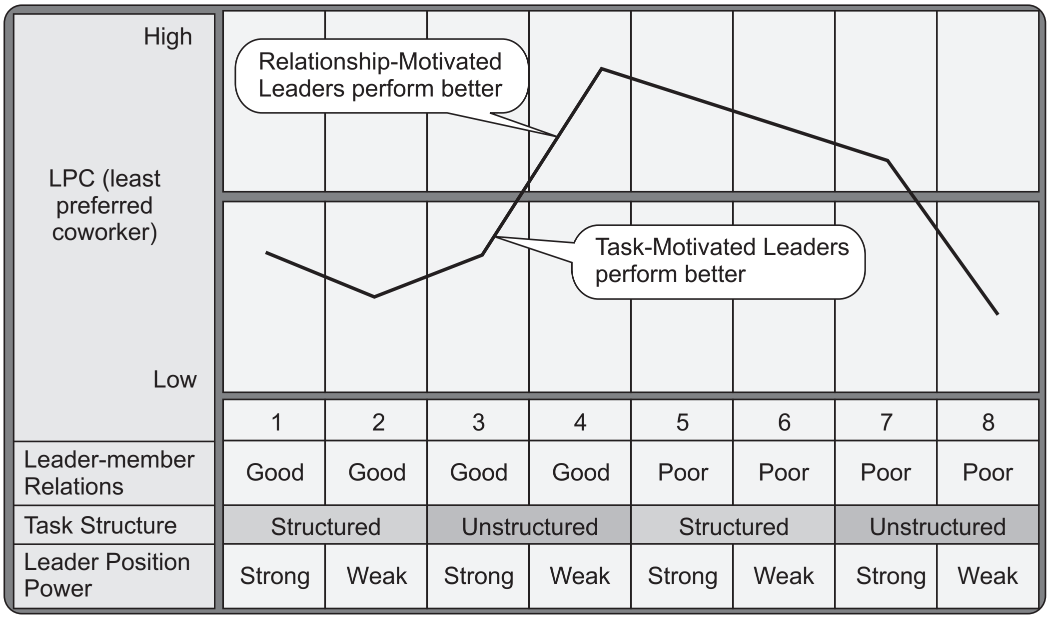

Fig. 11.9 Fiedler's Findings on How Leader Effectiveness Varies with, the Situation

In this bipolar scale '8' represents the most favourable perception of one's least preferred co-worker and '1' the reverse. The leader's responses so measured are then totalled and arranged. Fiedler interprets LPC score to be an index of motivational hierarchy or of behavioural preferences. A leader with high LPC sees good points in the least preferred co-workers and has his preference the desire to be 'related'. The leader seeks to have strong emotional and affective ties with others. According to Fiedler, a high LPC score represents that the leader has human-relations-orientation and low LPC score indicates a task-orientation. What does this ultimately indicate? It means that leaders who rate their least preferred co-worker in a favourable light derive satisfaction through interpersonal relations. On the other hand, the leaders who rate their co-workers in a relatively unfavourable light are bound to get satisfaction out of successful performance. Thus, the functionality of the Fiedler's model hinges on the socio-metric acceptability of the leader and the measurement of perceived psychological distance (how distant do followers feel they are from leader) between leaders and followers.

Situational Factors Determining Leader Effectiveness

Having identified the situational factors and determined LPC score, Fiedler proceeded to see how the situational variables interact with leadership style to determine leader effectiveness. This is presented in a comprehensive diagram (see Figure 11.9).

Horizontal axis in the diagram is represented by situational variables and the vertical axis by the correlation between the leader's LPC score and group performance. A point above the middle line shows that the relationship oriented leaders (high LPC leaders) tended to perform effectively than the task oriented leaders (low LPC leaders). Further, correlation below the line signifies the fact that the task-oriented leaders perform better than the relationship oriented leaders.

1. Task-oriented leaders perform best at the extremes (where the control and influence they can exercise is very low or very high).
2. People centred leaders perform best in situations that are moderate (where the leader's influence and control is neither very high nor very low).

Implications of the Model

What are the implications of Fiedler's model for improving organisational effectiveness? Fiedler and his associates maintain that there is no single successful style of leadership. The most appropriate, leadership style depends upon the situation faced by the leader. Persons performing miserably in one situation may turn out excellent performance in other situations. The situation, in turn, is a function of the leader's relationship with the group, the task structure and the leader's position power. To improve organisational performance, it is highly essential to identify the situation in which specific leadership style would be most appropriate. Leader's performance depends on personality and situational favourableness.

Based on the contingency model, Fiedler developed the 'leader match' training programme to improve leader effectiveness. The basic assumption of the leader match is that the leader's situation is usually much easier to change than the fundamental style. Fiedler believed that it is an extremely difficult task to change leadership styles through training programmes. This is probably due to the fact that leadership style is more than a passing attitude; it is a deeply ingrained and closely held attitude which would respond only to intensive training efforts that are rarely available in the organisation. Moreover, organisations cannot afford expensive selection techniques to find able leaders that fit job specifications.

The question remains as to what is the alternative? The most feasible alternative, in Fiedler's view, is to "engineer the job to fit the manager". This involves a three-step process: Determine whether leaders are task or relationship-oriented; Classify the situational factors of leadership positions; and Select the appropriate strategy to bring about improved effectiveness.

Criticism

Contingency model is not a bed of roses. It is criticised on the following grounds:

1. First of all, LPC as a measuring rod of leadership style is subject to serious criticism. LPC is a confusing concept. According to Fiedler, low score on LPC reflects a task-oriented approach and high score reflects a relationship-oriented approach. But a number of studies in which a leader's style on LPC scale were compared with the 'Consideration and Initiating Structure' scale of the LBDQ do not support this sort of relationship." Moreover, the reliability of the LPC scale is also open to question. For instance, in one study it has been found that the same person may obtain different LPC scores on different days.

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2. Fiedler's model is criticised on the ground that it is unidimensional. He suggests that leaders can be either task-oriented or relationship-oriented, as the situation demands. Further, some researchers contend that Fiedler shapes his theory to fit known results.
3. Contingency model lacks a theoretical orientation. Since it has been developed from research data rather than from theoretical framework, it has predictive power, but lacks explanatory power. It thus becomes less of a theory and more of an empirical generalisation. Fiedler could not explain why one particular leadership trait is more desirable than others in a particular situation. Fiedler, further more, could not explain why the same style is appropriate and work equally well in both favourable and unfavourable situation.
4. There are some fundamental deficiencies in the model as pointed out by some researchers, of course, including the Fiedler himself. For example, a situation of high position power in one study might be considered to be one of low position power in another study.
5. The favourableness of a work situation is defined in terms of three variables: the quality of leader-member relations, the extent to which the task is structured, and the extent of leader's position power. Of these three factors, according to Fiedler, leader member relations is the most important variable followed by task structure and position power. But some researchers have found that of all the three, task structure is the only important situational factor.
6. Further, Fiedler considers only some situational variables. However, researchers have pointed out a number of other situational modifiers affecting the leadership style and subordinate performance. These include subordinates' expectations of leader behaviour, congruence of leadership styles among organisational levels, and the ability of the leader to influence his superior.
7. The model is highly complex and the procedures and statistical analysis that support the validity of the model are both brainstorming and frightening. Further, some behavioural scientists criticised the use of small samples in his research. Of course, Fiedler's colleagues in a follow-up study have made use of large samples and appropriate situational tests.
8. Finally, some criticism is also invited from the application of his model to actual practice of human resource management. Fiedler suggests that management would be better off to engineer positions so that the environment fits the leader instead of the traditional way of selecting the leaders to fit into the existing jobs. He contends that change in the job is preferable to change in the leadership style. But it is very difficult to change the situation to fit the leadership style.

In spite of these criticisms Fiedler's contingency theory has proved to be an important addition to the paradigm of leadership research and literature. Its success may be because of two reasons—(i) it conveniently accommodates a number of personal and situational factors in the study of the leadership, and (ii) it operationalises the model into a set of actions that can be used to improve one's leadership effectiveness.

Contribution

Even critics of contingency theory ungrudgingly accept that Fiedler's theory has made a promising breakthrough in leadership research. In spite of its complexity, there can be little doubt that the contingency model has already had major impact upon the knowledge of leadership and leader effectiveness. The model is and will probably remain a rich source of new ideas, propositions, and hypothesis about leadership style and effectiveness. It has set an important precedent for the mushrooming growth of contingency models, not only for leadership but for management concepts as well.

(b) Path Goal Theory

According to the Path goal theory, proposed by R. J. House, leaders should motivate subordinates by clarifying the path to personal rewards that result from attaining work goals. The path is clarified by eliminating confusion or conflicting ideas that the subordinate may hold. The leader should also increase the number and kinds of rewards available to subordinates. He should provide guidance and counsel to clarify the way in which there rewards can be obtained. In other words, it is the manager's task to provide the subordinate with a better fix on the job, to help clarify realistic expectancies and reduce barriers to the accomplishment of valued goals.

Leaders should, in a nutshell, (i) clear paths, (ii) clarify goals, (iii) provide support, (iv) provide rewards. And (v) analyze the situation, task and employee's needs.

Path Goal Theory: Brief Description

- It is about how leaders motivate followers to accomplish designated goals
- The stated goal of leadership is to enhance employee performance and employee satisfaction by focusing on employee motivation
- Emphasizes the relationship between the leader's style and characteristics of the followers and the work setting
- The leader must use a style that best meets the followers motivational needs

Styles of Behaviour

Leaders can perform these strategic functions, according to the path goal model, by adopting the following styles of behaviour:

(*a*) **Supportive:** Leader is friendly and approachable to the employees; shows concern for status, well-being and needs of the employees, treats them as his equals. This is similar to what Ohio State researchers labelled 'consideration'.

(*b*) **Directive:** Leader here focuses on planning, organising, and coordinating the activities of subordinates. He defines the standards of performance, lets subordinates know as to what is expected of them. It is similar to the Ohio State researchers' 'initiating structure'.

(*c*) **Participative:** Leader here consults the employees, solicits their suggestions, incorporates the good decisions.

(*d*) **Achievement-oriented:** Leader adopting this style sets challenging goals; expects the employees to perform at their best, he continuously seeks increments in their performance etc.

The Situational Factors

The specific leadership style, according to House, that works unquestionably best, is determined by two types of situational variables:

- **Characteristics of subordinates:** The style selected by the leader should be compatible with the abilities, needs and personalities of the followers. If the

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followers are high in their ability, a supportive style would suffice; if they have low ability then a highly structured and directive type of style is necessary. Subordinates with high needs for affiliation will be satisfied with a considerate leader. But subordinates with a high need for achievement will probably prefer a task-oriented leader. Again, the personality of the subordinates is an important contingency variable in the path goal model. Internally-oriented employees, (internals) who believe they can control their own behaviour, prefer leaders who demonstrate more supportive behaviour. On the other hand, externally-oriented (externals) employees who believe that fate controls their behaviour prefer the directive leadership.

Path Goal Theory: Leadership Styles/Situational Factors		
Leadership Style	**Subordinate**	**Environment**
Directive	• Want Authority Leadership • External Locus of control • Low ability	• Complex or ambiguous task • Strong formal authority • Good work group
Supportive	• Do not want Authority Leadership • Internal Locus of control • Internal Locus of control	• Simple or structured task • Weak formal authority • No good work group
Participative	• Want to be involved • Internal locus of control • High ability	• Complex or ambiguous task • Strong or weak formal authority • Good or no good group
Achievement Oriented	• Want authority leadership • External locus of control • High ability	• Simple or structured task • Strong formal authority • Good or no good work group

- **Work environment:** The environmental variables include factors which are not within the control of the subordinate but which are significant to satisfaction or to the ability to perform effectively. These include the subordinates' tasks, formal authority system of the organisation and the primary work group.

Any of the environmental factors can motivate or constrain the subordinate. For example, the subordinate could be motivated by the work group and gain satisfaction from co-worker's acceptance for sitting through the job according to the group norms. House asserts that if the subordinates are working on highly unstructured jobs characterized by high degree of ambiguity in roles, leader directiveness is necessary. In other words, when the task is unstructured, worker feels that his path to satisfaction is bumpy and prefers to be directed. Conversely, if the employees are working on structured and well defined tasks, leader directiveness is redundant and a supportive style will do.

The path goal proposes that leader behaviour will be motivational to the extent that it assists subordinates cope with environmental uncertainties. A leader who is able to reduce the uncertainties of the job is considered to be a motivator because he increases the subordinate's expectations that their efforts will lead to desirable rewards. The degree to which the subordinate sees certain job behaviours as leading to various rewards and the desirability of these rewards to the individual (preference) largely determine job satisfaction and performance. The path goal model compels the leader to consider the individual subordinates as well as the situation.

Evaluation

1. **Complicated:** It is a complicated situational theory. Empirical testing becomes difficult because of methodological complexities.
2. **Negligible support:** The path-goal theory is currently in the state of infancy, backed by a relatively little research (and so is too early to make any substantive assessment). Some researchers report that workers on highly structured tasks have high job satisfaction when their leader uses a supportive style. Conversely, workers on highly unstructured tasks are more productive when the leader uses a directive style but do not necessarily report more satisfaction. Some researchers find the entire theory to be sketchy in nature, requiring further refinement. Research by scientists like Weed, Mitchel etc., do not conform some of the findings of House.
3. **Post Hoc theory:** Another serious limitation is that the Path Goal theory is a Post Hoc theory in the sense that some of the research evidence supporting the theory was also used to construct it.
4. **Incomplete picture:** The Path Goal theory is incomplete, in the sense that it does not explain the effects of leader behaviour on factors other than subordinates' acceptance, satisfaction and expectation. Rather, it provides a tentative explanation of the leadership style. Again the model does not consider the effects of personnel traits that may constrain the selection of leader behaviour. Another limitation is the assumption that leaders can change their behaviours to various leadership situations.

Despite these negative opinions, House's model is appreciated on the ground that it not only attempts to suggest what type of leader may be effective in a given situation but also attempts to explain why the leader is effective. The path-goal theory is somewhat more elaborate than Fiedler's, whose intuitive basis is not entirely clear, in that it takes into account the personality characteristics of subordinates as well as situational factors. It may also be noted that the strength of the path-goal theory is the limitation of Fiedler's contingency model and, vice versa. It is definitely a viable approach when task oriented variables such as role ambiguity, task autonomy and task uncertainty are confronted by followers and leaders. Further the path-goal theory provides a heuristic framework for the new researchers in the field.

SUMMARY

- Leadership is the process of influencing group activities towards the accomplishment of goals in a given situation. A leader performs several important functions while getting things done. He acts as a 'linking pin', counsels people, uses power properly, managers his time will and strives to achieve goals effectively.

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- According to the Greatman theory, leaders are born not made. Successful leaders have certain great qualities that separate them from the 'Crowd'. The theory has lost most of its appeal ever since people began to realize that all are born equal in this world.
- The behaviour exhibited by a leader during the supervision of subordinates is known as leadership style. An autocratic leader takes all decisions himself without consulting subordinates. He permits very little freedom of action. The participative leader encourages his subordinates to participate in the decisions making process. He does not dominate and encourages subordinates to communicate openly. A free-rein leader turns an entire problem or project over to subordinates. He does not direct at all and acts like a passive observer.
- Transformational leaders are those who recognise, exploit and satisfy the needs of followers while elevating them to higher levels of motivation and morality. Transactional leaders focus attention on achieving results in a practical way, clarifying things to subordinates.
- An effective leader must be flexible enough to adapt to the differences among subordinates and situations. The ability to understand the demands of the situation and act in an appropriate manner determines the success of a leader.
- Leadership theories may be broadly put into three types: Trait theory views leadership as a combination of a set of personality traits. It tries to explain leadership on the basis of what leaders are. According to the behavioural theory, leadership is shown by a person's acts rather than by his traits. According to situational theory the qualities, characteristics and skill required in a leader are determined to a large extent by the demands of the situation in which he is to function as a leader. An effective leader must be flexible enough to adapt to the differences among subordinates and situations. The ability to understand the demands of the situation and act in an appropriate manner determines the success of a leader.

SELF ASSESSMENT QUESTIONS

1. "Perhaps the foggiest idea in the field of management is leadership. Yet, despite the fog that obscures its outline and hinders an understanding of leadership, all sorts of organisations are busy trying to develop it". Discuss it.
2. What do you mean by leadership? How is it different from managership?
3. What do you understand by 'leadership style'? Can you explain leadership styles on a continuum? If so, how?
4. What are the major differences between autocratic, democratic, and abdicratic styles of leadership?
5. Explain trait theory of leadership. The results of thousands of studies exploring leadership traits were mildly successful. Do you agree with this statement?
6. Some people have stated that the trait approach is dead and buried. Is it true?
7. What are the major limitations of the trait theory of leadership effectiveness?
8. What are the two critical leader behaviours identified at Ohio State studies of leadership? Do you notice any similarity between Ohio studies and Michigan studies?

9. Explain in detail the managerial grid. Do you advocate grid training for modern managers?

10. Outline the basic theory of the Managerial Grid. Which leadership Style in the grid is most effective according to Blake and Mouton?

11. Critically examine the Fiedler's contingency theory of leadership effectiveness.

12. What background motivational, or personal factors do you think would make a leader high LPC or low LPC?

13. What do you mean by LPC scale? Critically examine this scale in relation to the leadership style.

14. How is the House's path-goal model is related to Vroom's expectancy theory of motivation? What are the basic propositions of the path-goal theory?

15. Path goal model allows for incorporation of many subordinates' and environmental factors in establishing a leader-situation match. Explain these factors.

16. Discuss elaborately the situational theory of leadership as propagated by Hersey and Blanchard.

17. What do you mean by the life cycle theory? Explain the concept of maturity in relation to the theory?

18. "Leadership is situational." Verify the truth in this statement.

19. Is there a single best style of leadership?

20. Present a summarised view of situational theories of leadership. Also, state how leadership potential and effectiveness could be improved?

21. Could someone be a manager but not a leader? A leader but not a manager? Both a leader and a manager? Explain.

22. How is it possible for a leader to be both task-oriented and relationship-oriented at the same time? Can you think of other forms of leader behaviour that are important of a manager?

23. Do you think leadership styles is fixed and unchangeable for a leader or flexible and adaptable? Discuss.

24. Suggest some personal traits that you believe would be useful to a leader. Are these traits more valuable in some situations than in others?

25. What can you do to learn how to be a more effective leader?

26. Describe how organizations develop effective leaders.

27. Which of the many approaches to leadership do you think is the best? Defend your reasoning.

28. Leadership experts cite the following reasons why leaders fail: arrogant, distant, eccentric, impulsive, interpersonal insensitivity, perfectionist, volatile, argumentative, arrogant and cautious. Why do you think these factors might lead to leadership failure? What could leaders do to avoid these?

29. Assess yourself as a leader based on what you have read in this chapter. What are your strengths and weaknesses?

30. Identify the developmental experiences you have had that may have strengthened your ability to lead. What did those experiences each you? Also, identify some developmental experiences you need to acquire, and how you will seek them. Be specific.

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12. MOTIVATION

STRUCTURE

12.1 INTRODUCTION

Motivation is the work a manager performs to inspire, encourage and impel people to take required action. It is a process of stimulating people to action to accomplish desired goals.*"It is the process by which a person's efforts are energized, directed and sustained toward attaining a goal "*(Robbins, 2010). A highly motivated person will put his heart and soul into a job and complete the same to the best of his abilities. The essential job of every manager is to attract and retain talent by striking a happy balance between what the new recruit wants and what the organisation can offer in terms of stimulating growth opportunities, incentives and rewards. The process of motivation is characterised by the following:

- **Motivation is an internal feeling:** Motivation points to energetic forces within individuals that drive them to behave in certain ways and to environmental forces that trigger these drives.
- **Motivation produces goal-directed behaviour:** Motivation has got a profound influence on human behaviour, it harnesses human energy to organisational requirements. There is the notion of goal orientation on the part of individuals, their behaviour is directed towards something.
- **Motivation contains systems orientation:** what inspires people to commit themselves to assigned work is influenced by the nature of work, the mental make up of people and the environmental forces. One should look at all these influencing factors to find out why people are not putting their best foot forward

- **Motivation can be either positive or negative:** Positive motivation or the carrot approach, offers something precious to the person in the form of additional pay, incentives, praise etc., for satisfactory performance. Negative motivation or stick approach emphasises penalties while controlling performance (reprimands, threat of demotion).
- **Motivation means bargaining:** Bahaviour is what people do. Motivation is why they do it. Barnard explained motivation in the form of 'inducements-contribution' theory. It focuses on workers and organisations endeavouring to find what payouts (inducements) to workers in exchange for what degree of cooperation (contributions) from workers will be satisfactory to both parties. The problem of motivation then becomes one of arriving at compensation to workers that will coax them the output that is required.
- **Motivation is different from job satisfaction:** Motivation is the drive to satisfy a want or goal. It is concerned with goal-directed behaviour. Satisfaction refers to the contentment experiences when a want is satisfied. The term 'satisfaction, is used to analyse outcomes already experienced by an employee'. Satisfaction is a consequence of rewards and punishments associated with past experience.
- **Motivation is a continuous process:** Man is a wanting animal. As one need gets satisfied, another need arises causing a person to seek gratification. A variety of needs, therefore, influence people at different points of time. Managers, therefore, should initiate steps to meet these on a daily basis. Motivation is a never ending process.

12.2 IMPORTANCE OF MOTIVATION

The success of an organisation ultimately depends on how effectively managers are able to motivate their subordinates. In the words of Allen, *'poorly motivated people can nullify the soundest organisation'*. The following points bring out the importance of motivation in modern organisations:

1. **Productive use of resources:** Modern organisations work through physical, financial and human resources. The utilisation of physical and financial resources depends on the willingness of people to work. Motivation enables people to convert physical and financial resources into useful products. It helps management to get the best out of human as well as non-human resources.
2. **Increased efficiency and output:** Motivation enables people to work enthusiastically. As we all know, performance is a product of not merely ability to do a task but the willingness to do the same with zeal and enthusiasm. Motivation bridges the gap between the ability to work and the willingness to perform wholeheartedly and thereby to increase the overall efficiency and output. This, ultimately, helps in reducing the cost of operations.
3. **Achievement of goals:** Motivation causes goal-directed behaviour. It helps people to move in a desired direction and earn rewards. In organisations where managers try to understand the needs of employees and institute appropriate incentive systems, accomplishment of goals is fairly easy. If people are not

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properly motivated, no useful purpose can be served by planning, organising and staffing functions.

4. **Development of friendly relationships:** Motivation brings employees closer to the organisation. The needs of employees are met through attractive rewards, promotional opportunities, etc. Employees begin to take more interest in organisational work. Their morale would improve. They begin to think that the enterprise belongs to them and there is no difference between the interests of the enterprise and their own interests. This helps in developing cordial relations between management and workers.
5. **Stability in workforce:** Attractive motivational schemes satisfy the need of employees. As a result, their commitment to organisational work increases. Employees do their tasks loyally and enthusiastically. They are not tempted to leave the organisation. This means reduced employee turnover. Further, satisfaction on the job means reduced absenteeism. Employees attend to their work regularly and sincerely so as to earn rewards. The organisation benefits because it is able to maintain a stable workforce. The skill and competence of employees continue to be available to the organisation. This enhances the image of the firm and helps it to secure the services of competent people.

12.3 THE PROCESS OF MOTIVATION

The way people get motivated is actually a complex process. As mentioned earlier, it is impacted by several forces. However, in a simple model of motivation people have certain needs that motivate them to perform specific behaviours for which they receive the reward that feedback and satisfy the original need.

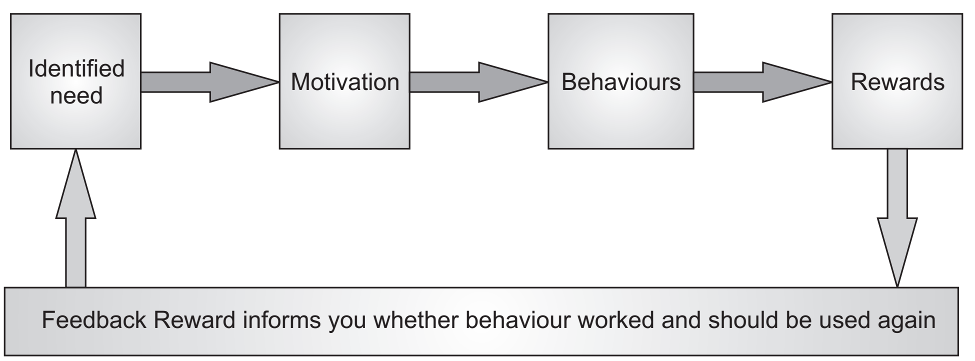
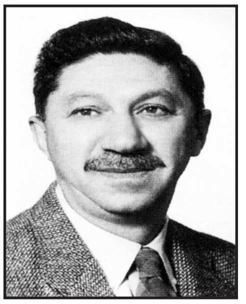


Fig. 12.1 A Simple Model of Motivation

For example you find you are hungry (need) which impels you to seek food (motive). You buy a burger and eat it (behaviour) which provides satisfaction (reward) and informs you (feedback loop) that burgers will reduce hunger and so should be bought in future as well—whenever you are hungry. In an organisation as an hourly worker you may desire more money (need) which impels you (motivates) to work more hours (behaviour), which provides you with more money (reward) and informs you (feedback loop) that working more hours will fulfill your need for more money in the future.

12.4 THEORIES OF MOTIVATION: MASLOW'S NEED HIERARCHY THEORY



Maslow's Hierarchy of Needs Theory proposes that people are motivated by multiple needs and that these needs exist in a hierarchical order. The essential components of the theory may be stated thus:

- Adult motives are complex. No single motive determines behaviour, rather, a number of motives operate at the same time.
- Needs from a hierarchy. Lower level needs must at least partly be satisfied before higher level needs emerge. In other words, a higher order need cannot become an active motivating force until the preceding lower order need is essentially satisfied.
- A satisfied need is not a motivator. A need that is unsatisfied activates seeking behaviour. If a lower level need is satisfied, a higher level need emerges. Higher level needs can be satisfied in many more ways than the lower level needs.
- People seek growth. They want to move up the hierarchy of needs. No person is content at the physiological level. Usually people seek the satisfaction of higher order needs.
- Human beings are influenced by deprivation-motivation-gratification cycle almost all the time. The deprivation of food, sex, safety, love, affection etc. compels people to find ways and means to satisfy them—that is, their lack of satisfaction causes a deficiency that motivates people to meet these needs.

Maslow's hierarchy of needs – as shown in Figure 12.2 – lists human drivers in order of relative importance. Stronger, instinctive, more animal-like drivers sit at the bottom of the hierarchy. The top of the list has weaker, but more advanced, human needs. Maslow says people generally move up the hierarchy; progressing up the list is the essence of motivation. Once people have enough to eat, they start to look around for physical safety. Once they have esteem they move towards self-actualization.

Fig. 12.2 Maslow's Hierarchy of Needs

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1. **Physiological needs**. These are the most basic human physical needs that preserve human life and include needs for food, clothing and shelter. They are the most basic of all human needs and must be satisfied at any cost. They take precedence over other needs when thwarted or not satisfied. Man lives by bread along, when there is no bread. These needs are generally identified with a particular organ in the body (hunger—stomach etc.). Physiological needs are essentially finite. An individual demands only a particular amount of these needs. (You do not have to eat all items of food at once) at any point of time (like 3 Rotis for lunch, another 2 for dinner etc.). After reasonable gratification, they are no longer demanded and hence not motivational. They must be met repeatedly (morning, noon, evening, night time etc.) within relatively short time periods to remain fulfilled. Satisfaction of physiological needs is usually associated not with money itself but what it can buy. The value of money diminishes as one goes up the hierarchy. Physiological needs are relatively independent of each other.
2. **Safety needs:** Once physiological needs are reasonably satisfied, a person begins to think about safety needs. These needs are concerned with protection from physical danger (fire, accident) and economic security (benefits, pension, insurance). People seek to get away with arbitrary, unpredictable managerial actions as well. They want to live in an orderly and safe work environment, and do not want to get stressed arising out of unacceptable managerial actions. Essentially, safety needs are concerned with protection from hazards of life; from danger, deprivation and threat. Safety needs are primarily satisfied through economic behaviour. Organizations can influence these security needs either positively – through pension schemes, insurance plans – or negatively by arousing fears of being fired or laid off. Safety needs too, are motivational only if they are unsatisfied. They have finite limits.
3. **Social or love needs** After the lower order needs have been satisfied, the social or love needs become important motivators of behaviour. Man is a gregarious being and he wants to belong, to associate, to gain acceptance from associates, to give and receive friendship and affection. Social needs tend to be stronger for some people than for others and stronger in certain situations. Social needs have certain features in common: They provide meaning to work life. Individuals are not treated as glorified machine tools in the production process. People congregate because of mutual feelings of being beaten by the system. They seek affiliation because they desire to have their beliefs confirmed. Social needs are regarded as secondary because they are not essential to preserve human life. They are nebulous because they represent needs of the mind and spirit, rather than of the physical body. Social needs are substantially infinite. Social needs are primarily satisfied through symbolic behaviour of psychic and social content. Where these are not met, severe maladjustment is probable; where the hunger for companionship is assuaged, the mental health of the organism is once again on a better base.
4. **The esteem needs.** Esteem needs are of two types: self esteem and esteem of others. Self-esteem needs include those for self-confidence, achievement, competence, self-respect, knowledge and for independence and freedom. 'Esteem of others' includes reputation, status and recognition. 'Satisfaction of esteem needs

produces feelings of self-confidence, worth, strength, capability and adequacy, of being useful and necessary in the world'. (Maslow) Thwarting those results in feelings of inferiority, weakness and helplessness They do not become motivators until lower level needs are reasonably satisfied. These needs are insatiable; unlike lower other needs, these needs are rarely satisfied.

5. **The self-actualization needs.** These are the needs for realizing one's full potential and self fulfillment. "Self fulfilling people are rare individuals who come close to living up to their full potential for being realistic, accomplishing things, enjoying life, and generally exemplifying classic human virtues." (For example, Gandhi, Nehru, Lincoln, Roosevelt, Einstein etc.) Self-actualization is the desire to become what one is capable of becoming. A musician must make music, a poet must write, a general must win battles, an artist must paint, a teacher must teach if he is to be ultimately happy. What a man CAN be he MUST be. Self-actualization is a 'growth' need. Self-actualization needs have certain features in common:
   - The specific form that these needs take will vary greatly from person to person. In one person it may be expressed materially, in still another, aesthetically.
   - Self-realization is not necessarily a creative urge. It does not mean that one must always create poems, novels, paintings and experiments. In a broad sense, it means creativeness in realizing to the fullest one's own capabilities; whatever they may be.
   - The way self-actualization is expressed can change over the life cycle. For example, Bjorn Borg, Rod Laver, and Pele switching over to coaching after excelling in their respective fields.
   - These needs are continuously motivational, for example: scaling mountains, winning titles in fields like tennis, cricket, hockey etc. The need for self-realization is quite distinctive and does not end in satisfaction in the usual sense.
   - These needs are psychological in nature and are substantially infinite.
   - The conditions of modern life give only limited opportunity for these needs to obtain expression.

Evaluation

Maslow's theory has been criticized on the following grounds:

1. **Theoretical difficulties:** The need hierarchy theory is almost a non-testable theory. It defies empirical testing, and it is difficult to interpret and operationalize its concepts. For example, what behaviour should or should not be included in each need category? What are the conditions under which the theory is operative? How does the shift from one need to another take place? What is the time span for the unfolding of the hierarchy? Maslow seems to have oversimplified a complex motivational process. The theory, over the years, not surprisingly has received little clear and consistent research support .
2. **Research methodology:** Maslow's model is based on a relatively small sample of subjects. It is a clinically derived theory and its unit of analysis is the individual. Maslow, recognizing these limitations, presented the model "with apologies to those who insist on conventional reliability, validity, sampling etc."

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3. **Superfluous classification scheme:** The need classification scheme is somewhat artificial and arbitrary. Needs cannot be classified into neat watertight compartments, a neat 5 step hierarchy. The model is based more on wishes of what man SHOULD BE than what he ACTUALLY IS. Some critics have concluded that the hierarchy should be viewed merely a two-tiered affair, with needs related to existence (survival) at the lower level and all other needs grouped at the second level.
4. **Chain of causation in the hierarchy:** There is no definite evidence to show that once a need has been gratified its strength diminishes. It is also doubtful whether gratification of one need automatically activates the next need in the hierarchy. The chain of causation may not always run from stimulus to individual needs to behaviour. Further, various levels in the hierarchy imply that lower level needs must be gratified before a concern for higher level needs develop. In a real situation, however, human behaviour is probably a compromise of various needs acting on us simultaneously. The same need will not lead to the same response in all individuals. Also, some outcomes may satisfy more than one need.
6. **Needs—crucial determinants of behaviour:**. The assumption that needs are the crucial determinants of behaviour is also open to doubt. Behaviour is influenced by innumerable factors (not necessarily by needs alone). Moreover, there is ample evidence to show that people seek objects and engage in behaviour that are in no way connected to the gratification of needs. It is also worth noting that the Maslow's model presents a somewhat static picture of individual needs' structure. The fact that the relative mix of needs changes during an individual's psychological development has been ignored. In addition, a longitudinal view of needs is totally missing. The needs of workers change over time inevitably. According to one authority, in the 1940s and 1950s job security ranked as the most important thing that workers wanted from their jobs. In the 1960s and 1970s interesting work ranked first. Owing to these limitations, the need priority model provides, at the best, an incomplete and partial explanation of behaviour.
7. **Individual differences:** Individuals differ in the relative intensity of their various needs. Some individuals are strongly influenced by love needs despite having a flourishing social life and satisfying family life; some individuals have great and continued need for security despite continued employment with enormous fringe benefits. Young workers have greater esteem and self-fulfillment deficiencies than the older workers. Culturally disadvantaged employees may feel stronger deprivation of biological and safety needs, whereas culturally advantaged employees prefer satisfaction of higher order needs. Educated employees place a premium on challenging tasks. In comparison, less educated employees prefer routine and standardized jobs. The picture will be very confusing if we apply the theory in different countries with cultural, religious differences. In one case black managers had a greater lack of need fulfillment than their black counterparts in almost every category. Surveys in Japan and Continental European countries show that the model does not apply to the managers. Cultural, religious, environmental influences play a major role in determining the need priority in various countries.

Usefulness of Maslow's Theory

Maslow is not the final answer in work motivation. Maslow's model should be viewed at best as a general description of the average individual at a specific point in time; it must be viewed as a general theoretical statement, a hypothetical construct rather than an abstraction from field research. Even in its awkward form, the model seems to apply to underdeveloped countries. A survey of 200 factory workers in India points out that they give top priority to lower level needs'. According to other studies, the model seems to apply to managers and professional employees in developed countries like UK; USA. The need priority model is useful because of its rich and comprehensive view of needs. The theory is still relevant because needs no matter how they are classified, are important for understanding behaviour. It is simple to understand that it has a commonsense appeal for managers. It has been widely accepted—often uncritically, because of its immense intuitive appeal only. It has survived, obviously more because of its aesthetics than because of its scientific validity.

12.5 HERZBERG'S TWO-FACTOR THEORY

Herzberg analysed the job attitudes of 200 accountants and engineers who were asked to recall when they had felt positive or negative at work and the reasons why. From this research, Herzberg suggested a two-step approach to understanding employee motivation and satisfaction: The results indicated that when people talked about feeling good or satisfied they mentioned features intrinsic to the job and when people talked about feeling dissatisfied with the job they talked about factors extrinsic to the job. Herzberg called these Motivation and Maintenance factors respectively.

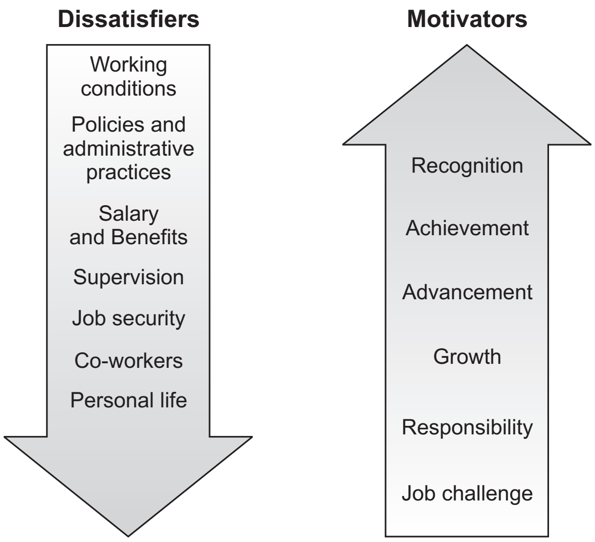

Fig. 12.3 Herzberg's Hygiene and Motivational Factors

- **Hygiene Factors (Maintenance Factors):** Hygiene factors represent the need to avoid pain in the environment. They are not an intrinsic part of a job, but they are related to the conditions under which a job is performed. They are associated with negative feelings. They are environment related factors, hygienes. They must be viewed as preventive measures that remove sources of dissatisfaction from the environment. Like physical hygiene they do not lead to growth but only prevent deterioration. Maintaining a hygienic work environment will not improve motivation any more than garbage disposal or water purification. Mr. Fictitious, who is in excellent health will not become any healthier by eating food but if he does not eat food he may become sick and die. Hygiene factors produce no growth in worker output, but they prevent loss in performance caused by work restriction.

- **Motivators:** Motivators are associated with positive feelings of employees about the job. They are related to the content of the job. They make people satisfied with their job. If managers wish to increase motivation and performance above the average level, they must enrich the work and increase a person's freedom on the job. Motivators are necessary to keep job satisfaction and job performance high. On the other hand, if they are not present they do not prove highly satisfying.
- **Managerial Implications:** The implications of the two factor theory for managers are quite clear. Providing hygiene factors will eliminate employee dissatisfaction but will not motivate employees to high achievement levels on the other hand, recognition, challenge, growth opportunities are powerful motivators and will promote high satisfaction and performance. The manager's role is to eliminate dissatisfies–that is, to provide hygiene factors sufficient to meet basic needs – and then use motivators to meet higher – order needs and propel employees toward greater achievement and satisfaction.

Departure from the Traditional View

Traditionally, job satisfaction and dissatisfaction were viewed as opposite ends of a single continuum, when certain things are present on a job—good pay, opportunity for growth, healthy working environment—the employee will be satisfied. When they are absent, he is dissatisfied. The absence of dissatisfaction is satisfaction.

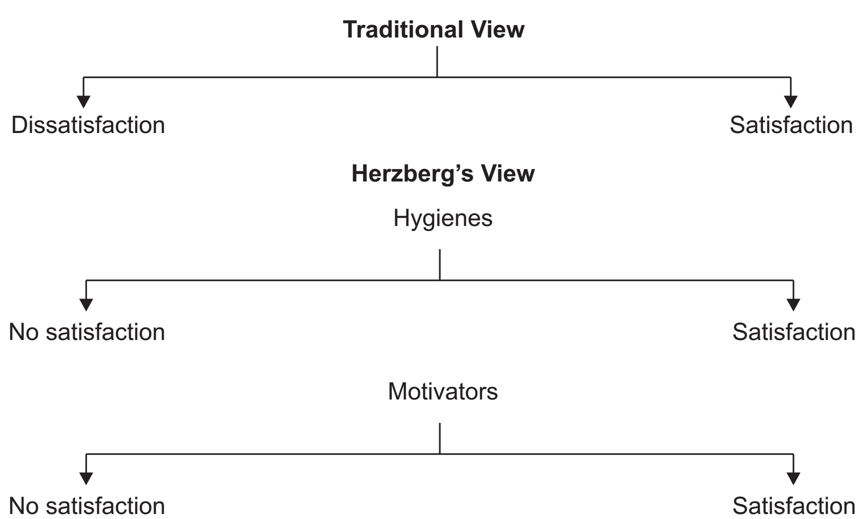

Fig. 12.4 Herzberg's View of Satisfaction and Dissatisfaction

Herzberg's findings indicate that dissatisfaction is not simply the opposite of satisfaction or motivation. One can feel no dissatisfaction and yet not be satisfied. Satisfaction and dissatisfaction appear to be somewhat independent. They are not viewed as symmetrical items on a single scale, rather, they are viewed as attributes of different scales. The factors that cause dissatisfaction are different from those that result in satisfaction. Satisfaction is affected by motivators and dissatisfaction by hygiene factors.

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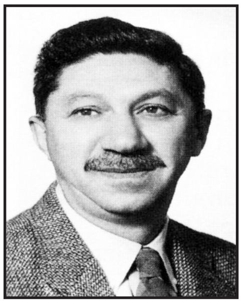
12.6 COMPARISON BETWEEN MASLOW AND HERZBERG MODELS



One of the main reasons for the popularity of the Two Factor Theory is that it is compatible with Maslow's Need Hierarchy. Maslow and Herzberg—both tend to oversimplify the motivational process, emphasize the same set of relationships and deal with the same problem. Maslow formulated the theory in terms of needs and Herzberg in terms of goals or rewards. However, Herzberg attempted to refine and hedge on the need hierarchy and cast a new light on the content of work motivation. Herzberg recommended the use of hygiene factors to help people to attain their lower level needs. Motivators are recommended to meet upper level needs. Whereas Maslow's theory implies a hierarchical (sequential) arrangement with greater force from unfulfilled needs and movement through the hierarchy in an ordered or 'cascade' fashion. According to Maslow any unsatisfied need, whether of lower order or higher order, will motivate individuals.

Both models show marked similarities. As a result, the juxtaposition of the two models makes logical sense and is interesting to ote (Figure 12.5).

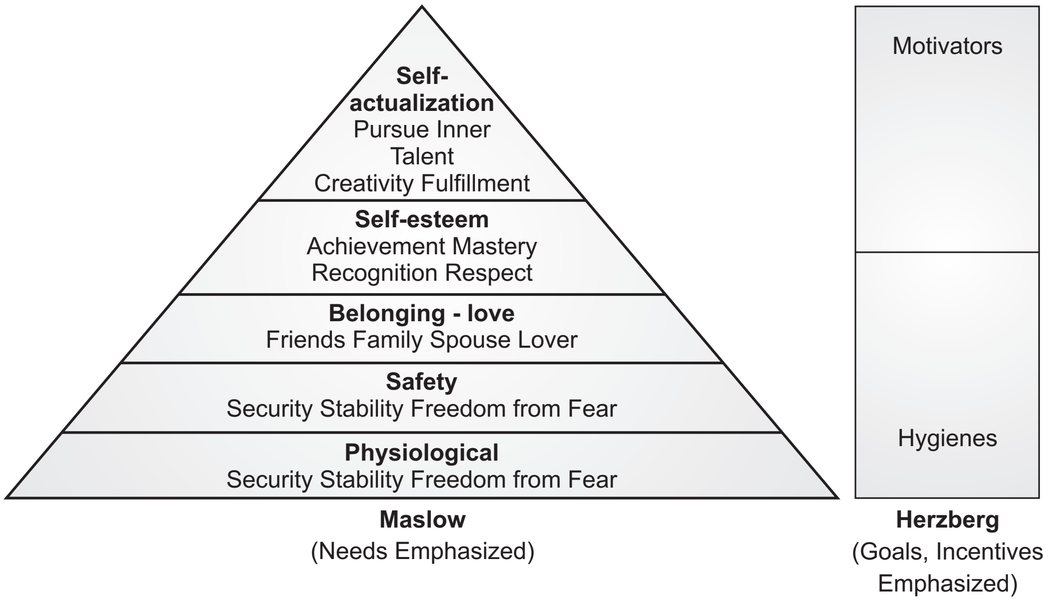


Fig. 12.5 Comparison of Maslow and Herzberg Models Hierarchy of Needs

As shown above, the hygiene factors are roughly equivalent to Maslow's, lower order needs and the motivational factors are somewhat equivalent to higher order needs. Both models assume that specific needs energize behaviour.

Differences

Although there are marked similarities in the two models, many differences exist (see the table). Unfortunately neither model provides an appropriate link between organisational goals and individual need satisfaction. Both fail to handle the question of individual differences in motivation.

Differences in Maslow's and Herzberg's Motivation Theories (Gray and Starke)

	Incentives Emphasized	Maslow's model	Herbzerg's model
1.	Type of theory	Descriptive	Prescriptive
2.	The satisfaction-performance relationship	Unsatisfied needs energize behaviour causes performance	Needs cause performance
3.	Effect of need satisfaction performance	A satisfied need is not a motivator (except self-actualisation)	A satisfied (hygiene) need is not a motivator; other satisfied needs are motivators
4.	Need order	Hierarchy of needs	No hierarchy
5.	Effect of pay	Pay is a motivator if it satisfies needs	Pay is not a motivator
6.	Effect of needs	All needs are motivators at various times	Only some needs are motivators
7.	View of motivation	Macro view–deals with all aspects of existence	Macro view–deals primarily with work-related motivation
8.	Worker level	Relevant for all workers	Probably more relevant for white collar and professional workers

Limitations and Criticism

Herzberg's theory has been subjected to several troubling criticisms. Like Maslow's model, Herzberg's has been as controversial as it has been influential.

1. **Research methodology:** (a) Herzberg is shackled to his method. His model is method-bound. When researchers did not use the critical incident method, they obtained different results; (b) Actually the theory is limited by the 'critical incident' method used to obtain information. The subject stated only extremely satisfying and dissatisfying job experiences. People tend to tell the interviewer what they think the individual would like to hear. So results obtained under the method may be a product of people's defensiveness than a correct revelation of objective sources of satisfaction and dissatisfaction; (c) The method is fraught with procedural deficiencies also. The analysis of the responses derived from his approach is highly subjective, sometimes the researchers had to interpret the responses; (d) Also, using the critical incident method may cause people to recall only the most recent experiences. The 'recovery of events' bias is embedded in the methodology.

2. **Empirical validity:** King, noted that the model itself has fine different interpretations and that the available research evidence is not consistent with any of these interpretations. The theory is most applicable to knowledge workers—managers, accountants, engineers. Most studies have shown that when the employees were professional in nature, the theory is applicable. Studies of manual workers are less supportive of the theory. Herzberg's study, hence, is not representative of the workforce in general.
3. **Assumptions**
   (a) The assumption that the two sets of factors operate primarily in one direction is also not accurate. Critics questioned the mutual exclusiveness of the dimensions. In some cases 'maintenance factors' were found to be viewed as motivators by blue-collar employees. In one study it was found that hygiene factors were as useful in motivating employees as were the motivators. A clear distinction between factors that lead to satisfaction and those that lead to dissatisfaction cannot be maintained. Herzberg's model propagates a myth that hygienes are enough to motivate workers and motivators must be pressed into service while dealing with managers. This dichotomy is unfortunate because it perpetuates a chasm between subsystems of organizations that really should be integrated for effective performance. All are managers; all are workers.
   (b) The theory focuses too much attention on 'satisfaction' or 'dissatisfaction' rather than on the performance level of the individual. Much importance is not given to such factors like status, pay, interpersonal relationships, which are generally held as important determinants of satisfaction. Further, researchers have questioned the equation between satisfaction and motivation and also attacked the assumption that satisfaction leads to superior performance. Actually, motivation, satisfaction and performance are all separate variables and relate in different ways from what was assumed by Herzberg.

   Herzberg's contribution: Despite these criticisms, Herzberg's two factor theory has made a significant contribution toward improving manager's basic understanding of human behaviour. He advanced a theory that was simple to grasp, based on some empirical data, and significantly offered specific action recommendation for managers to improve employee motivation levels. He drew the attention of managers to the importance of job content factors in work motivation which had been neglected previously.

12.7 MCGREGOR'S THEORY X AND THEORY Y

Douglas McGregor proposed two distinct sets of assumptions about what motivates people—one basically negative (labeled as Theoy X) and the other basically positive (labeled as Theory Y). The assumptions of both theories are summarized below:

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Assumptions of Theory X and Y

Theory X Assumptions	Theory Y Assumptions
Employees inherently dislike work and will try to avoid it.	Employees can view work as being as natural as rest or play.
Since employees dislike work, they must be coerced, controlled and threatened with punishment to achieve goals.	People will exercise self direction and self-control if they are committed to the objectives.
Employees will shirk responsibilities and seek formal direction whenever possible.	Under proper conditions, employees do not avoid responsibility.
Most employees want security above all in their work and display little ambition.	People want security but also have other needs such as self-actualisation and esteem.

McGregor's Approach

Theory X	Theory Y
Production centered	Employee-centered
Autocratic	Democratic
External control	Internal control
A. Closer supervision Initiating structure Directive Management's role: Organising, directing	General supervision Consideration Supportive Challenging jobs, growth opportunities employee involvement in decisions
Emphasis on control coercion and punishment	Emphasis on growth, autonomy and reward
People are lazy, lack ambition like to be led, and are motivated strictly by personal economic concerns	People by nature enjoy work, want to do well, and are motivated by self-control and self-development

- **Theory X:** Theory X contends that people have an inherent dislike of work and will avoid it whenever possible. Most people, being lazy, prefer to be directed, want to avoid responsibility and are relatively unambitious. They must be coerced, controlled, directed or even threatened with punishment to get them to work towards organisational goals. External control is clearly appropriate for dealing with such unreliable, irresponsible and immature people. Managers have to be strict and authoritarian if subordinates are to accomplish anything. Theory X thus, assumes that lower-order needs (Maslow) dominate human behaviour. Money, fringe benefits and threats of punishment play a great role in putting people on the right track under this classification scheme.

- **Theory Y:** Theory Y presents a much more optimistic view of human nature. It assumes that people are not, by nature, lazy and unreliable. They will direct themselves towards objectives if their achievements are rewarded. Most people have the capacity to accept, even to seek, responsibility as well as to apply

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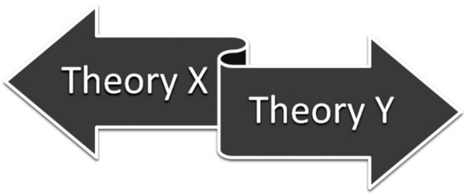
imagination, ingenuity, and creativity to organisational problems. If the organisational climate is conducive, people are eager to work; and they derive a great deal of satisfaction from work, and they are capable of doing a good job. Unfortunately, the present industrial life does not allow the employees to exploit their potential fully. Managers, therefore, have to create opportunities, remove obstacles and encourage people to contribute their best. Theory Y, thus, assumes that higher-order needs (Maslow) dominate human behaviour. In order to motivate people fully, McCregor proposed such ideas as participation in decision making, responsible and challenging jobs and good group relations in the workplace.



Some Puzzling Questions

McGregor seems to have played a "very disturbing little joke", unwittingly, by drawing a sharp line of demarcation, between the two distinct perspectives of administrative action. One is equated with tradition and the other is identified with change. One is labelled as autocratic, control-centered and the other is glamorized as the epitome of democratic governance. The impression that one might get from the discussion is that managers who accept theory X assumptions about human nature exhibit a built-in affinity for carrot and stick policies while theory Y managers exhibit a built-in devotion to participative, behaviour-centered policies.

- **Which theory is right?**: According to theory X, man is weak, sick and incapable of looking after himself. He is full of fears, anxieties, neuroses, inhibitions. Essentially he does not want to achieve but wants to fail. He therefore, wants to be controlled. More dangerously it does not assume that people are lazy and resist work, but it assumes that the manager is healthy while everybody else is sick. It assumes that the manager is strong while everybody else is weak. It assumes that the manager knows while everybody else is ignorant. It assumes that the manger is right, where everybody else is stupid. These are nothing but "assumptions of foolish arrogance." (Drucker)
- Now let us turn our attention to the so-called democratic theory based on the needs of man, addressed to his managerial brethren by McGregor in a persuasive, yet, forceful manner. Theory Y gives us an impression that everyone is mature, independent and self-motivated. Most of the writers, no wonder, glamorized the vision of a so-called administrative democracy (simply because it is good?). The rationale behind this observation? Whatever is autocratic is 'bad' by definition. This may not hold good always. Sometimes, managers may have theory Y assumptions about human nature, but they may find it necessary to behave in a very directive, controlling manner with some people in the short run to help them 'grow' up in a developmental sense, until they are truly Y people. One interesting question can be posed in this connection.
- **Is it possible for a theory X person to become a theory Y person?:** Probably yes, but only through "a fairly significant growth or development experiences over a period of time". Theory X places exclusive reliance on external control of human

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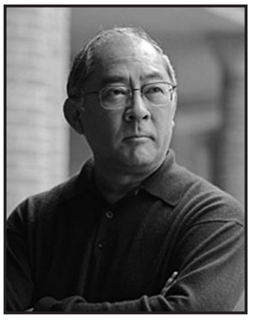
behaviour while theory Y relies heavily on self-control and self-regulation. 'This difference is the difference between treating people as children and treating them as mature adults. After generations of the former, we cannot expect to shift to the latter overnight'. (McGregor) Another interesting question to explore may be:

- **Will a theory Y person be a good manager? (automatically):** Theory Y person, no doubt, will have a greater potential for being a good manager, especially, at higher managerial jobs but he must have the relevant training and experience for this potential to become real. Theory X person might be more suitable in some crisis, situations, and less appropriate in more routine and formalized situations. The essential point is that theory Y may be a more desirable and productive path, reflecting 'a more reality centered view of people', to follow. It may not be the best approach for all situations. The best approach, obviously, is one that is appropriate to the nature of the work done. Recognizing this, McGregor stated later that it was not his intention 'to suggest more than that these (theory X' and theory Y) are examples of two among many managerial cosmologies'. For the present, let us say that under some conditions theory X works best and under other conditions, theory Y works best. Perhaps the optimum theory would be called theory Z and would take into consideration the manager's need to press into service both approaches at one time or the other.

12.8 WILLIAM OUCHI'S THEORY Z



William Ouchi, after making a comparative study of American and Japanese management practices, proposed Theory Z in early 80s. In the 80s the quality of products manufactured by US companies was so bad that when a Japanese company ordered an American car, they had to disassemble those cars, remove the defects and rebuild them to meet Japanese standards. Rapid promotions, quick decisions, vertical progressions, pin pointed responsibility, control mechanisms characterized American management thinking. The Japanese on the other hand believed in collective responsibility, group decisions, slower promotions, life time employment, etc. The popular feeling was that Japan was miles ahead of other nations—in terms of quality, productivity etc—due to these morale boosting measures.

Differences in managerial thinking and philosophy (American vs Japan)

The different assumptions between American and Japanese management may be presented as follows.

- **Job Security:** The Japanese Theory Z approach believes that people are a far too valuable resource to be lost when the economy has a downturn. In a recession, the Japanese don't fire people, they will reduce their hours until things pick up. By contrast, when a US company is in trouble, they waste no time laying people off and as a result lose all the knowledge, skills, and expertise that go with them.
- **Trust:** The Japanese feel that you should never give people a reason to distrust you. Loyalty is expected of all employees. In American companies, distrust and

suspicion are endemic. If a person or supplier is not delivering, the company will go elsewhere for a better deal.

- **Decision-taking:** In Japanese companies, everyone gets involved in the decision-taking process as part of their commitment to the organisation. As a result, the process is slow. In the US, decision-taking is the responsibility of the few and so is quick.
- **Teamwork:** In Japan, organisational success is viewed as the result of team effort, so it is illogical to reward individuals. In the US rewards are based on effort and overall performance.
- **Motivation and target-Setting:** The Japanese corporation rarely sets targets for individuals—as a way of motivating them. They believe that individual motivation comes from others in the team. Consequently, a Japanese employee would rarely get the first performance evaluation report during the formative years. It will take many more years, before he gets the first promotion. By contrast, the American corporation believes that the role of management is to set their subordinates targets and ensure that these are met, using evaluation and promotion as incentives and rewards.

Ouchi recognised these differences and decided to develop a hybrid, integrative model, containing the best of both worlds It takes into account the strengths of Japanese Management (social cohesion, job security, concern for employees) as well as American management (speedy decision making, risk taking skills, individual autonomy, innovation and creativity) and proposes a 'mixed US' Japanese management system for modern organisations. Theory Z is an approach to management based upon a combination of American and Japanese management philosophies and characterized by, among other things, long-term job security, consensual decision making, slow evaluation and promotion procedures, and individual responsibility within a group context. The mixed/hybrid system has the following characteristics:

- **Trust:** Trust and openness are the building blocks of Theory Z. The organisation must work toward trust, integrity and openness. One of the favourite quotes in Japan is that 'you should never give people reason to distrust you'. In such an atmosphere of mutual respect and admiration, the chances of conflict are reduced to the minimum. Trust, according to Ouchi, means trust between employees, supervisors, work groups, management, unions and government. In Japan it is not strange to find managers working side by side with their employees. Such close working relations help in developing open, friendly relations between labour and management.

- **Organisation-Employee Relationship:** Theory Z argues for strong linkages between employees and the organisation.
  - Long term employment is one such measure that strengthens the relations between workers and management.
  - When faced with a situation of lay off, management should not show the door to unwanted people. Instead, it could cut down the working hours or ask stakeholders to bear with the temporary losses.

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- To encourage stable employment relationship, promotions could be slowed down. In fact, in a Japanese organisation a person is normally not promoted until he has served ten years with the company.
- Instead of vertical progression, horizontal progressions may be laid down clearly so that employees are aware of what they can achieve and to what extent they can grow within the organisation, over a period of time.
- To compensate slower promotions, companies can offer incentive to people who stay on. Such people can be asked to work closely with superiors on important projects/assignments. This way the company can make those employees think that their services are really wanted.
- Employees may be asked to learn every aspect of work in every department. Through such rotating jobs, employees become versatile and remain useful almost everywhere.

- **Employee Participation:** Participation here does not mean that employees must participate in all organisational decisions. There can be situations where management may arrive at decisions without consulting employees (but informed later on); decisions where employees are invited to suggest but the final green signal is given by management. But all decisions where employees are affected must be subjected to a participative exercise; where employees and management sit together, exchange views, take down notes and arrive at decisions jointly. The basic objective of employee involvement must be to give recognition to their suggestions, problems and ideas in a genuine manner.
- **Structureless Organisation:** Ouchi proposed a structureless organisation run not on the basis of formal relationships, specialisation of positions and tasks but on the basis of teamwork and understanding. He has given the example of a basketball team which plays together, solves all problems and gets results without a formal structure. Likewise in organisations also the emphasis must be on teamwork and cooperation, on sharing of information, resources and plans at various levels without any friction. To promote a *'systems thinking'* among employees, they must be asked to take turns in various departments at various levels. Job rotation enables them to learn how work is processed at various levels; how their work affects others or is affected by others, it also makes the employees realize the meaning of words such as 'reconciliation' 'adjustment' 'give and take' in the organisational context.
- **Holistic Concern for Employees:** To obtain commitment from employees, leaders must be prepared to invest their time and energies in developing employee skills, in sharing their ideas openly and frankly, in breaking the class barriers, in creating opportunities for employees to realize their potential. The basic objective must be to work cooperatively, willingly and enthusiastically. The attempt must be to create a healthy work climate where employees do not see any conflict between their personal goals and organisational goals.

Essential Features of Theory Z The Hybrid Model

Organization Type A American	Organization Type J Japanese	Organization Type Z Modified American
Short-term employment	Lifetime employment	Long-term employment
Individual decision making	Collective decision making	Collective decision making
Individual responsibility	Collective responsibility	Individual responsibility
Rapid evaluation & promotion	Slow evaluation & promotion	Slow evaluation & promotion
Explicit control mechanisms	Implicit control mechanisms	Implicit, informal control with explicit, formalized measures
Specialized career path	Nonspecialized career path	Moderately specialized career paths
Segmented concern for employee as an employee	Holistic concern for employee as a person	Holistic concern, including family

Implications of Theory Z

Indian companies have started experimenting with these ideas in recent times, notably in companies like Maruti Udyog Limited, BHEL, by designing the work place on the Japanese pattern by having a common canteen, a common uniform both for officers and workers, etc. Other ideas of Ouchi such as life-long employment, imbibing a common work culture, participative decisions, structure less organisations, owners bearing the temporary losses in order to provide a cushion for employees—may be difficult to find any meaningful expression on the Indian soil because of several complicating problems. The differences in culture (north Indian and south Indian), language (with over a dozen officially recognized ones), caste (backward, scheduled caste, scheduled tribe, economically backward), religion (Hindu, Muslim, Sikh, Jain, Christian, etc.), often come in the way of transforming the seemingly appealing Western rhetoric into concrete action plans.

Weaknesses in Ouchi's Management Philosophy

Some of the inherent weaknesses in Ouchi's management philosophy might be listed thus:

1. In a competitive scenario, it is not possible to offer life time employment or employment on a long term basis to job seekers—howsoever talented hey might be. This has happened in Japan too where companies had to cut down costs as a survival measure and compelled to show the door to employees. When the organisation is hit by a down turn, for a fairly long period, it cannot remain wedded to its people on a permanent basis.
2. Participation may not always encourage people to give their best. Its psychic effects are open to doubt. In fact the participative culture may itself become a bone of contention over a period of time. Listening to everybody on all matters goes against the principles that govern quick, efficient decisions.
3. Long lasting relationships between superiors and subordinates overcoming the caste, region, religion feelings is not an easy job.

4. Structure less organisations suggested by Ouchi may not always produce results. This may produce chaos and confusion among ranks, if people are not used to such culture. It may be difficult to pin point responsibility on any one in a structure less organisation.
5. Most often stakeholders may not like a situation of swallowing losses when hit by a downturn in economic activities. They may not like to keep unwanted hands for longer periods, as a goodwill gesture to please unions or workers.
6. The principles of Japanese Management do not seem to find universal acceptance. The very fact that most Japanese companies have not been doing very well during the last couple of years, bears ample testimony to this fact. Management, as a subject, is evolving.
7. The theories of motivation, likewise, require revision, modification, and at times, radical surgery. At times, they seem to produce outstanding results. At other times, they do not seem to work at all. The book In Search Of Excellence listed excellent organisations based on some well known principles and practices of management. The authors, Peters and Waterman had to rewrite the story again (and even admitted that they faked the data) when many of those excellent organisations—Xerox, Wang Labs, NCR—turned negative performance for painfully longer periods of time.

How to Motivate Employees?

We have presented a number of theories and explanations in this chapter. If you are a manager concerned with motivating your employees, how do you apply these theories? The following suggestions offered by experts may help you in solving the puzzle to some extent:

1. **Recognize Individual Differences:** Employees are not homogeneous. They have different needs. They also differ in term of attitudes, personalities and other important variables. So, recognise these differences and handle the motivational issues carefully.
2. **Match People to Jobs:** People with high growth needs perform better on challenging jobs. Achievers will do best when the job provides opportunities to participatively set goals and when there is autonomy and feedback. At the same time, keep in mind that, not everybody is motivated in jobs with increased autonomy, variety and responsibility. When the right job is given to the right person, the organisation benefits in innumerable ways.

3. **Use Goals:** Provide specific goals, so that the employee knows what he is doing. Also, let people know what you expect of them. Make people understand that they can achieve the goals in a smooth way. If you expect resistance to goals, invite people to participate in the goal-setting process.
4. **Individualize Rewards:** Use rewards selectively, keeping the individual requirements in mind. Some employees have different needs, what acts as a

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motivator for one may not for another. So, rewards such as pay, promotion, autonomy, challenging jobs, participative management must be used keeping the mental make-up of the employee in question.

5. **Link Rewards to Performance:** Make rewards contingent on performance. To reward factors other than performance (favouritism, nepotism, regionalism, apple-polishing, yes-sir culture etc.), will only act to reinforce (strengthen) those other factors. Employee should be rewarded immediately after attaining the goals. At the same time, managers should look for ways to increase the visibility of rewards. Publicize the award of performance bonus, lumpsum payments for showing excellence, discussing reward structure with people openly–these will go long way in increasing the awareness of people regarding the reward-performance linkage.
6. **Check the System for Equity:** The inputs for each job in the form of experience, abilities, effort, special skills, must be weighed carefully before arriving at the compensation package for employees. Employees must see equity between rewards obtained from the organisation and the efforts put in by them.
7. **Don't Ignore Money:** Money is a major reason why most people work. Money is not only a means of satisfying the economic needs but also a measure of one's power, prestige, independence, happiness and so on. Money can buy many things. It can satisfy biological needs (food, shelter, sex, recreation, etc.) as well as security, social and esteem needs.

SUMMARY

- Motivation is the work a manager performs to inspire, encourage and impel people to accomplish desired goals. Properly motivated employees can produce excellent results by putting facilities to good use.
- Understanding the complexities involved in motivating people is not an easy job since human behaviour is unpredictable is the result of multiple causes.
- Three kinds of theories have evolved over the years to unravel the mystery surrounding motivation. Early theories of motivation offer insight into the needs of people in organisations and help managers understand how needs can be satisfied in the work place. Important theories in this category include: Maslow's Hierarchy of Needs Theory, ERG Model, Achievement Motivation Theory, Two Factory Theory, etc.
- Contemporary theories focus on why people choose certain behavioural options to satisfy their needs and how they evaluate their satisfaction after they have satisfied these goals. Equity Theory, Expectancy Theory and Goal Setting Theory come under this classification.

SELF ASSESSMENT QUESTIONS

1. What do you mean by motivation? Explain the features of motivation.

2. Describe how Maslow's hierarchy of needs can be used to motivate?

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3. Explain Herzberg's two-factor theory.
4. Discuss how Theory X and Theory Y manages approach motivation
5. Define motivation and explain its objectives.
6. Explain the nature and significance of motivation.
7. Critically examine Ouchi's Theory Z of motivation.
8. Do you think Theory Z is the last word on motivation? Why or why not?
9. Critically examine the contributions of Maslow, Herzberg and McGregor towards the theory of motivation.
10. Present a comparative picture of motivation theories presented by Maslow and Herzberg.
11. Discuss the importance of Herzberg's motivation to an organization.
12. Why, in die dual factor theory, are satisfiers and dissatisfiers considered separate and distinct from each other?
13. Is there a relationship between Maslow's higher order needs and Herzberg's motivation factors? Discuss.
14. Is an autocratic Manager likely to view his workers from a theory X or theory Y perspective?
15. Distinguish between motivators and hygiene factors. Why is it important to make this distinction?
16. "Theory Z is a comprehensive philosophy of management". Why or why not?
17. Is there a single best way to motivate the employees?
18. "Motivation simply means taking care of your people". How would you respond to this statement?

13. MARKETING MANAGEMENT

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STRUCTURE

13.1 INTRODUCTION

Planning, organising, directing and controlling are the managerial functions. Marketing management is distinct from managerial functions and is termed as *operative function*.

Managerial functions try their best to produce the maximum quantity of goods at minimum cost, but, if the sales does not keep pace with the increase of the output managerial functions are useless.

Due to mechanisation, and specialisation these days goods are produced in mass scale. It requires that the market of the product should be expanded to a greater extent to match the increase in demand for the product. It needs that the consumers' requirements should be identified first and goods should be produced accordingly to satisfy the needs of the consumers.

Marketing as a concept has evolved in two stages known as traditional and modern concept.

According to **F.E. Clark,** *"Marketing consists of those efforts which effect transfers in ownership of goods and care for its physical distribution."* Traditionally, marketing was restricted to the physical transfer of goods from its producers to the consumers. In this way, marketing includes all those activities which facilitate the transfer of goods from producers or manufacturers to the users of goods. According to traditional approach goods should be supplied at the **time** when it is needed, at a **place** where they are required and delivered to those who need it.

According to the selling concept of marketing the sellers must not sit idle and wait for the buyers to approach them and make purchases. Sellers must approach, attract, contact, convince and lure the buyers towards their product. It should be done by various promotional measures and aggressive selling techniques.

According to **Harri Hansen,** *"Marketing involves the design of the products acceptable to the customers and the transfer of ownership between seller and buyer."*

Marketing, in this way, wants *satisfying activity from society's point of view, transfer of goods from operative thinking and transfer of ownership from legal point of view*.

Modern marketing concept or marketing management means management of the marketing function. In other words, we can say, marketing management refers to planning, organising, directing and control of the activities which facilitate exchange of goods and services between producers and consumers.

Modern marketing concept explains that the *objectives of the business can be achieved by identifying needs and wants of customers.* It stresses consumers' satisfaction. According to **Peter Drucker,** *the purpose of business is to create customers*. Creation of customers means the identification of consumers' needs and then organising the business activities to meet these needs. According to modern thinkers, marketing includes as follows:

(*i*) Identification of consumers' needs and their satisfaction.
(*ii*) Sales forecasting/Target customers.
(*iii*) Formulation of marketing policy for the specific market.
(*iv*) Planning and organising of marketing activities and coordinating marketing activities.
(*v*) Salesmanship and sales promotion.
(*vi*) Advertising.
(*vii*) Costing and budgeting efforts.
(*viii*) Measurement and review of the marketing result.
(*ix*) Profitability—Profit cannot be ignored because it is necessary for survival and growth.

According to modern concept, marketing is not separate function but covers the entire business process, because every business activity is consumer oriented. Marketing in this way, covers all the business activities which revolve round the consumers.

Now, marketing management can be defined as identification of consumers' needs, planning, organising, producing and marketing efforts to satisfy these needs.

Some definitions of marketing

According to **William Stanton,** *"Marketing is a total system of interacting business activities designed to plan, price, promote and distribute want satisfying products and services to the present and potential customers*."

In the words of **Philip Kolter,** *"Marketing is specifically concerned with how transactions are created, stimulated, facilitated and valued*."

E.F.L. Breach views, *"Marketing is the process of determining consumer demand for a product or service, motivating its sales and distributing it into ultimate consumption at a profit*."

"Marketing is that phase of business activity through which the human wants are satisfied by the exchange of goods and services." **— J.F. PYLE**

"Marketing is the business process by which products are matched with the markets and through which transfers of ownership are effected." **— Candiff and Still**

13.2 WHAT IS MARKET?/MEANING OF MARKET

Ordinarily, the term market refers to a place, where goods are purchased and sold, such as Super Bazaar, Connaught Place, Chandni Chowk, Nai Sarak and Urdu Bazar in Delhi. Market should not be restricted to specific place. We know that certain commodities have national and even international market. The term market should not ignore the demand and supply of the commodities. We normally use the sentences like, *market of scooters is very dull these days*. The market of air-conditioned cars is very limited in India. In this way, market may be defined as an arrangement of establishing effective relationship between buyers and sellers of the commodities.

Important Features of Market

Market must satisfy the following characteristics.

It must have:

(*i*) Commodity to be bought and sold,

(*ii*) Buyers and sellers of the commodity,

(*iii*) Area, in which buyers and sellers live, and

(*iv*) Close contact between buyers and sellers.

In this way, the term market includes the entire area where buyers and sellers contact each other to purchase and sell commodities at certain price.

Bases for Classifying Various Forms of Markets

Classification of Market. Various forms of market can be classified on the following bases:

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1. **On the Basis of Competition:**
   (*a*) Perfect competition market (*b*) Monopoly (*c*) Imperfect competition market:
   (*i*) Monopolistic competition market (*ii*) Oligopoly (*iii*) Duopoly.
2. **On the Basis of Area:**
   (*a*) Local market (*b*) Provincial market
   (*c*) National market (*d*) International market.
3. **On the Basis of Time Element:**
   (*a*) Very short period market (*b*) Short period market
   (*c*) Long period market (*d*) Very long period market.
4. **On the Basis of Legality:**
   (*a*) Open market (*b*) Black market.
5. **On the Basis of Quantity of the Commodity:**
   (*a*) Wholesale market (*b*) Retail market.
6. **On the Basis of Commodities and Services:**
   (*a*) Commodity market (*b*) Factor market.

13.3 MEANING OF MARKETING

Marketing is a term, which has got different meanings for different groups. For housewives marketing means shopping, for sales persons it is selling, for technical persons it is merchandising (product designing) and for buyers it is purchasing. If we synthesise these views we understand that *marketing is all sort of activities which facilitate the exchange of goods, services, persons, place and idea*.

In the process of marketing we have to take the following decisions:

(*i*) What is to be marketed? (*ii*) Who is the marketer?
(*iii*) Who are the customers?

(*i*) *What is to be marketed?*

We can market the following:

(*a*) Goods (*b*) Services (*c*) Ideas
(*d*) Persons and (*e*) Places.

(*a*) Goods. It consists of all the consumer and producer goods, vegetables, fruits, soft drinks, cloth, equipments etc.

(*b*) Services. It consists of services of professionals like doctors, advocates, chartered accountants, mechanics etc.

(*c*) Ideas. These days ideas are also marketed such as ideas of family planning by donation, protection of railway property, help the needy.

Concerned people are pursuaded to follow the ideas.

(*d*) **Persons.** We have started marketing of persons also. In the election campaign, candidates are marketed and voters are convinced to vote for them.

(*e*) **Places.** The marketing of place is the common feature of the day. Our tourism departments have been regularly inducing people to visit various tourists and health resorts, such as Pink City, Jaipur; Taj Mahal, Agra; Kashmir; Mysore etc.

(*ii*) ***Who is the Marketer?***

Generally seller is the marketeer. Buyers can also be marketeer such as in case of heavy water for nuclear plants. We have been arguing with the seller countries that we shall be making its use for peaceful purposes. In case of sophisticated arms also the buying countries insist upon the selling countries to sell it. In this way, marketer can be either seller or buyer, who takes more active interest in the deal.

In this way, marketing management refers to all sorts of activities aimed at designing and executing the marketing strategy for the product. It is as such an operational management.

Distinction between Marketing and Selling

Profits are directly related to sales. Increased sales at competitive rates ensures increased earning. Sales is a process, by which goods and services flow from producers to consumers. It is an activity of distributing goods. Marketing on the other hand is a comprehensive term, which includes in itself, selling, merchandising and distribution. *Merchandising* is an internal planning regarding production of commodities of right colour, size, shape, standard, quantity, and also at the appropriate time. *Distribution* is market coverage which includes various channels of distribution.

The ultimate end of both selling and marketing is to maximise profit by promoting sales. Ordinarily both these terms carry the same meaning, but modern thinkers differentiate between the two terms as under:

Distinction between Marketing and Selling

Points of Distinction	*Marketing*	*Selling*
1. *Meaning*	Marketing means all customers' wants satisfying efforts concerning with planning, pricing, promoting product and services.	Selling is the transfer of the ownership and possession of the goods to the purchasers.
2. *Importance*	Marketing accords importance to the satisfaction of *consumers'* wants effectively.	Selling emphasises the *products*.
3. *Stage/Process*	Marketing in its initial stage decides, what the consumers want. Secondly, it decides how the commodity can be profitably produced and finally delivered to consumers for satisfying their needs.	Commodities are produced and afterwards efforts are made for their profitable selling.

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4. *Scope*	Marketing has to take into consideration both the internal and external factors.	Selling is concerned with the internal considerations regarding production and distribution of goods. It is narrower in scope.
5. *Orientation of Efforts or Emphasis*	Efforts are *buyers' oriented* and emphasise the satisfaction of the needs of buyers effectively.	Efforts are *sellers' oriented* and emphasise sellers' needs.
6. *Objectives*	If refers to *integrated* approach towards achieving long-term objectives.	It refers to *piecemeal approach* to achieve short-term goals.
7. *Approach towards Profit*	Profit is sought by ensuring *customers' satisfaction*.	Profit is sought by ensuring higher sales volume.
8. *Comprehensiveness*	Marketing is a comprehensive term, which includes selling, advertising and also the distribution of goods.	Selling is the part of marketing and thus not a comprehensive term.

13.4 MARKETING MANAGEMENT PHILOSOPHIES

In order to achieve desired exchange outcomes with target markets, it is important to decide what philosophy or thinking should guide the marketing efforts of an organisation. For example, whether the marketing efforts of an organisation will focus on the product—say designing its features etc., or on selling techniques or on customer's needs or the social concerns.

The concept or philosophy of marketing has evolved over a period of time and is discussed as follows:

(1) Production concept (2) Product concept
(3) Selling concept (4) Marketing concept
(5) Societal concept.

1. **Production concept.** During the earlier days of Industrial revolution, when number of producers were limited but the demand for the industrial goods started picking up. Due to this, demand exceeded the supply. Selling was no problem, anybody who could produce the goods was able to sell. Thus availability and affordability of the product were considered to be the key to the success of a firm. Therefore, greater emphasis was placed on improving the production and distribution efficiency of the firms.
2. **Product concept.** As a result of emphasis on production capacity during the earlier days, the position of supply increased over period of time. Mere availability and low price of the product could not ensure increased sale and as such the survival and growth of the firm. Thus, with the increase in the supply of the products which were superior in quality, performance and features. Therefore, the emphasis of the firms shifted quantity of production

to quality of products. Thus product improvement became the key to profit maximisation of a firm, under the concept of product orientation.

3. **Selling concept.** This concept emphasis on adoption of aggressive selling and promotion policy in order to attract large number of customers. According to this concept, customers would not buy unless and until they are convinced and motivated to do so. Therefore firms should undertake various promotional techniques such as advertising, sales promotion and personal selling in order to generate large demand for their products by convincing and attracting large number of customers. It helps in pushing the sales volume of the product thereby increasing the profits on a large scale. This concept does not pay attention to customer satisfaction as the priority here is to increase sales by any means so that maximum profit is enjoyed.

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4. **Marketing concept.** The key success of any organisation is dependent upon, how it focuses on satisfaction of customer's need. It assumes that in the long run an organisation can achieve its objective of maximisation of profit by identifying the needs of its present and perspective buyers and satisfying them in an effective way. In other words, customer's satisfaction become the focal point of all decision making in the organisation. The marketing concept involves the following:
   (*a*) Identification of target market.
   (*b*) Understanding needs and wants of the target market.
   (*c*) Development of products and services according to customer's need and wants.
   (*d*) Satisfying the needs of the target market by providing them desired goods and services.
   (*e*) Earning profit through customer's satisfaction.
5. **Societal concept.** Societal Concept of Marketing has emerged these days. According to this concept *marketing strategy must honour the social values.* It should enhance well being of the society. It should aim at consumer satisfaction with environmental conservation. It means that the marketing efforts should not be selfish enough to maximise profit at the cost of the society. It should not only maintain but add to the social welfare.

   This concept emphasis on the fact that the task of any organisation is to identify the needs and wants of the target market and deliver maximum satisfaction in an effective and efficient manner in order to maintain the well being among the members of the society. Thus we can say that the societal concept aims at long-term welfare of the society. It also pays attention on ethical and ecological aspects of marketing. Pollution control, price stability, availability of resources etc. are certain examples related to the societal concept of marketing.

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Differences in the Marketing Management Philosophies

Philosophies/ Bases	*Production Concept*	*Product Concept*	*Selling Concept*	*Marketing Concept*	*Societal Concept*
1. *Starting Point*	Factory	Factory	Factory	Target market	Society
2. *Main Focus*	Quantity of product	Quality performance features of product	Existing product	Customer needs	Customer needs and society's well being
3. *Means*	Availability and Affordability of product	Product improvements	Selling and promotion	Integrated marketing	Integrated marketing
4. *Ends*	Profit through volume of production	Profit through product quality	Profit through sales volume	Profit through customer satisfaction	Profit through customer satisfaction and social welfare

13.5 FUNCTIONS OF MARKETING

The following are the functions of marketing:

1. **Gathering and analysing marketing information.** One of the most important functions of a marketer is to gather and analyse market information. With the help of these information, he can identify the needs of the customers and take decisions for successful marketing of the product and services. It is important to make SWOT analysis (Strength, Weakness, Opportunity and Threat). For example, rapid growth is predicted in areas such as internet, transportation, communication etc. A marketer should be able to grab opportunities which can be fruitful for business in the long-term.

   Use of computers and other modern methods of communication such as cellphones etc. has made it easier for firms and business houses to gather necessary information and feedback from customers. Moreover, information collected can be analysed with the help of computers. It helps the business in taking important decisions in the future.
2. **Market planning.** After marketing analysis is conducted, the marketer has to plan series of steps in order to achieve marketing objectives. This process is called market planning. For example, A cellphone manufacturing firm currently has 15% of the total market share. It has decided to enhance its market share upto 30% in four years. The marketer has to develop a complete plan in order to achieve the desired objective. The plan should cover various important aspects such as promotion policy, distribution policy, and other factors affecting market planning.
3. **Product designing and development.** Effective product planning anticipates the wants and expectations of the consumers and develops the product

accordingly. It requires improvement in the existing product and development of the new product. Decisions regarding size, design, colour, packaging, quality etc. had to be reviewed from time to time. The policy of product differentiation and highlighting the unique and nobel features of the product should be adopted. The enterprise should always be prepared to produce goods to suit the ever changing needs of the customers. Marketing research plays a key role in product designing and development. All major decisions related to product development should be based on the marketing research.

4. **Standardisation and grading.** Standardisation is the process of making goods perfectly homogeneous to the model product. It involves producing goods of predetermined specifications. It ensures the buyers that goods are of standard equality. Consumers are assured about price, packaging, durability etc. of the product. For example, In India ISI mark issued by the Bureau of Indian standard guarantees the quality of the product. In case of grading, product is classified into identical lots and groups on the basis of predetermined standards. Grading divides products into different classes of uniform characteristics. Grading is adopted generally in foodgrains, cotton, tobacco, fruits, apples, mangoes, minerals etc. Fixing and securing remunerative prices from the product is the objective of grading.
5. **Packaging and labelling.** Package means a wrapper or a container beautifully designed to enclose or contain the product. It reduces the risk of spoilage, wastage, leakage, meltage, evaporation etc. in the process of transportation and storage. It does not provide only cover to the product but works as a silent salesman. It also furnishes useful information regarding the product *i.e.*, contents, its weight, size, price, constituents, usage and necessary instructions regarding storing and using product.

   Labelling involve labels or slips pasted on the bottles, containers and wrappers indicating the details of the contents *i.e.*, constituents, price, weight, measurement, use, precautions, date of manufacturing, expiry and the distinctive feature in an attractive way. Thus labelling means putting identification marks on the product or package which provide necessary information about the product.
6. **Branding.** It means providing a specific name in order to make the product distinguished from other products. The name can be generic (name of the category of the product say car, motorcycle etc.) or brand name (such as maruti, TVS). It helps in establishing distinct image of the product and enhances the goodwill of the seller and manufacturer. Brands such as Dalda, Rath, Colgate, Pepsodent etc. have become very popular among masses.

   The main purpose behind branding is to distinguish the product from other products available in the market.
7. **Customer support services.** Customer support services include development of past sale services, handling customer complaints, maintenance services, technical services and consumer information. The main motive behind is to maximise customer's satisfaction which is essential for marketing success. It helps in increasing sales volume and customers become loyal towards the products and brand. If the customers are satisfied with the services of a particular brand or product, they will again buy that particular product only.

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8. **Pricing.** Price of a product is the amount of money which the customer has to pay in order to acquire it. Price is an important factor determining the performance of the product in the market. The price of a product is influenced by various factors such as cost of production, profit margin, price charged by the competitors etc. Generally, lower the price higher will be the demand and vice-versa. A sound pricing policy helps the marketer to gather all types of customers in the market and is essential for business survival. The marketer should analyse all the factors determining price efficiently before fixing the price of the product. In general, branded products are priced higher than non-branded products. This means that if the firm or business is able to establish its brand in the market, better price can be charged for profit maximisation.

9. **Promotion.** Promotion includes all the activities of manufacturers carried out to influence the behaviours of buyer through communication. It is the process of communicating, pursuading and motivating consumers.

   There are four methods of promotion which include advertising, personal selling, sales promotion and publicity. The marketer has to take several decisions related to promotion such as promotion budget, combination of promotional tools, etc. out of the various promotional tools advertising is most frequently used method of promotion. Various types of advertising media are used by business houses in order to promote their product.

   Such media includes newspapers, T.V., radio etc. Newly launched products need high production as compared to an existing product.

10. **Physical distribution.** It is another important function of marketing. It includes activities which are essential to transfer goods and its ownership to customers. It also makes the goods available to the customer at the right place and time. It includes

    (*i*) Channel of distribution and (*ii*) Physical distribution.

    Channel of distribution is considered as the route which a product takes from the point of manufacturing till it reaches the ultimate customer. The marketer may use various intermediaries such as wholesalers, retailers and agents for this purpose.

    Physical distribution on the other hand include inventory management, storage, warehousing and transportation of goods from one place to another.

11. **Transportation.** It involves physical movement of goods from one place to another. The consumers are scattered and widespread throughout the country. Therefore, a good transportation network is required to provide goods to consumers located in different geographical areas. It plays a key role in marketing success as it not only carry out finished products but is also essential to bring in raw material which is needed for manufacturing of the products.

    A marketer has to take into consideration the requirement of a good transportation system after analysing various factors such as nature of the product, cost, location of the target market etc.

    Transportation plays an important role in localising the industry and helps in taking decision regarding what type of goods should be produced.

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12. **Warehousing.** There is a wide gap between the production and actual sale of goods. This is why marketer requires proper warehousing and storage facility. It helps in maintaining smooth flow of product in the market. It protects the goods from spoilage, theft, moisture, sun, heat etc. and ensures the availability of the product in the market. It is important for goods whose demand is seasonal such as raincoats and woollen. It creates time utility and is important in case of products having seasonal supply (sugarcane, rice and wheat). The storage function of marketing is performed by various agencies such as retailers, manufacturers and wholesalers.

13.6 MARKETING MIX

Concept of Marketing Mix

Marketing mix is a plan which designs marketing strategy regarding controllable variables of market mechanism. These elements are known as **4 Ps,** denoting *products, price, place (distribution) and promotion*. Marketing mix, in this way refers to marketing structure denoting a particular combination of four Ps.

The four basic elements of *marketing mix* are inter-related and inter-dependent and *form the core of the marketing efforts* of the company. In other words marketing mix may also be termed as *marketing decisions variable*.

Marketing Mix-Elements			
1. **Product**	2. **Price**	3. **Place**	4. **Promotion**
• Product Mix	• Price Level	• Channel Strategy	• Promotion Mix
• Product Quality	• Margins	• Channel Selection	• Advertising
• New Product	• Pricing Policy	• Channel Conflict	• Personal Selling
• Design and Development	• Pricing Strategies	• Channel Cooperation	• Sales Promotion
• Packaging	• Price Change	• Physical Distribution	• Public Relations
• Labelling			
• Branding			

Definition of Marketing Mix

According to William J.Stanton

"*Marketing mix is the term used to describe the combination of the four inputs which constitute the core of a company's marketing system, the product, the price structure, the promotional activities and the distribution system*."

In the words of **Kolter,** "*Marketing mix is a set of controllable variables that the firm can use to influence buyers' response*". Marketing mix, present the best possible combination of marketing variables such as product, price, distribution (place) and promotion.

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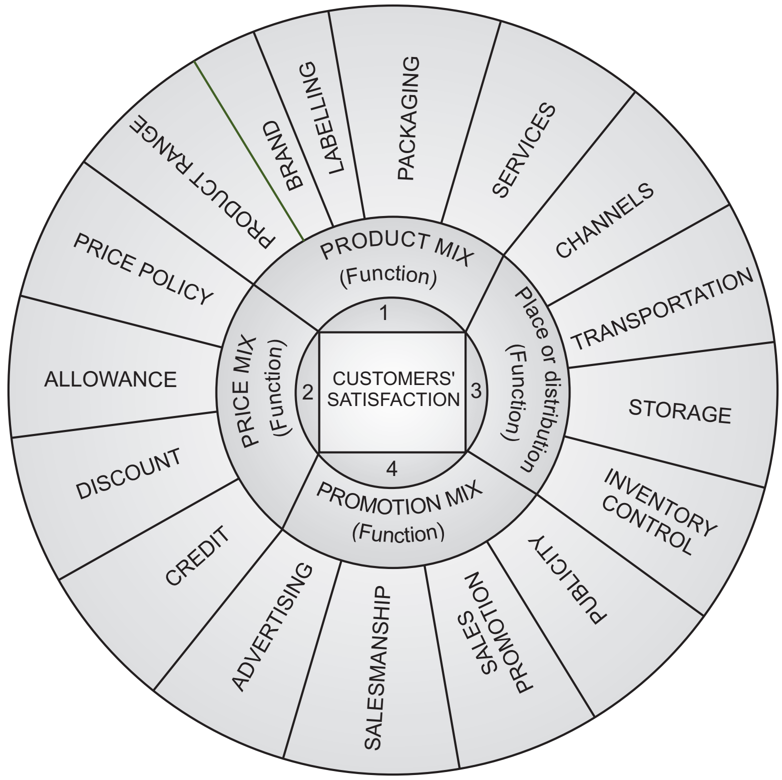
It is an accepted truth that marketing is not a *science* but it is still *an art*. As such marketing mix is a *tool* more than a concept. *Marketing mix designs the marketing strategy by combining four important elements (product, price, place and promotion) of marketing*.

The terms 'mix' has been used here as the short form of the word mixture, a combination or a structure of elements, structuring, marketing functions. The idea of marketing mix was conceived by Professor **Neil H. Borden** of the Harvard business schools. According to him, *The marketing mix refers to the apportionment of efforts, the combination, the designing and the integration of the elements of marketing into a programme or mix.*

13.7 ELEMENTS *OR* COMPONENTS OF MARKETING MIX—THE 4 Ps.

The following diagram comprehensively tells us about the marketing mix.



MARKETING FUNCTIONS/MIX

Importance of Marketing Mix

Needs are the beginning and end of all economic activities. These human needs are satisfied by effective marketing of goods by the producers. It is the marketing management, which identifies needs of the society, establishes the enterprise, integrates various factors of production and produces goods which are passed on to the consumers. Marketing, in this way makes goods and services available in the required quantity at the appropriate place and at reasonable price. *Importance of marketing* may be discussed under the following headings.

13.8 PRODUCT MIX

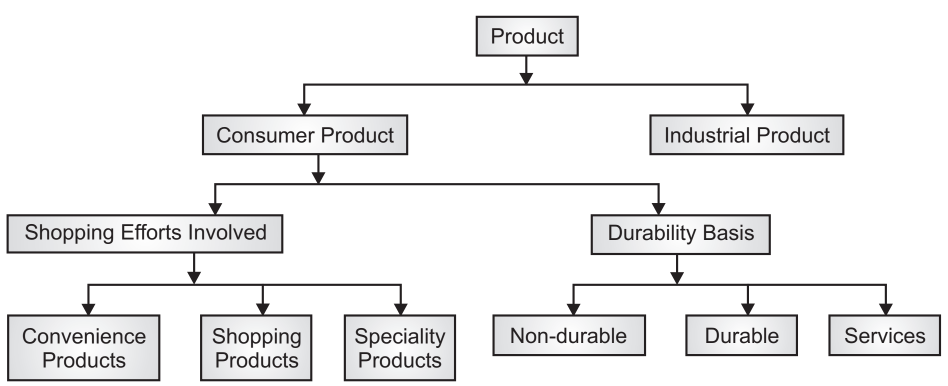
It involves the activities relating to the product, service or idea to be offered. It is the marketing strategy in which product components are discussed and decided. The product has many dimensions. Marketing of the product requires that every dimension of the product should be given due consideration.

Dimensions of the Product

(*i*) Volume of output
(*ii*) Shape, size and weight of the product
(*iii*) Quality and standard of the product
(*iv*) Product design
(*v*) Product range
(*vi*) Brand name, whether individual brand name just as Lipton Tea, Lux Soap or family brand name such as Godrej, Uptron, Philips etc.
(*vii*) Packaging and labelling
(*viii*) Product testing
(*ix*) Service after sale
(*x*) Development of the product etc.

The above dimensions of the product are known as **product mix.** The product mix aims at satisfying the targeted consumers' group. The product should offer variety of satisfaction to the consumers. For example, as sellers of fridge, we should offer attractive shape and design, trouble-free operation, beautiful colour, standard size, good cooling and defrost system and so on.

Nature and Classification of Product



(*i*) Perishable products, such as fruits, vegetable, eggs and backery items.
(*ii*) Article of seasonal nature such as raincoats, umbrellas and books etc.

(*iii*) Article having frequent changes in fashion and style such as readymade garments, jewellery etc.

(*iv*) Durable and non-fashion products.

(*v*) Heavy and bulky products, such as machine, stones, marbles, bricks and coal etc.

Product may broadly be classified into two categories—(*i*) consumers' products and (*ii*) industrial products. The consumer product may further be classified into different groups, as details below.

Consumer products. Consumer products are those products, which are purchased by the ultimate consumers or users for satisfying their personal needs and desires. For example, edible oil, toothpaste, soap, fans etc. The consumer products have been classified on the basis of two important factors.

(A) The extent of shopping efforts involved, and

(B) Durability of the product.

These have been explaiend as below:

(A) Shopping Efforts Involved. On the basis of the time and effort buyers are willing to spend in the purchase of a product. We can classify the consumer product into the following three categories as:

1. **Convenience products.** Those consumer products, which are purchased frequently, immediately and with least time and efforts are referred to as convenience goods. For example, ice-creams, medicines, newspaper, etc. These products have low unit value and are bought in small quantities.

Important characteristics of such products are:

(*a*) These products are purchased at convenient locations, with least efforts and time.

(*b*) These products have small unit of purchase and low prices.

(*c*) These products have standardised price as most of these products are branded products.

(*d*) Convenience products have a regular and continuous demand, as these generally come under the category of essential products.

2. **Shopping products.** Shopping products are those consumer goods, in the purchase of which buyers devote considerable time, to compare in the quality, price, style etc., at several stores, before making final purchase. Examples are clothes, jewellery, furniture, shoes, television etc. Some of important characteristics of shopping products are:

(*a*) These products are generally durable in nature, *i.e.,* they normally survive many uses;

(*b*) Purchase of these products are generally pre-planned and there is little degree of impulse buying in these products.

(*c*) As these products have high unit price, customers compare the products of different companies before making selection.

(*d*) The unit price as well as profit margin of shopping products is generally high.

3. **Speciality products.** Speciality products are those consumer goods which have certain special features because of which people make special efforts in their purchase. These products are such, which have reached a brand loyalty of the highest order, with a significant number of buyers. For example, if there is a rare collection of artwork or of antiques, some people may be willing to spend a lot of shopping effort and travel long distance to buy such products.

Some of the important characteristics of the speciality products may be summed up as follows:

(*a*) These products are generally costly, and their unit price is very high.

(*b*) The demand for these products is limited as relatively small number of people buy these products.

(*c*) An aggressive promotion is required for the sale of speciality products, in order to inform people about their availability, features, etc.

(*d*) After sales services are very important for many of the speciality products.

(B) Durability of Products. On durability basis, customer products have been classified into three categories:

(1) Non-durable products

(2) Durable products

(3) Services.

1. **Non-durable products.** Those consumer products which are normally consumed in one or few uses are called non-durable products such as, toothpaste, bathing soap, stationery etc., from marketing point of view, these products generally command a small margin.
2. **Durable products.** Those tangible consumer products which normally survive many uses, for example, bicycle, radio, refrigerator, kitchen gadgets and sewing machine. These goods are generally used for a longer period and command a higher per unit margin, require greater personal selling efforts, guarantees and after sale services, on the part of the seller.
3. **Services.** The durable and non-durable goods are tangible in the sense that these have a physical existence and can be seen and touched. On the other hand, services are intangible in form. By services we mean those activities, benefits or satisfactions, which are offered for sales. *e.g.,* postal services, courier services, dry cleaning, hair cutting, services offered by a doctor, a chartered accountant, an architect, and a lawyer. Some of the distinguishing characteristics of services are as follows:

   (*a*) Services are intangible in nature, *i.e.,* we cannot see, feel or touch them.

   (*b*) Services cannot be stored, they are highly perishable. For example, if dry cleaner does not work for 3 days, the services he would have provided during such period go waste.

   (*c*) A services is inseparable from its source. That means we cannot separate the service from the person providing the service.

   (*d*) Services are highly variable as their type and quality depends on the person, providing them.

13.9 INDUSTRIAL PRODUCTS

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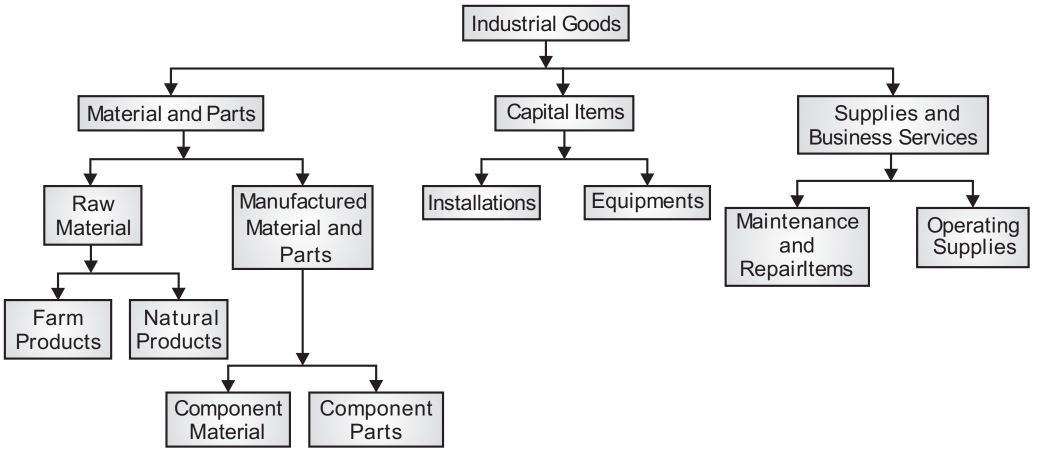
Industrial products are those products, which are used as inputs in producing other product (intermediate goods). For example, raw materials, engines, lubricants, machines, tools etc.

In other words, industrial products are meant for non-personal and business use for producing other products.

The important characteristics of industrial products are given below:

1. **Number of buyers.** The number of buyers of industrial products are limited, as compared to the consumer products take an example of sugarcane which is purchased by few producers of sugar, but sugar, which is a consumer product, is purchased by crores of people in our country.
2. **Channel levels.** Because of limited number of buyers, the sale of industrial products is generally made with the help of shorter channels of distribution. *i.e.*, direct selling or one level channel.
3. **Geographical concentration.** Because of location of industries at certain points, or regions (For example Bhiwadi Industrial Area in Rajasthan), industrial markets are highly concentrated, geographically.
4. **Derived demand.** The demand for these products is derived from the demand for consumer products. For example, the demand for leather will be derived from demand for shoes and other leather products in the market.
5. **Role of technical considerations.** Technical considerations assume greater significance in the purchase of industrial products because these products are complex products, brought for use in business operations.
6. **Reciprocal buying.** Some big companies from basic industries like oil, steel, rubber and medicines resort to the practice of reciprocal buying. For example, Ashok Leyland may buy tyres and tubes from MRF, which in turn may buy trucks from Leyland, whenever it feels the need for the same.
7. **Leasing out.** Because of the heavy price of the industrial products, there is a growing trend in the market is to lease out rather than to purchase the products on outright basis.

Classification of Industrial Products/Goods



Classification

The industrial goods are classified into the following three major categories:

1. **Materials and parts.** These include goods that enter the manufacture's products completely; such goods are of two types: (*a*) Raw-material, including farm products like cotton, sugarcane, oil seeds and natural products such as minerals (say crude petroleum iron ore) fish and lumber; and (*b*) Manufactured materials and parts.
2. **Capital items.** Goods that are used in the production of finished goods are called caiptal goods. These include; (*a*) Installations like elevators, mainframe computers and (*b*) Equipments like hand tools, personal computer, fax machines etc.
3. **Supplies and business services.** These are short lasting goods and services that facilitate developing or managing the finished product. These include (*a*) maintenance and repair items like paint, nails, etc. and (*b*) operating supplies like lubricant, computer stationery, writing paper etc. The difference in the nature of consumer products and industrial products is important because of the fact that the buyers of the two sets of products have different buying motives and have different attitudes. They use different approaches in the purchase of the products. For example, an industrial buyer is expected to be more rational who will study the cost of different available brands, their technical specifications, and the goodwill of the supplier. Whereas, the buyer of a consumer product may be more impulsive and emotional who is susceptible to advertising and various sales promotion schemes.

13.10 BRANDING

The *process of creating distinct identity of the product is known as Branding.* The distinctive feature of the product can be created by assigning it a word, symbol, mark and design. Branding is used for product differentiation, building distinct image of the product and to popularise the product and its producers. Brands like Dalda, Rath, Philips, Sony, Samsung, L.G., Aiwa, Dhara, Sundrop etc., are common in the market. Thus Branding is creating a corporate brand identity for consumer and getting that brand identity imprinted on the minds of consumer.

Branding Strategies

The marketer has to make a conscious choice between various available branding strategies. These strategies are as under:

1. **Individual branding.** The separate brand name is used for each product by the same company. The greatest advantage of this strategy is that the enterprise is able to build distinct image for each of its product. The brand name of the product is not used for promoting any other product. P & G is an example of the company, which uses individual brand name for its product. Its brand portfolios are Camay, Ariel, Tide, Head and Shoulder and Old Spice.

   The greatest disadvantage of individual branding is that it is costly strategy.

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2. **Family branding.** Under this branding strategy the company uses one family brand name for all its products. Philips, General Electric (G.E.), Godrej, Samsung etc., are its examples. The greatest advantage of this strategy is that the product gets instant recognition and association with the corporate. It is simple and economical. This strategy is not able to create distinct image for the product.
3. **Name of the company with the individual name.** Under this strategy the company uses the individual name with name of the company. This strategy is adopted by Bajaj and Britannia. Bajaj Chetak, Bajaj Pulsar, Bajaj Calibre, Bajaj Boxer and Bajaj Sunny are its examples. The greatest advantage of this strategy is that it combines the advantages of individual and family branding.

The various terms relating to branding are as follows:

1. **Brand.** A brand is a name, term, sign, symbol, design or some combination of them, used to identify the products–goods or services of one seller or group of sellers and to differentiate them from those of the competitors. For example, some of the common brands are Lifebuoy, Parker, Dunlop, Liberty, Shri Leather, Bata and Hot-shot. Brand is a comprehensive term, which has two components—brand name and brand mark. For example, Asian paints has the symbol of Gattu on its pack, which is its brand mark.
2. **Brand name.** Brand name is the verbal component of a brand. In other word, that part of a brand, which can be spoken, is called a brand name. For example, Ambuja Cement, Lux, Asian Paints, Maggie, Dunlop, and Uncle chips are the brand name.
3. **Brand mark.** That part of a brand which can be recognised but which is not utterable is called brand mark. It appears in the form of a symbol, design, distinct colour scheme or littering. For example, symbol of Yogkshema of LIC, the Gattu of Asian Paints or Devil of Onida are all brand mark.
4. **Trade mark.** A brand or part of a brand that is given legal protection is called trade mark. The protection is given against its use by other firms. Thus the firm which got its brand registered, gets the exclusive right for its use. In that case, no other firm can use such name or mark in the country. It provides several advantages to the sellers as well as the consumers.

Advantages to the Marketers

1. Enables marking product differentiation.
2. It helps in advertising and display programmes.
3. Branding enables a firm to charge different price for its products than that charged by its competitors.
4. Ease in introduction of new product.

Advantages to Customers

1. Branding helps in product identification.
2. Branding ensures a particular level of quality of the product.

3. Some brands become status symbols because of their quality. The consumers of those brands of products feel proud of using them and adds to the level of satisfaction of the customers.

Qualities of a Good Brand Name

While selecting the brand name the following points should be taken into consideration:

1. **Simple and short name.** The brand name must be short and simple to read and understand. For example, Lux, Surf and Nirma are good brands.
2. **Easy pronounciation.** The brand should be easily pronounceable, so that consumers may ask for it and purchase it easily.
3. **Preference for suggestive brand name.** The brand name should specify the purpose of the product. For instance, Dabur Hajmola suggests that it has digestive properties. Safi from Hamdard suggests that it purifies blood. Hair and Care, Dairy Milk and Sunsilk etc. are suggestive brand name.
4. **Distinctive.** The brand name should have its own distinct name. It must stand different from others in the category. Ariel, Tide and Perk are its examples.
5. **Meaningful.** The brand name should be meaningful from the view points of other languages and culture. It should not be offensive and inappropriate in other languages.

13.11 PACKAGING

Packaging is the process of enclosing, encasing or containing the product in bottles, plastic bags, wrappers, tubes, paper cartoons and boxes etc. For the purpose of displaying useful information regarding the product, its contents, weight, size, price, constituents, usage necessary instructions about the usage and storing the product must be recorded on the package.

Package reduces the risk of wastage, spoilage, leakage, meltage and evaporation etc., in the process of transportation and storage.

Levels of Packaging

There can be three different levels of packaging. These are as below:

1. **Primary packaging.** It refers to the product's immediate container. In some cases, the primary package is kept till the consumer is ready to use the product (*e.g.,* plastic packet for socks) whereas in other cases, it is kept throughout the entire life of the product (*e.g.,* shaving tube, matchbox, toothpaste tube etc.)
2. **Secondary packaging.** It refers to the additional layers of protection that are kept till the product is ready for use, *e.g.,* a toothpaste tube usually comes in a cardbox. When consumers start using it, they will dispose off the box but retain the primary tube.
3. **Transportation packaging.** It refers to further packaging components necessary for storage, identification or transportation. For example, a soap manufacturer may send the goods to retailers in corrugated boxes containing 10, 20 or 100 units.

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Importance of Packaging

1. **Rising standards of health and sanitation.** Because of the increasing standards of living in the country, more and more people have started purchasing packed goods as the chances of adulteration in such goods are minimised.
2. **Self-service outlets.** The self-service retail outlets are becoming very popular, particularly in major cities and towns. Because of this, some of the traditional role assigned to personal selling in respect of promotion has gone to packaging.
3. **Innovation opportunity.** Some of the recent developments in the area of packaging have completely changed the marketing scene in the country. For example, milk can now be stored for 4-5 days without refrigeration in the recently developed packaging materials.
4. **Product differentiation.** Packaging is one of the very important means of creating product differentiation. The colour, size, material etc., of package makes real difference in the perception of customers about the quality of the product.

Functions of Packaging

1. **Product protection.** The fundamental function of packaging is to protect it from sun, rain, moisture, insects and atmospheric contact etc. Packaging maintains the freshness of product and enhances its life. This is why, we use airtight containers for certain products.
2. **Product identification.** Every producer has its own distinct packaging, different from others with respect to design, size, colour and other specification. Packaging helps us in the easy identification and immediate picking up of the product.
3. **Facilitating use of the product.** Packaging provides convenience in the transportation and storage of the product. It is convenient for the consumers to use these products. Packaging of tropicana, Real and Frooti juices facilitates their consumption. Packaging, no doubt helps us in the safe and convenient handling and storing of the product.
4. **Product promotion.** It is rightly said that packaging works as silent, salesman. It catches the attention of customers, who pick up the product, go through its description and are induced to purchase the product. Self-service is becoming more and more common in the field of shopping, where the customer picks up the product himself and makes its payment on the counter. Packaging in these circumstances promotes the sales.
5. **Innovative ideas.** The producers sometimes develop innovative ideas about packaging which promotes their sales. For examples, shampoo, tomato ketchup, surf, sugar, milk, oil etc., are sold in small pouches.

In addition to the above functions packaging facilitates branding of the product. Empty packages have their resale value for customers. Packaging builds image of the product and its producers. The effective packaging is the source of prestige to its producers. Packaging continues to be more important in the modern growing competition, open display of the product and self-service of the customers.

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13.12 LABELLING

Labels are the slips pasted on the containers, wrappers, bottles and indicating the detailed information regarding the product and producer. Labels are the medium through which the manufactures pass on necessary information to the users of the product.

Requisite Information on the Label

(*i*) Name and address of the producer/manufacturer or dealer.
(*ii*) Ingredients used in the product.
(*iii*) Weight, size and measurement of the product.
(*iv*) Colour and appearance of the product.
(*v*) Date of manufacturing and expiry of the product.
(*vi*) Maximum retail price.
(*vii*) Directions for the use of the product.
(*viii*) Precautions for the use of the product.
(*ix*) Statutory warning (if required).

Functions/Objectives of Labelling

1. **Identification of the product.** Labelling helps in the identification of the product. The consumer easily picks up the product because labelling differentiates it with other similar products.
2. **Knowledge about the specialities of the product.** The special features and the quality of the product are mentioned on the labels. The customer goes through the contents of the labels, obtains knowledge about the product and decides whether to purchase it or not.
3. **Price control.** The label mentions the maximum price of the product. So, the seller cannot charge more than the maximum price. As such labels keep price of the product under control.
4. **Provides an opportunity for sale of the product.** Labels, no doubt provide an opportunity to the manufacturer to exploit the deal in their favour. Labels present reasons before the customers to own the product. Labels facilitate marketing of the product.
5. **Prevention of false claim.** It will not be possible for the manufacturer to make false claim on the label in writing because these claims can be verified and if found false, the suit can be filed in the consumers' court.
6. **Special service to customers.** Labels render valuable services to the manufacturers and customers. It is an effective marketing tool for the manufacturer. Customers also gain complete details about the product, its price, contents, directions for use and precautions to be taken.
7. **Statutory warning.** Labels also display legal restrictions as imposed by the government. As such they fulfil legal requirement. Certain commodities such as Cigarattes, Pan Masala etc., contain Statutory warning, such as *cigarette smoking is injurious to health* is written on every cigarette packet. In case of poisonous and hazardous products appropriate safety warning need to be mentioned on labels.

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13.13 PRICE MIX/PRICING

It refers to the price charged for the product or service. Price stands for the exchange value of the product, *i.e.*, what the customer has to pay?

Strategies of Pricing

1. **Skimming.** In order to skim the cream of demand at the initial stages, very high prices are charged so that investments made in the product are quickly realised. The idea behind this skimming approach is to sell to the classes, who are prepared to pay anything for the novel product. Later on price is reduced due to competition in the market, immitation of the product and, to catch up the buyers of middle level income.

   The policy of skimming was adopted by the Weston company, who was the sole manufacturer of Television sets. The company charged ₹ 50,000 per set and skimmed the cream of demand. Later on the price as we know has gone down between 5,000—20,000 these days. The policy of skimming will be suitable in the early stages, when the product is novel and distinctive.
2. **Penetration.** In order to popularise the brand and gain maximum market share, low price of the product is charged in the initial stages. Penetration is the policy of reaching masses. It is suitable for fast moving consumer product. The policy of penetration was adopted by Nirma Washing Powder. Initially the price was very low as compared to other brands of detergent. Now the price has been made competitive. The policy of penetration is suitable, if the demand of the product is highly elastic, effecting large volume of production and sales. The product is mass-appealing and there is high competition.
3. **Competitive pricing.** Selling product at the prevailing current price is known as 'competitive pricing' or 'going rate pricing' or 'market level pricing'. It is also known as customary pricing or status-quo pricing. Competitive price prevails under perfect competition, where every firm is price taker and the price is determined by the interaction of the forces of demand and supply. Firms at this price enjoy normal profit.
4. **Follow the leader pricing.** Under this pricing strategy one firm controls the price of the industry because the ideal firm has the dominant share of the market. The sales can be increased by sales promotion measures and advertising. This practice is known as price leadership or pattern pricing. In order to protect small firm the leader may fix high prices. Such practice will be known as umbrella pricing.
5. **Price discrimination.** Charging different prices from different consumers on the basis of their social and economic status for the same commodity is price discrimination. Medical practitioners and electric companies adopt this policy. Actual price may be determined by bargaining. The policy is adopted to maximise profit with social values in mind.

Factors Affecting Price or Determinants of Price

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The following factors must be taken into consideration while determining the price of the product.

1. **Objectives of the firm.** The price of the product is determined in accordance with the objectives of the firm. In case of profit maximisation as an objective the firm will have to fix higher price, which must be competitive. If it is public welfare entity, prices charged may be less. Companies like Rolls Royce or Mercedes Benz, who assemble superpremium cars are always image conscious and fix high prices. They do not bother for common masses, they manufacture cars for classes.
2. **Cost of the product.** The price of the product is affected by its cost. The price must cover all production cost and fair return of profit. The production cost should cover both fixed and variable cost. Sometimes in order to meet competitive challenges product may be priced below the cost of production, but the price must recover variable cost.
3. **Competition in the market.** The firm enjoys complete freedom in fixing price if it is a monopoly. In such situation, the firm is price maker. If there is competition in the market, the price must be competitive. Competitor's prices and their anticipated reactions must be kept in mind while fixing the prices.
4. **Customer demand.** If the demand of the product is inelastic the marketer can charge higher price without much loss of the market demand. If the demand is elastic, a slight change in the price changes the demand by big magnitude. In case of elastic demand the seller can increase its revenue by lowering prices.
5. **Government control.** In India the government controls the prices of certain products, such as edible oils, sugar, cement etc., in the public interest. In such situation, the firm will have to follow the price policy of the government.

Other Factors Affecting Price

1. **Targeted consumers.** It is ascertained, what quantity of the product, the customer will buy at different prices.
2. **Competitive products.** If there is tough competition, higher prices cannot be charged.
3. **Discount and allowance.** The enterprise will have to decide how much incentive can be granted to dealers and customers in the form of discount and allowance, such as trade discount and reduction sales etc.
4. **Terms of credit.** If there is competition and practices of credit sale in the market for the product, the firm will have to take decision about the terms and conditions of credit sales.
5. **Profit margin.** It is the price of the product, which vitally affects the margin of profit. This factor cannot be ignored.

Price is a variable, which has psychological effect, so it should be reasonable and related to quality.

13.14 PLACE *or* PHYSICAL DISTRIBUTION MIX

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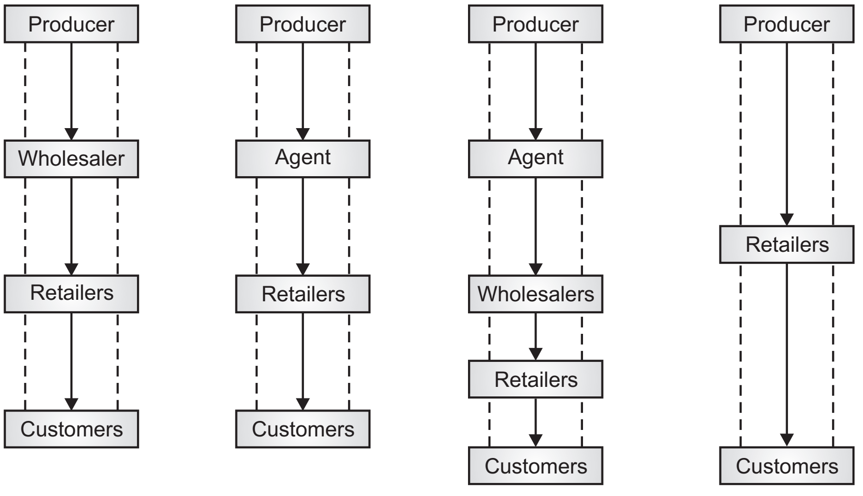
It is also known as distribution mix. It determines the place, where the product should be made available. It also decides whether goods are to be marketed through wholesalers, retailers, own branches, retail outlets or middlemen.

Physical distribution of product. Involves all the activities relating to the movement of product from seller to buyers. In this way, it is concerned with the (*a*) Transportation, (*b*) Warehousing, (*c*) Inventory control of goods, and (*d*) Order processing.

Channels of Distribution

The Prime object of production is its consumption. The movement of product from producer to consumer is an important function of marketing. It is the obligation of the producer to make goods available at right place, at right time right price and in right quantity. The process of making goods available to the consumer needs effective channel of distribution. This is why, the path taken by the goods in its movement is termed as channel of distribution.

The goods may be sent to the consumer directly or indirectly through middle men. The channel of distribution may be classified as under:



Channels of Distribution

13.15 TYPES OF CHANNELS

(A) Direct Channel (Zero level)

This is the oldest, shorter and the simple channel of distribution. The producer sells the product directly without involvement of any middle man. The sale can be made door to door through sales man, retail stores and direct mail. Certain industrial and consumer goods such as clothes, shoes, books, hosiery goods, cosmetics, household appliancs, electronic goods etc., may be sold through direct contact. Perishable goods such as vegetables and fruits can also be sold directly.

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Advantages of Selling through Direct Channel

(*i*) It is simple and fast.
(*ii*) It is economical.
(*iii*) The producer has full control over distribution.
(*iv*) Satisfies the desire to reduce dependence on middle men.
(*v*) Cash sales.

Disadvantages of Selling through Direct Channel

(*i*) Non-availability of expert services of middle man.
(*ii*) Large investment is required.
(*iii*) Unsuitable for small producers.

Methods of Selling through Direct Channel

(*i*) Selling goods through own retail outlets.
(*ii*) Selling goods through postal services.
(*iii*) Selling goods through courier services.
(*iv*) **Telemarketing.** Selling goods against orders received, by telephone, email and fax is known as telemarketing. This method is being used by Asian Sky Shop. The product is delivered to the customer through producer's own vehicles, V.P.P. or courier.

Suitability of Selling through Direct Channel

(*i*) Costly industrial goods such as computer, aircraft, heavy machinery etc.
(*ii*) Perishable goods like fruits, vegetables, eggs, butter, milk etc.
(*iii*) Household appliances.
(*iv*) If customers purchase large quantities.
(*v*) In case the number of suppliers are less.

(B) Indirect Channel

According to this method of indirect selling, product is passed on to the customers through intermediaries, known as wholesalers, retailers and agents. These channels may be as under:

1. **Producer → Retailer → Customer or One level Channel.** Under this channel the producer sells goods to retailers, who sells the goods to customer. This channel is popular with the departmental stores, chain stores and supermarkets etc., because these are large scale retailers. Generally, readymade garments, shoes home appliances and automobiles are sold through this channel.
2. **Producer → Wholesaler → Retailer → Customer Two-level Channel.** It is commonly used channel of distribution. It is also known as traditional or

normal channel of distribution. This channel is useful for small producers with small means. The channel is mostly used for consumer goods. The common practice is that the manufacturer sells goods in large quantity to wholesalers, who sell goods to retailers in small quantity. Finally goods are sold to customers in pieces.

3. **Producer → Agent → Wholesaler → Retailer → Customer or Three-level Channel.** The common practice in this three-level channel is that goods are sold by the producer to the agent, who sells it to the wholesaler, who sells to the retailers, who finally sell goods to customers. This is the longest channel of distribution. This practice is useful, when the producer wants to be relieved of the problem of distribution. This channel is popularly used in textile.

Factors Determining Choice of Channel of Distribution

While selecting the suitable channel of distribution following factors should be taken into consideration.

A. Product Based Factors

Determination of effective channel of distribution primarily depends upon the product to be made available to consumers. It depends upon the following factors:

(*i*) **Nature of the product**

(*a*) Perishable products, such as fruits, vegetables, eggs and backery items, require short channels.

(*b*) Articles of seasonal nature such as raincoats, umbrellas, books etc., have also short channels.

(*c*) Articles having frequent changes in fashion and style such as readymade garments, jewellery etc. also have short channels and standardised.

(*d*) Durable and non-fashion products require indirect channels *i.e.*, agents, wholesalers and retailers.

Determinations of Channels of Distributions

A. Product Based Factors	B. Company Based Factors	C. Intermediaries Based Factors	D. Market Based Factors
(*i*) Nature of the product (*ii*) Specification of the product (*iii*) Unit value (*iv*) Technical nature of product	(*i*) Image of enterprise (*ii*) Size of the enterprise (*iii*) Managerial efficiency (*iv*) Financial health of the enterprise	(*i*) Availability of middlemen (*ii*) Nature of middlemen (*iii*) Financial standing of middlemen (*iv*) Cost of the channel	(*i*) Location and number of buyers (*ii*) Buying habits of the customers (*iii*) Size and frequency of order (*iv*) Legal restrictions

(*ii*) **Specification of the product.** Heavy and bulky products, such as machines, stones, marbles, bricks, coal etc., are handled through short channels.

(*iii*) **Unit value.** Commodities of low unit value are sold through middlemen because their direct marketing will be costly. Low priced articles are sold through intermediaries. Costly items like ornaments and jewellery are sold through short channels.

(*iv*) **Technical nature of product.** Products requiring installation, demonstration and after sales service require middlemen for their sale.

B. Company Based Factors/Company Characteristics

Enterprises have different forms of business organisation so the choice of their channels of distribution may also be different. It is based upon the following factors:

1. **Image of the enterprise.** Reputed, established and financially sound companies can make direct selling or use short channels of distribution less known new companies will have to adopt indirect channels of middlemen.
2. **Size of the enterprise.** A large company having large resources can have its own branches and outlets for sale, such as Bata Shoe company. Small companies will have to adopt indirect route of middlemen.
3. **Managerial efficiency.** An efficient and effective management prefers direct marketing or short channels of distribution. On the contrary an unexperienced, management lacking marketing expertise will prefer middlemen.
4. **Financial health of the enterprise.** Financially sound enterprises are capable of bearing the heavy expenses of direct marketing, whereas financially weak enterprises will have to adopt indirect route of intermediaries.

C. Intermediaries Based Factors

The nature, type and capability of the middlemen also decides the channel of distribution. These considerations are as under:

1. **Availability of middlemen.** In case of non-availability of desired middlemen the producer will have to establish its own distribution network. The manufacturer in these circumstances will prefer short channel of distribution.
2. **Nature of middlemen.** Indirect channels will be preferred, if middlemen are competent and performing excellent business and vice-versa.
3. **Financial standing of middlemen.** Intermediaries having huge financial resources prefer to work as sole selling agent of the product. Such middlemen are preferred by manufacturers needing large amount of funds for their production network.
4. **Cost of the channel.** Alternative channels of distribution should be studied with reference to the cost of their services. The most economical and trustworthy channel of distribution should be selected.

D. Market Based Factors

While selecting the effective channel of distribution the following market based factors must be taken into consideration.

1. **Location and number of buyers.** If the market is located within limited geographical area and the number of buyers are small, direct marketing should be preferred and *vice-versa.*
2. **Buying habits of the customers.** There are individual differences in consumer habits. In case consumer prefers credit purchase, sales through retailer should be preferred. If customers prefer self-service and desire one stop shopping, sales through departmental stores should be preferred.
3. **Size and frequency of order.** In case of large and frequent orders direct selling is preferable and *vice-versa.* The manufacturer can use both direct and indirect selling as per requirement.
4. **Legal restrictions.** In case product is to be sold through licenced shops the manufacturer will have to honour it.

E. Environmental Factors

Other important factors affecting the choice of channels of distribution include environmental factor. Such as economic condition and legal constraints. In a depressed economy marketers use shorter channels to distribute their goods in an economical way.

13.16 PROMOTION MIX

Promotion means informing the customers about the product and service and stimulating them to buy it. It involves all activities aimed at boosting the sales of the product. The different elements of promotion mix are as under:

Tools/Elements of Promotion Mix

1. **Advertising.** It is an activity, which establishes non-personal contact with the customers regarding the product, idea and service. It is an effort to create and sustain the demand for the product.
2. **Personal selling.** It is an art to induce people to buy the product. It is an effort to win the everlasting confidence of the consumers.
3. **Sales promotion.** It is an effort to stimulate customers to buy more and more of a particular commodity.
4. **Public relation.** The enterprise may start public contact and programme to introduce the product.

13.17 SALES PROMOTION

Meaning

Sales promotion is an effort to stimulate consumers to purchase more and more of a particular commodity. In this way, sales promotion includes advertising, personal selling efforts of the enterprise. We may now define *sales promotion as marketing activity, which involves personal selling, advertising and supplementary efforts to promote sales*.

Sales promotion stimulates demand for products. The main objective of sales promotion is to effect *spot buying by prospective consumers through short-term incentives, which are temporary and non-recurring in nature*.

The common sales promotion measures are samples, coupons, premium, bonus, offers, contests and demonstrations.

According to committee on definitions of American Marketing Associations. *Sales promotion, in a specific sense, refers to those sales activities, that supplement both personal selling and advertising, coordinate them and help to make them effective*.

Sales Promotion Techniques used at Different Levels

The business enterprise adopts different measures to promote sales. These measures are mentioned as under:

Sales Promotion Techniques

1. **Distribution of samples.** In order to popularise the product the manufacturer distributes free samples of the product among reputed customers. Sometimes free samples are distributed to general public. This method is very useful in introduction of new product. It is persuasive but expensive technique. It is useful in introducing consumer products such as soaps, detergents, tea etc.
2. **Rebate or price-off offer.** This technique involves offering products at special prices, to clear off excess Inventory. It helps in increasing the sales as products are offered at a price lower than the normal price. For example, during summers woollen clothes may be offered at 50% off price. Rebate is generally offered for a particular period only.
3. **Money refund.** There are certain manufacturers who promise to refund the price of the product. If it does not satisfy the consumer and does not possess qualities claimed by the manufacturer. The provision of money refund encourages the customer to buy the product without any botheration. Hence, it helps in increasing the sales. It also includes partial refund which means to refund a part of the price paid by the customer on presentation of certain proof of purchase. For example, ₹ 5 off on Pepsi on presentation of an empty bottle.
4. **Discount and prize coupons.** Coupons are the certificates entitling the holder a specified saving on the purchase of specified product. The customer goes on collecting coupons and receives discounts on the purchase. In certain cases prizes are awarded on the presentation of certain number of coupons. Retailers rendering the coupons are reimbursed by the manufacturers of the product.
5. **Gift or product combination.** The manufacturer offers attractive and useful gifts with the product. It attracts the customers towards the product, because he is getting a gift with the product without paying any extra money. It is an important technique of sales promotion which helps in increasing the sales.
6. **Contests.** Many manufacturers organise competitive events to encourage consumer's participation on a large scale. Winners of such competitions are suitably rewarded and they develop a certain level of loyalty towards a brand or the manufacturer. Such contest are held through a suitable media such as Radio, Television, Magazines etc. For example, Nestle, the manufacturer of

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Maggie noodles have been conducting various contests to encourage children's participation.

7. **Full finance.** Certain manufacturers provide finance facility even at the rate of 0% to promote their sales. Providing finance to customers is very common in Automobile Industry. Manufacturers of bike and cars provide easy finance to customers at low interest rates in order to boost up their sales.
8. **Exchange offer.** Many companies provide exchange offer in order to encourage their sales. It means exchange of an old product with new one at the price fixed by the manufacturer. The manufacturer fixes the price of an old product and adjust its value in the payment made by the customer for the new product. It is a common technique used by manufacturers of T.V., Car, A.C., Washing Machine etc.
9. **Packaged premium.** Various companies use this technique to boost up their sales. Under this technique a gift is kept inside the pack which encourages or excites the customer to buy the product. For example, gold coin in a soap, gold pendant in a tea pack etc.
10. **Container premium.** In this technique of sales promotion special container or boxes are used to pack the products in order to make the container reusable even when the content inside is used over. For example, Plastic Jars for Horlicks, Pet bottles of Pepsi and Coke etc.
11. **Quantity deals.** It is a technique which motivates consumers to buy more in order to get extra quantity. In simple words it aims at more quantity at less price. For example, buy three and get one free.
12. **Instant Draws and Assured Gifts.** Scratch a card and immediately win a bike, Car, A.C. etc. is an example of this technique of sales promotion. It induces the customers to make frequent purchases from the same place or store.
13. **Usable benefits.** It includes offers like purchase of goods worth ₹ 10,000 and get a discount voucher or a holiday package.

13.18 ADVERTISING

Advertising is an activity, which establishes non-personal contact of the business with the consumers regarding its product, idea and services. Since industrial revolution, goods are produced on very large scale. There is also very tough competition, so the business enterprise has to adopt various advertising publicity measures to boost sale. *Advertising may be defined as an effort to create and sustain the demand for the product*. Advertising creates mass market for the product.

Any paid form of non-personal presentation of ideas, goods or services by an identified sponsor is known as advertising.

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Definition of Advertising

"If you're trying to persuade people to do something, or buy something, it seems to me you should use their language, the language in which they think. **—David Ogilvy**

"We find that advertising works the way the grass grows. You can never see it, but every week you have to mow the lawn." **—Andy Travis**

Advertising maintains distinct identity of the product. It exposes its specialities and novelty. It creates curiosity among consumers to purchase and own commodity. In this way, advertising is a sales promoting activity, which creates mass market for the product by sustaining its demand among existing consumers and creating demand among new consumers.

Special Features of Advertising

1. Advertising is the means to establish nonpersonal contact between manufacturers and consumers.
2. It creates prospective consumers and sustains the existing consumers.
3. It is paid form of communication.
4. Advertising is sponsored by producers and manufacturers.
5. Advertising is always consumer oriented and it moves buyers towards the product.
6. Advertising increases the price of the commodity.

Role/Purpose of Advertising

Mathews Buzzel, Levitt and Frank have mentioned the following objects of advertising:

1. Making an *immediate sale*.
2. Building *primary demand*.
3. Introducing *price deals*.
4. Informing about the *products' availability*.
5. Building *brand recognition* and brand insistence.
6. Helping salesmen by *arousing awareness* of the product among retailers/ consumers.
7. Creating reputation for *service, reliability* and research strength.
8. Increasing *market share*.
9. Modifying *existing product* appeals.
10. *Informing* about price and special features of the product.
11. *Increasing the frequency* of the use of the product.
12. *Increasing the number* and quality of retail outlets.
13. *Building overall image* of the company.
14. *Effecting immediate buying action*.
15. Reaching *new areas or new segments* of population within existing areas.
16. Developing *overseas* market.

13.19 FEATURE/BENEFITS/SIGNIFICANCE/ ADVANTAGES/IMPORTANCE OF ADVERTISING

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Benefits of Advertising to Manufacturers/Producers

1. **Creates demand.** Advertisement is a sales promotion activity, which increases sales.
2. **Steady demand.** Regular advertising sustains the demand for the product. Novel and new uses of product are told. For example, use of cold coffee during summer and use of fridge throughout the year. Advertising maintains steady demand for the product.
3. **Quick sales and lesser stock.** Advertised goods sell quickly, so the funds are not blocked in stock. The problem of safe storage does not arise.
4. **Retailers' interest.** Retailers prefer to sell advertised goods, because it is quickly sold without any difficulty.
5. **Reduction in cost.** Increased sales of advertised goods requires their production on very large scale, which results in internal and external economies and consequently cost of production is reduced.
6. **Creation of goodwill and good image.** If the advertised product satisfies consumers, the reputation of the company is built. Sometimes the name of the company becomes the symbol of standard commodity.
7. **Encouragement to better work.** The workers involved in the production of advertised standard goods feel the sense of pride. In this way, they are further encouraged for better performance.

   Consumers are benefited by the advertisement in the following ways:

Benefits to the Consumers

1. **Easy shopping.** Advertised product is easily available at uniform rates. Chances of being cheated are minimised.
2. **Improvement in the quality of the product.** The manufacturers of advertised goods goes on improving their product, so that their reputation may be maintained in the market. The consumers thus get improved quality of goods.
3. **Elimination of unnecessary middlemen.** Advertised standard product can be directly sold to the consumers. In this way unwanted corrupt channel of middlemen is eliminated.
4. **Consumers' education.** Advertising media informs the consumers about the utility and uses of the product. It also demonstrates how to use the product. In this way even illiterate people can identify and use the product.
5. **Availability of the product at fair price.** These commodities are available at fair price. Due to decreased cost of production (because of large scale production) these commodities are available at comparatively cheaper price.

Benefits to the Society

1. **Encouragement to research work.** Advertising encourages research work. Continuous efforts are made to improve the quality of the product, to make it more useful and to put the product to novel and different uses.

2. **Encouragement to press work.** The uses of newspapers, magazines, periodicals, hand-bills, posters, etc. as advertising media encourages the press work. Regular advertisement helps the press in reducing cost of publication.
3. **Higher standard of living.** The use of standardised quality of product by the consumers raises their standard of living.
4. **Encouragement to artists.** The attractive and effective copy of the advertisement requires its proper designing, setting and display. All these activities are performed by artists, so advertisement is a source of encouragement to artists.
5. **Glimpse of national life.** Display and demonstration of the product through advertisement and the use of these products by the people manifests the glimpse of the national life.

Limitations of Advertising

The following are the major limitations of advertising as a tool of promotion:

1. **Less forceful.** Advertising is an impersonal form of communication. It is less forceful than the personal selling as there is no compulsion on the prospects to pay attention to the message.
2. **Lack of feedback.** The evaluation of the effectiveness of advertising message is very difficult as there is no immediate and accurate feedback mechanism of the message that is delivered.
3. **Inflexibility.** Advertising is less flexible as the message is standardised and is not tailor made to the requirements of the different customer groups.
4. **Low effectiveness.** As the volume of advertising is getting more and more expanded it is becoming difficult to make advertising messages heard by the target prospects. This is affecting the effectiveness of advertising.

13.20 OBJECTIONS TO/DEMERITS/DISADVANTAGES OF ADVERTISING

In spite of various advantages from advertising to producers, consumers and society it suffers from the following limitations:

1. **Adds to cost.** Advertising adds to the cost of production and the price of the commodity unnecessarily increases. The consumer pays for the advertised commodity more than what he would have paid for the same unadvertised commodity. Advertisement costs are passed on to the consumers in the form of high prices.
2. **Undermines social values.** Advertising sometimes compels us to use those commodities, which we do not require. In this way, our wants are unnecessarily increased. If wants remain unsatisfied, we feel discontentment. Increasing wants promote materialism. Desire to have more and more things is multiplying and life style is badly affected.

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3. **Advertising confuses rather than helps.** There are so many advertisements of certain products such as television, detergents, toothpastes, electrical goods etc., that the consumer gets confused as to which product should be purchased. Every manufacturer is making tall claims about the product and consumer is not competent and rational to make the best choice.
4. **Mis-representation of facts.** Advertisement generally speaks very high of the product. Sometimes products advertised are defective, imitated and adulterated. In this way, consumers are misled and suffer losses with the use of the commodities instead of benefits.
5. **Danger of monopoly.** Advertisement differentiates the product with other products and leads towards monopoly. Generally, standard products are advertised. Consumers become habituated of using the same commodity. In order to take undue advantage of the continuous demand, the enterprise forms a monopoly. It absorbs the demerits of monopoly such as charging unreasonable price, reducing the supply of the products, restricting the flow of product to certain market. Consequently consumers are the worst sufferers.
6. **Wastage of national resources.** The advertisement presents improved quality of the product in such a fashion that the consumer starts feeling that the old model of the same product has been useless. In this way, the resources used in the production of old model of the product are wasted. As such, the introduction of television made the radio less useful and the introduction of colour television made the black and white television less useful.

We can now summarise that *unnecessary huge expenditure on advertisement is social waste*. It has been a tragedy that producers and manufacturers do not reduce the price of the commodity even if the large scale production of the commodity has reduced the cost of production.

Functions of Advertising

Advertising performs the following functions:

(*i*) It informs existing and prospective consumers about the product, its uses, availability and price.
(*ii*) It creates demand for a new product.
(*iii*) It maintains demand for an existing product.
(*iv*) It builds brand recognition.
(*v*) It supplements the efforts of salesmen in pushing up sales.
(*vi*) It builds image of the manufacturer.
(*vii*) It promotes culture consciousness among people.
(*viii*) It helps business to develop overseas markets.

Difference between Advertising and Sales Promotion

Points of Difference	*Advertising*	*Sales Promotion*
1. *Meaning*	Advertising is an effort to create and sustain the demand for the product.	Sales promotion is an effort to stimulate consumer to purchase more and more of a commodity.
2. *Influence*	Advertising influences consumer.	Sales promotion is an attempt to influence channel of distribution.
3. *Mailing*	Advertising literature is directly mailed to the consumer.	Sales promotion literature is generally mailed through middle men, dealers, retailers etc.
4. *Movement*	Advertising moves the buyers towards product.	Sales promotion moves the product towards buyers.
5. *Orientation*	Advertising is consumer oriented activity.	Sales promotion is product oriented activity.

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Celebrities' Influence on Brands' Performance

Example of ad campaigns featuring celebrities, which resulted in brand building and growth in volumes.

1. **Cadbury's and Amitabh Bachchan:** The commercial, a testimonial by Bachchan on a factory visit, was launched to rebuild the trust in the brand. Twelve weeks after the campaign was launched, the sales reached 90 percent of volumes prior to the worm crisis. Big B's presence helped the company to get media coverage the added to the campaign's impact.
2. **Santro and Shah Rukh Khan:** Shah Rukh was roped in Santro ad to strike an immediate bond with the consumers. Shah Rukh Khan is an unconventional superhero with a quirky acting style that matched the image of Santro.
3. **Titan and Aamir Khan:** Both are considered to be Indian icons and have made a mark internationally; the obsession with detail is common to both, as also a sense of style. The Mangal Pandey look, which was unconventional, made the advertisement stand out, along with the fact that Aamir is less exposed than the other celebrities.
4. **Munch and Rani Mukharjee:** The campaign for Munch was aired on TV roped Rani Mukherjee to give "a big brand feel". The company got incredibly good result in recall and the ad was a big hit with kids. Rani was used as a consumer and not as a filmstar.
5. **Boost and Sachin Tendulkar:** Research indicated that the brand's association with Sachin has consistently been successful in stregthening the brand's core values and building brand stature. Kids look up to Sachin as a true hero, want to emulate everything that he does and can't seem to get enough of him.

Source: *Adopted from Indian Journal of Marketing Oct. 5, 2006*

13.21 PERSONAL SELLING

Meaning

Sales are the life blood of the business. The ultimate objectives of all productive activities are sales. The survival of every business owes to its sales, because sales are the major source of revenue.

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The industrial revolution brought the problem of creating potential demand for the product through competition. In order to stand in the market, compete with others and surpass the competing firm, creation of satisfied customers is must. Salesmanship or personal selling was introduced in order to achieve these ends.

Personal selling in this way, is an attempt to induce people to buy the product. It is two tier system, which establishes close relationship between salesmen and buyers resulting in mutual satisfaction. Personal selling means selling personally. It involves personal interaction between seller and buyer for the purpose of sale.

Definitions

"*Most people think 'selling' is the same as 'talking'. But the most effective salespeople know that listening is the most important part of their job.*" **—Roy Bartell**

"*You don't close a sale, you open a relationship if you want to build a long-term, successful enterprise.*" **—Patricia Fripp**

Special Features of Personal Selling

(*i*) Personal selling concerns individual personal appeal/Personal Form.

(*ii*) Salesmanship is oral form of communication.

(*iii*) It establishes direct contact with limited number of persons.

(*iv*) Buyers' doubts are immediately clarified it develop personal relationship.

(*v*) Provides an opportunity to suit the needs, motives and behaviours of the buyers.

The business should avoid *aggressive salesmanship, i.e.*, selling product by pressurising customers or by playing on customers' nerves, because it will pay only in very short run.

Merits of Personal Selling

1. **Flexibility.** There is lot of flexibility in personal selling. The sales presentation can be adjusted to fit the specific needs of the individual customers.
2. **Direct feedback.** As there is direct face to face communication in personal selling, it is possible to take a direct feedback from the customer and to adapt the presentation according to the needs of the prospects.
3. **Minimum wastage.** The wastage of efforts in personal selling can be minimised as company can decide the target customer groups, before making any contact with them.

13.22 STAGES/PROCESS/STEPS OF PERSONAL SELLING

There are four important steps in salesmanship:

1. Pre-sales preparation.
2. Prospecting (locating probable customers).
3. Pre-approach.

4. Sales presentation.
5. Handling objections.
6. Sale.
7. Post-sale-follow-up.

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1. **Pre-sales preparation.** The salesman familiarises himself with the product, market, organisation and the art of selling. He acquaints himself with the market conditions and business environment. He also develops ability to visualise the buyers' behaviour and motive.
2. **Prospecting** (*Locating probable customers*). The salesman after his preliminary preparation regarding product, market and business environment locates the probable customers. The salesman pick-up customers, needing the product, having ability, willingness and authority to buy. These customers must be accessible to the business.
3. **Pre-approach.** Before presenting product for sales, an efficient salesman finds out the needs, preferences, nature, behaviour and personal traits of the prospect.
4. **Sales presentation.** An effective sales presentation requires the formula of AIDA to be followed. The formula stands for:

   A — stands for Attention.

   I — stands for Interest.

   D — stands for Desire.

   A — stands for Action.

   It means that attention should be attracted through paper approach. After that he should hold the interest of the customer, arouse desire for the product being offered. The final step of the process will be to gain customers' confidence.
5. **Handling objections.** It is one of the most important step in selling process. The efficiency of the salesman is highlighted in this stage. A salesman should be able to tackle customer's objection effectively and efficiently. He clarifies his objections on the spot. There can be certain objections raised by the customer when he is through with the sales presentation. The salesman should patiently answer his questions and try to convince him in order to create sale.
6. **Sales.** The success of the efforts put by salesman in initial stages depends upon the fact that whether the customer agrees to buy or not. In this stage the sales efforts become successful if the customer agrees to buy. The sale is made when the customer agrees to the terms and conditions put forward by the salesman. This stage is considered the last stage of the selling process. But many people opines that post sale follow up is the last stage of the selling process.
7. **Post-sale-follow-up.** After the sale is made the obligation of the salesman does not end. After sale services is essential as it leads to customer's satisfaction. Customers become loyal towards a brand which provides them good after sales services. This strategy is successfully followed in Automobile Industry. Various Brands such as Maruti, Hyundai, Hero Honda, Bajaj, T.V.S. etc. are known for their after sales services. Providing post-sale-follow-up is very fruitful for the organisation in the long run.

Role of Personal Selling

Personal selling plays a very important role in the marketing of goods and services. The importance of personal selling to the different class of the groups may be described as below:

1. **Importance to businessmen.** Personal selling is a powerful tool for creating demand for a firm's products and increasing their sale.
   (*i*) *Effective promotional tool*. Personal selling is an effective promotional tool, which helps in influencing the prospects about the merits of a product and thereby increasing their sale.
   (*ii*) *Flexible tool*. Personal selling is more flexible than other tools of promotion such as advertising and sales promotion. It helps business persons in adopting their offer in varying purchase situations.
   (*iii*) *Minimises wastage of efforts*. Compared with other tools of promotion, the possibility of wastage of efforts in personal selling is minimum. This helps the business persons to bring economy in their efforts.
   (*iv*) *Consumer attention*. There is an opportunity to detect the loss of consumer attention and interest in a personal selling situation. This helps a business person in successfully completing the sale.
   (*v*) *Lasting relationship*. Personal selling helps to develop lasting relationship between the sales persons and the customers, which is very important for achieving the objectives of business.
   (*vi*) *Personal rapport*. Development of personal rapport with customers increase the competitive strength of a business organisation.
   (*vii*) *Role in introduction stage*. Personal selling plays a very important role in the introduction stage of a new product as it helps in persuading customers about the merits of the product.
   (*viii*) *Link with customers*. Sales people play three different roles, namely persuasive role, service role and information role, and thereby link a business firm to its customers.
2. **Importance to customers.** This role of personal selling becomes more important for the **illiterate** and rural customers, who do not have any other means of getting information about the product. The customers are benefited by personal selling in the following ways:
   (*i*) *Help in identifying needs*. Personal selling helps the customers in identifying their needs and wants and in knowing how these can best be satisfied.
   (*ii*) *Latest market information*. Customers get latest market information regarding price changes, product availability and shortages and new product introduction, which help them in taking the purchase decision in a better way.
   (*iii*) *Expert advice*. Customers get expert advice and guidance in purchasing various goods and services, which help them in making better purchase.
   (*iv*) *Induces customers*. Personal selling induces customers to purchase those products that satisfy their needs in a better way and thereby helps in improving their standard of living.

3. **Importance to society**
   (*i*) *Converts latest demand*. Personal selling converts latest demand into effective demand. It is through this cycle that the economic activity in the society is fostered leading to more jobs, more incomes and more products and services. That is how economic growth is influenced by personal selling.
   (*ii*) *Increase employment opportunities*. Personal selling provides attractive employment opportunities to the unemployed youth in the society. They can also earn greater income in this field.
   (*iii*) *Career opportunities*. Personal selling provides attractive career with greater opportunities for advancement and job satisfaction as well as security, interest and independence to young men and women.
   (*iv*) *Mobility of sales people*. There is a greater degree of mobility in sales people, which promote and develop travel and tourism in the country.
   (*v*) *Product standardisation*. Personal selling increases product standardisation and uniformity in consumption pattern in a diverse society.

13.23 3QUALITIES OF A GOOD SALESMAN

Salesmanship is a highly skilled profession, which demands a very high degree of proficiency. A successful salesman possesses the following qualities:

1. **Knowledge of self.** Salesmanship is a skilled profession. The salesman has to influence the customer. It requires that the salesman should be aware of its strong and weak points. In this way, he should attract the customer towards his strong side and avoid negotiations and conversation on his weak side.
2. **Knowledge of the product.** The salesman must have thorough knowledge about the product, he has been selling. He should know the constituting element of the product, the utility of these elements, technique of its production, the plus points of the product as compared to the other products available in the market. Knowledge of the product will enable him to meet objections raised by customers and removing customers' doubts.
3. **Knowledge of the enterprises.** The salesman should have perfect knowledge about the enterprise, he has been representing. He should be aware of the policies, programmes, past history of the enterprise, and attitude towards customers. The knowledge will enable him to represent the enterprise effectively.
4. **Knowledge of the customers.** The salesman should be capable of understanding the nature of the customers. On the basis of behaviour, customers may be classified as:
   (*a*) Argumentative or submissive customer.
   (*b*) Silent or talkative customer.
   (*c*) Indecisive or decided customer.
   (*d*) Impulsive or calculative customer.
   (*e*) Aggressive and nervous customer.

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(*f*) Independent or dependent customer.

(*g*) Friendly or sarcastic customer.

(*h*) Grateful or straight forward customer.

The salesman should understand the type of customer and deal accordingly:

5. **Knowledge of selling techniques.** The ultimate end of salesmanship is sales. It is therefore, necessary that the salesman should be well versed with the art of familiarising, motivating, attending and influencing the customers.
6. **Personal qualities.** In addition to the above qualities the salesman should also possess the following personal qualities:

   (*i*) **Physical attributes.** The salesman should possess sound health and attractive personality. He should have good personal appearance, habits, stamina, manners, posture, voice, dress and way of addressing.

   (*ii*) **Mental attributes.** A successful salesman should possess the qualities of presence of mind, imagination, judgement, self-confidence, initiative and general intelligence. He should be alert, active and attentive. He should be quick to grasp the situation and act accordingly.

   (*iii*) **Social attributes.** The salesman has to deal constantly with different type of customers, so he should be capable of according different types of treatment to different types of customers. He should be patient listener, frank and good humoured but not offensive. He should be convincing conversationalist. Politeness, courtesy, cheerfulness and pleasant habits are his other qualities. A self-centred (introvert), silent and submissive man cannot be a good salesman.

   (*iv*) **Vocational attributes.** The vocational attributes are the specific qualities which a salesman must possess. These traits include aptitude, ambition, enthusiasm, discipline and training. Salesmanship is a highly skilled vocation requiring high degree of mind, body and heart.

13.24 IMPORTANCE/ADVANTAGES OF PERSONAL SELLING

Personal selling has got the following advantages:

1. **Identification of the prospect.** Personal selling pin-points the exact customer, whereas advertising being a method of mass communication beats about the bush. Advertising cannot distinguish between prospect and suspect customer.
2. **Personal contact.** In case of personal selling personal contact with the customer is established. It provides an opportunity to satisfy the customer with commodity.
3. **Immediate sale.** Personal selling results in immediate sale and the deal is finalised, whereas it is not possible in case of advertising.
4. **Display and demonstration of the product.** In case of personal selling, product can be effectively displayed and demonstrated.
5. **Two way communication.** Personal selling is the best method of two way communication.

6. **Knowledge of objection.** In case of personal selling, the enterprise knows the objection of the customers. The salesman tries to meet the objections and removes the doubts which are raised.
7. **Personal qualities of salesman promote sales.** Even if the product is very good, it does not sell itself. It has to be pushed through to customers. The personal selling is also required even if the quality of product is good. A good salesman identifies the prospect, presents the right type and quality of the product to suit the needs and motives of the prospect and results in actual sales.

Salesman provides invaluable feedback information to top management about the tastes, behaviours and attitudes of the customers. It helps the management in developing product to match the expectations of the customers.

Difference between Advertising and Personal Selling (Salesmanship)

Points of Difference	*Advertising*	*Personal Selling*
1. *Meaning*	Non-personal and paid form of presenting ideas goods and services is known as advertising.	It is non-sponsored non-personal and unpaid form of presenting goods services and ideas.
2. *Coverage*	Advertisement covers vast area.	Personal selling is restricted to specific customer.
3. *Cost*	Advertisement is less costly.	Personal selling is more costly.
4. *Media*	Advertisement establishes impersonal contact.	Salesmanship is the media of personal contact.
5. *Variation*	Advertising media can vary from time to time.	There are not much variations in case of salesmanship.
6. *Contact*	Advertising is the method of mass influencing.	Salesmanship is the media of individual contacts.
7. *Removal of Doubts*	In case of advertising, doubts cannot be removed at the same time.	Doubts can be immediately removed.
8. *Immediate Sales*	Advertising does not result in immediate sales.	Personal selling results in immediate sales.
9. *Goal*	It aims at creating demand for the goods and services.	It aims at forming favourable public image.
10. *Payment*	The enterprise is required to make payment to the media.	In case of publicity the enterprise is not required to make payment.
11. *Sponsor*	Sponsor to the advertisement can be easily identified.	There is no identifiable sponsor.
12. *Economic Value*	It is aimed at earning return. It has economic value.	It may and may not have economic value.

NOTES

13.25 PUBLIC RELATIONS

Public relations as a tool of marketing and sales promotion stand very close to publicity. Public relations involves the cultivation of positive and favourable relations for organisations as well as products with its target market (Key Public) with the help of different communication channels and tools. It helps in boosting the organisation's profile in a positive and favourable manner. It can be done by placing editorials in industry publications or arranging a celebrity to endorse a product. It can provide a framework in which marketing activities can be carried out more effectively and is able to communicate messages which other sources of promotion sails to convey. It helps in attracting more and more customers by increasing the credibility of the organisation and the product. For example, a person hearing a positive feedback about a product on radio is likely to respond positively. Positive and favourable media coverage often provide potential benefit to the marketer.

Public relations can be classified into two categories i.e. proactive public relations and reactive publications. Proactive public relations involve placing articles and editorials in industry publication, arranging a press conference or getting a celebrity involved in endorsement of a product. Reactive public relations on the other hand is response oriented and includes coordination of response to an unfavourable or a negative press coverage. It is also known as damage control.

Traditionally public relations was confined to professionals working with media and news channels in order to build a positive or favourable image of the organisation and the product.

But now a days the role of public relations as a tool of sales promotion is very broad. The role of public relations may include the following:

1. It helps in building awareness and a positive image for a company.
2. Monitoring the media channels for public comment regarding company and its products helps in maintaining good image for a longer period of time.
3. It helps the company to cope up with various threats and challenges related to its image.
4. Enhancing goodwill of the company among the target market through special programs and events.
5. Public relations help in bringing the customers closer to the product and the company, hence it helps in winning over the customer loyalty.

13.26 WAYS/METHODS OF PUBLIC RELATIONS

Companies generally use the following types of public relation tools:

1. **Events.** It includes organisation of press conferences, shows, matches media presentations etc.
2. **Speeches.** Speeches given by corporate leaders influences various members of the society such as banks, general public, shareholder etc. Public relation departments seek opportunities for leaders to speak in public.

3. **Written presentations.** It includes circulation of balance sheets, reports, documents etc. in order to maintain the public image and goodwill of the company.
4. **News.** In certain cases companies intentionally involve themselves in such activities so the media may cover them as news and bring them to general public. For example, if a company is planning to give equal job opportunities to those who belong to backward section of the society. It may create news and the company gets positive coverage.
5. **Service activities.** Big corporate houses often associate themselves with public service welfare programmes such as children/women welfare projects, job for all, charity events, colleges, hospitals etc., in order to build a strong corporate image.

SUMMARY

- **Meaning of Marketing.** Marketing is all sort of activities which facilitate the exchange of goods, services, persons, place and idea.
- **Distinction between Marketing and Selling**

  (1) Meaning (2) Importance (3) Stage/Process (4) Scope (5) Orientation of efforts or emphasis (6) Objectives (7) Approach towards Profit (8) Comprehensiveness.
- **Marketing Management Philosophies**

  (1) Production concept (2) Product concept (3) Selling concept (4) Marketing concept (5) Societal concept.

  Differences in the Marketing Management Philosophies

  (1) Starting point (2) Main focus (3) Means (4) Ends.
- **Functions of Marketing**

  (1) Gathering and analysing marketing information (2) Market planning (3) Product designing and development (4) Standardisation and grading (5) Packaging and labelling (6) Branding (7) Customer support services (8) Pricing (9) Promotion (10) Physical distribution (11) Transportation (12) Warehousing.
- **Marketing Mix.** It is the marketing strategy adopted by the enterprise by combining the four important elements of marketing, *i.e.*, product, price, place and promotion.
- **Elements of Marketing Mix**

  (1) Product mix (2) Price mix (3) Place or Physical distribution mix (4) Promotion mix.
- **Product Mix**

  Nature and Classification of Product

  (1) Consumer product (2) Industrial product.

  The ultimate consumer or users for satisfying their personal needs and desires.

  (A) Shopping Efforts Involved

  (1) Convenience products (2) Shopping products (3) Speciality products.

(B) Durability Basis

(1) Non durable (2) Durable (3) Services.

- **Industrial Products.** Industrial product for non-personal and business use for producing other product.

  Characteristic of Industrial Products

  (1) Number of buyers (2) Channel levels (3) Geographical concentration (4) Derived demand (5) Role of technical considerations (6) Reciprocal buying (7) Leasing out.

- **Classification of Industrial Products**

  (1) Materials and parts (2) Capital items (3) Supplies and Business Services.

- **Branding.** The process of creating distinct identity of the product by assigning a symbol, word, mark and design is known as branding.

  Branding Strategies. (1) Individual branding (2) Family branding (3) Name of the company with the individual name.

  Various Terms Relating to Branding

  (1) Brand (2) Brand name (3) Brand mark (4) Trade mark.

  Qualities of a Good Brand Name

  (1) Simple and short name (2) Easy pronounciation (3) Perference for suggestive brand name (4) Distinctive (5) Meaningful.

- **Packaging.** The process of enclosing or containing the product in suitable and attractive containers is known as packaging. It reduces the risk of wastage.

  Levels of Packaging

  (1) Primary (2) Secondary (3) Transportation.

  Importance of Packaging

  (1) Rising standards of health and sanitation (2) Self-service outlets (3) Innovation opportunity (4) Product differentiation.

  Functions of Packaging

  (1) Product protection (2) Product identification (3) Facilitating use of the product (4) Product promotion (5) Innovative ideas.

- **Labelling.** The process of pasting slips on the containers, wrappers, bottles and packages indicating the detailed special features of the product is known as labelling.

  Functions/Objectives of Labelling

  (1) Identification of the product (2) Knowledge about the specialities of the product (3) Price control (4) Provides an opportunity for sale of the product (5) Prevention of false claim (6) Special service to customers (7) Statutory warning.

- **Price Mix/Pricing.** Price stands for the exchange value of the product, *i.e.*, what customer has to pay?

  Strategies of Pricing

  (1) Skimming (2) Penetration (3) Competitive Pricing (4) Follow the leader pricing (5) Price discrimination.

Factors Affecting Price or Determinants of Price

(1) Objectives of the firm (2) Cost of the product (3) Competition in the market (4) Customer demand (5) Government control.

Factors to be Considered before Fixing Price

(*i*) Targeted consumers (*ii*) Product cost (*iii*) Competitive product (*iv*) Discount and allowance (*v*) Terms of credit (*vi*) Profit margin.

- **Place or Physical Distribution Mix.** Determining the path and place, where the product should be made available is known as physical distribution mix.

  Channels of Distribution. The assigned route through which the product passes from the producer to the consumer is known as channel of distribution.

- **Types/Classification of Channels of Distribution**

  A. Direct Channel (Zero level). Producer → Customer

  B. Indirect Channel.

  1. Producer → Retailer → Customer.
  2. Producer → Wholesaler → Retailer → Customer
  3. Producer → Agent → Wholesaler → Retailer → Customer

- **Factors Determining Choice of Channels of Distribution**

  A. Product based factors

  (*i*) Nature of the product (*ii*) Specification of the product (*iii*) Unit value (*iv*) Technical nature of the product.

  B. Company based factors/company characteristics

  (*i*) Image of the enterprise (*ii*) Size of the enterprise (*iii*) Managerial efficiency (*iv*) Financial health of enterprise.

  C. Intermediaries based factors

  (*i*) Availability of middlemen (*ii*) Nature of middlemen (*iii*) Financial standing of middlemen (*iv*) Cost of the channel.

  D. Market based factors

  (*i*) Location and number of buyers (*ii*) Buying habits of the customers (*iii*) Size and frequency of order (*iv*) Legal restrictions.

  E. Environmental factors

- **Promotion Mix**

  Tools/Elements of Promotion Mix

  (*i*) Advertising (*ii*) Personal selling (*iii*) Sales promotion (*iv*) Public relation.

- **Meaning of Sales Promotion.** Sales promotion is an effort to stimulate customers to purchase more and more of a particular commodity.

  Sales Promotion Techniques

  (1) Distribution of samples (2) Rebate or price-off offer (3) Money refund (4) Discount and prize coupons (5) Gift or product combination (6) Contests (7) Full finance (8) Exchange offer (9) Packaged premium (10) Container premium (11) Quantity deals (12) Instant draws and assured gifts (13) Unsafe benefits.

NOTES

- **Advertising.** Advertising is an activity which establishes non-personal contact of the enterprise with the customers regarding its product, idea and services. It is an effort to create and sustain the demand for the product.

  Special Features of Advertising

  (1) Establishing nonpersonal contact (2) Creation of demand (3) Paid form of communication (4) Adopted by producers (5) Consumer oriented—moves buyers towards product (6) Increases the price.

  Purpose/Role of Advertising

  (1) Making immediate sale (2) Building primary demand (3) Introducing price deals (4) Informing about products availability (5) Building brand recognition (6) Arousing awareness (7) Creating reputation and reliability (8) Increasing market share (9) Modifying appeal (10) Informing price and product appeal (11) Increasing the frequency (12) Increasing the number (13) Building overall image (14) Effecting immediate buying action (15) Reaching new areas or new segments (16) Developing overseas market.

- **Benefits/Advantages/Merits of Advertising**

  Benefits/Advantages to Manufacturers/Producers

  (1) Creates demand (2) Steady demand (3) Quick sales and lesser stock (4) Retailers' interest (5) Reduction in cost (6) Creation of goodwill and good image (7) Encouragement to better work.

  Benefits/Advantages to the Consumers

  (1) Easy shopping (2) Improvement in the quality of the product (3) Elimination of unnecessary middlemen (4) Consumers' education (5) Availability of the product at fair price.

  Benefits/Advantages to the Society

  (1) Encouragement to research work (2) Encouragement to press work (3) Higher standard of living (4) Encouragement to artists (5) Glimpse of national life.

  Limitations of Advertising

  (1) Less forceful (2) Lack of feedback (3) Inflexibility (4) Low effectiveness.

- **Objections to Demerits/Disadvantages Advertising**

  (1) Adds to cost (2) Undermines social values (3) Advertising confuses rather than helps (4) Misrepresentation of facts (5) Danger of monopoly (6) Wastage of national resources.

  Difference between Advertising and Sales Promotion

  Basis: (*i*) Meaning (*ii*) Influence (*iii*) Mailing (*iv*) Movement (*v*) Orientation.

- **Personal Selling.** Salesmanship is an art to induce the people to buy the product. It is an effort to win the everlasting confidence of the consumer.

  Merits of Personal Selling

  (1) Flexibility (2) Direct feedback (3) Minimum wastage.

- **Process/Steps/Stages in Personal Selling**

  (1) Pre-sales preparation (2) Prospecting (locating probable customers) (3) Pre-approach (4) Sales presentation (5) Handling objections (6) Sale (7) Post-sale-follow-up.

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Role of Personal Selling

(1) Importance to Businessmen—(*i*) Effective promotional tool (*ii*) Flexible tool (*iii*) Minimises wastage of efforts (*iv*) Consumer attention (*v*) Lasting relationship (*vi*) Personal rapport (*vii*) Role in introduction stage (*viii*) Link with customers. (2) Importance to Customers—(*i*) Help identifying needs (*ii*) Latest market information (*iii*) Expert advice (*iv*) Induces customers. (3) Importance to Society—(*i*) Converts latest demand (*ii*) Increase employment opportunities (*iii*) Career opportunities (*iv*) Mobility of sales people (*v*) Product standardisation.

- **Qualities of a Good Salesman**
- (1) Knowledge of self (2) Knowledge of the product (3) Knowledge of the enterprises (4) Knowledge of the customers (5) Knowledge of selling techniques (6) Personal qualities (*i*) Physical attributes (*ii*) Mental attributes (*iii*) Social attributes and (*iv*) Vocational attributes.
- **Importance/Advantages of Personal Selling**

  (1) Identification of the prospect (2) Personal contact (3) Immediate sale (4) Display and demonstration of the product (5) Two way communication (6) Knowledge of objection (7) Personal qualities of salesman promote sales.

  Difference between Advertising and Personal Selling

  Basis: (1) Meaning (2) Coverage (3) Cost (4) Media (5) Variation (6) Contact (7) Removal of doubts (8) Immediate sales (9) Goal (10) Payment (11) Sponsor (12) Economic value.
- **Public Relations.** Public relations is a tool of marketing which involves cultivation of positive and favourable relations for organisations and their products through communication channels.
- **Ways/Method of Public Relations**

  (1) Event (2) Spectes (3) Written presentations (4) New (5) Service activities.

SELF ASSESSMENT QUESTIONS

1. Explain '*Market*', '*Product*' and '*Company*' related factors determining the choice of channels of distribution.
2. Explain the major activities involved in physical distribution of goods.
3. Explain any four objectives of 'Marketing Management'.
4. Marketing and selling are two different concepts. Distinguish between the two on any five basis.
5. State any five functions of marketing from the management view point.
6. Bonding the customer according to the product and developing the product according to customer needs are the two important concept of marketing management. Identify the concepts and differentiate between the two.
7. Shyam bought a pain relieving ointment after seeing it being displayed in the chemist's shop. The ointment tube was packed in a cardboard box. Identify the different levels of packaging of the pain relieving medicine, when it was purchased by Shyam. Also state the functions of packaging.

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8. After acquiring the necessary knowledge and skills on starting an Aloevera Farm, Ashok wanted to be the leading manufacturer of Aloevera products worldwide. He observed that the products were expensive as the demand of the products was more than the supply. He was also keen to promote methods and practices that were economically viable, environmentally sound and at the same time protecting public health.

Ashok's main consideration was about the amount of money paid by the consumers in consideration of the purchase of Aloevera products. He also thought that competitors' prices and their anticipated reactions must also be considered for this.

After gathering and analysing information and doing correct marketing planning, he came to know that the consumers compare the value of a product to the value of money which they are required to pay. The consumers will be ready to buy a product when they perceived that the value of the product is at least equal to the value of money which they would pay.

Since he was entering into a new market, he felt that he may not be able to cover all costs. He knew that in the long run the business will not be able to survive unless all costs are covered in addition to a minimum profit. He examined the quality and features of the products of the competitors and the anticipated reactions of the consumers. Considering the same he decided to add some unique features to the packaging and also decided to provide free home delivery of the products.

The above case relates to a concept which is considered to be an effective competitive marketing weapon. In conditions of perfect competition most of the firms compete with each other on this concept in the marketing of goods and services.

(*a*) Identify the concept.

(*b*) Explain briefly any *four* factors discussed in the above case related to the concept so identified.

9. Medi Instrument Ltd. is a company dealing in the distribution of medical instruments. The company recently imported 15,000 units of sugar testing machines to test the sugar levels without taking blood samples. For deciding the marketing strategy, the Chief Executive Officer of the company called a meeting of the marketing heads of different zones. In the meeting, Sanjay, the North Zone Marketing Head, suggested that since the machines were sophisticated they need to visit hospitals personally to explain its working to the hospital staff who would be using the machines. He also suggested that additional trained people may be recruited for the same. Hitesh, another Zonal Head, added that since lot of money had been spent on the import of the machines, the company was short of funds to pay the additional staff, as suggested by Sanjay. Revansh, a newly appointed Zonal head of South Zone, suggested that since the size of the order was large, a detailed study of the factors determining the choice of channels of distribution was required before making the right choice.

(*a*) Identify the factors influencing the choice of channels of distribution which were discussed in the meeting.

(*b*) Also, explain briefly the other considerations to be taken care of in each factor identified in part (*a*).

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10. Ashima purchased a bottle of tomato sauce from the local grocery shop. The information provided on the bottle was not clear. She fell sick on consuming it. She filed a case in the District forum under consumer protection Act and got the relief.

(*a*) Identify the important aspect neglected by the marketers in the above case.

(*b*) Explain briefly the functions of the aspect identified in (*a*) above.

11. Radhika was a student of Business Studies of Class XII. Her father was a farmer who grew different varieties of rice and was well-versed about various aspects of rice cultivation. He was also selected by the government for a pilot-project on rice cultivation. As a project-work in Business Studies she decided to study the feasibility of marketing good quality rice at a reasonable price. Her father suggested her to use the internet to gather customers' views and opinions. She found that there was a huge demand for packaged organic rice. She knew that there were no predetermined specifications in case of rice because of which it would be difficult to achieve uniformity in the output. To differentiate the product from its competitors, she gave it the name of 'Malabari Organic Rice' and classified it into three different varieties namely—Popular, Classic and Supreme, based on the quality. She felt that these names would help her in product differentiation. Explain the *three* functions of marketing, with reference to the above paragraph.

12. Hayaram is a famous chain selling a large variety of products in the Indian Market. Their products include chips, biscuits, sweets and squashes. It charges comparatively higher price than its competitors as it sells quality products. Besides, it offers regular discounts to its customers and easy credit terms to its retailers. It has five of its own retail shops. It also sells its products through various grocery stores so that the products are made available to customers at the right place, in the right quantity and at the right time. It regularly uses different communication tools to increase its sales.

The above para describes the combination of variables used by Hayaram to prepare its market offering. Identify and explain the variables.

13. Since childhood Niru and Janak had been watching their grandmother procuring wheat from the market, washing it well, drying it and getting it converted into atta. They conducted a survey to collect data to identify whether there is demand for readymade atta and realised that with the growing number of working women, it is the need of the hour to manufacture high quality atta. They named their product 'Srijan' and set up 'Srijan Atta Factory' at Jaunpur Village. To penetrate the market, they decided to keep the price low. For maintaining smooth flow of their product into the market and avoiding delays in delivery, it was decided to store wheat at SKM Services which had scientific processes and logistics facilitating quick delivery. They also set up an online complaint portal to take care of consumer grievances.

By quoting the lines from the above paragraph, state *five* marketing functions undertaken by Niru and Janak for successful marketing of 'Srijan' atta.

14. Explain the various marketing management philosophies.

15. Discuss the component of physical distribution.

16. Discuss the various objections to advertising.

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14. FINANCIAL MANAGEMENT

STRUCTURE

14.1 INTRODUCTION

Finance is rightly said to be the *life blood* of the enterprise. Finance is the basic requirement of the business. It is responsible for the commencement, sustenance and growth of the business. There should be optimum supply of funds, because the situations of both the over-capitalisation and under capitalisation are injurious to the enterprise. The available finance should also be properly used, so that the financial growth of the business should take place at accelerated growth. Financial resources should also be used effectively for profit maximisation and wealth maximisation.

14.2 MEANING OF FINANCIAL MANAGEMENT

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Financial management is concerned with the managing finance of the business for smooth functioning and successful accomplishment of the enterprise objectives. Financial resource is the basic requirement of all business entities. It is rightly said as the life blood of the business. Finance is required not only for the commencement of the business but also to meet its routine money requirements and promotion of the enterprise. Money is required for purchasing fixed assets, *i.e.*, Land and Building, Plant and Machinery. Furniture, vehicles, funds are also required for meeting manufacturing and distribution expenses. Sufficient funds are also required to accelerate the growth rate of the business. **Finance resource management in this way, is concerned with the forecasting of financial requirements, raising of necessary funds and controlling over the utilisation of available finance.**

"Financial management is the business activity, which is concerned with acquisition and conservation of capital funds in meeting financial needs and overall objectives of business enterprise." **—Wheeler**

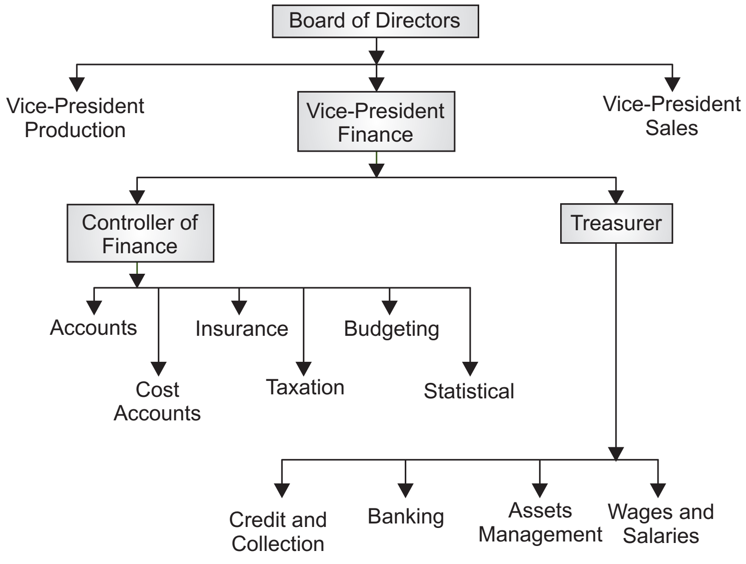
"Financial management is the activity concerned with the planning raising, controlling and administering of funds used in the business." **—Guthmann and Dougall**

"Financial management is concerned with managerial decisions that result in the acquisition and finance of long-term and short-term assets for the firm. As such, it deals with the situation that requires selection of specific assets or combination of assets. The selection of specific liabilities as well as the problem of growth and size of enterprise. The analysis of these decision is based upon the expected inflow and outflow of funds and their effect upon managerial objectives''. **—Phillippatus**

"Financial management relates with the arrangement of cash credit, so that organisation may have the means to carry out its objectives as satisfactorily as possible."

—Howard and Upton

Structure of Financial Management



14.3 OBJECTIVES AND IMPORTANCE OF FINANCIAL MANAGEMENT

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Financial management is the **applied field of management.** It is virtually concerned with the **inflow and outflow of money** in the business. It is concerned with the decision-making process regarding procurement and utilisation of funds.

The main objective of the financial management is to formulate effective policy regarding *procurement, investment, financing of funds and dividend*. Profit maximisation and wealth maximisation are broadly categorised as the two vital important objectives of the business enterprise. The term 'objective' here means the investment, financing and dividend policy of the enterprise. The different **objectives and importance** of financial management are discussed herewith:

1. **Obtaining funds at minimum cost** (*Ensuring availability of funds at reasonable rates*)**.** The significance of financial management lies in obtaining requisite funds at the minimum cost. The financial policy should also ensure the availability of the requisite amount of funds at reasonably low rates of interest.
2. **Profit maximisation** *(Ensuring the effective utilisation of funds).* Maximisation of profit is the objective of every business enterprise. The company should earn sufficient profit to meet its expenses and also to pay dividend at competitive rates. Sufficient profit is also required for expansion and modernisation of enterprise. In order to accelerate the pace of growth, the profit earned should be at rates higher than the profit earned by other competing firms. The profit earning rate should preferably be more than the rate at which profit was earned during the previous year. Every business continues its sustained efforts to maximise its profit. Profit can maximise, if available resources are effectively utilised.
3. **Risk minimisation** *(Ensuring safety of funds through creation of reserves, reinvestment of profit etc).* There is always risk in carrying business activities. These risks may be due to various unforeseen natural, economic and physical causes. Future is always uncertain, so element of risk will always remain there in the business. These risks are regarding strong competition, theft, fire, breakdown, change in the fashion and Govt. policy, non-availability of raw material, skilled labour and funds etc.

   In these circumstances it becomes the responsibility of financial management to anticipate the problem areas and be prepared to face the challenges and overcome difficulties. Though, it is said that there will be more gain, if there is more risk but it does not mean that the financial manager should take utmost risk in order to earn exceptionally good profit. Such policy will endanger even the existence of the business enterprise. The financial manager should always adopt cautious and safe financial policies and create sufficient reserves to meet unforeseen contingencies.
4. **Financial control.** Financial management should always plan the sources of procuring funds and also the uses to which the available funds will be applied. He should also keep constant watch on the inflow and outflow of funds in the business. Deviation between the planned and actual inflow and outflow of funds

should be noted, studied and analysed. Problems regarding *over-capitalisation, under capitalisation, leakage, shortage and idle funds* should be immediately attended and partially solved. Effective and sound financial policy should be adopted.

5. **Capital budgeting.** *Capital budgeting is long-term financial decision making of the company*. It requires decision regarding the purchase of new assets taking into consideration the utility of various other alternative uses of the assets.

   The second element of capital budgeting decision is the analysis of risk and uncertainty. Investment proposal should be evaluated in relation to risk involved. The financial manager should formulate an effective policy of capital budgeting after taking into consideration:

   (*i*) Assets and their composition (*ii*) Business risk and uncertainty (*iii*) Measurement of cost of capital.

6. **Working capital management.** Working capital is the excess of current assets over current liabilities. Current assets consist of cash in hand, cash at bank, debtors, stock, bills receivable, prepaid expenses etc. Current liabilities include creditors, bills payable, bank overdraft and outstanding expenses. The financial management has to formulate policy regarding procurement and utilisation of current assets. It is said to be an ideal policy, if funds generated by current assets are used for meeting current liabilities. It is rightly said that *short-term survival is the essential requirement for long-term success.* In case of insufficient current assets, the survival of the firm is endangered. If current assets are too short, there is a risk of bankruptcy. More profitability means lesser liquidity, capacity to satisfy current liabilities. In these circumstances, the financial manager has to maintain better relationship between profitability and liquidity.

7. **Disposition of profit.** Profit of the business has to be disposed off by the financial manager among owners. This profit must be ascertained after satisfying various claims against business. It means that owners should get reasonable return on their investment and needs of the business should not suffer. The financial management has to decide, what part of profit should be retained in the business to meet uncertain future requirements and what part of profit should be distributed as dividend among shareholders.

8. **Wealth maximisation.** The objective of wealth maximisation is also known as *value maximisation* or *net worth maximisation*. The net worth or value of the company is reflected by the value of its shares in the stock market. It means that the financial management has got the objective of maximising the value of shares, which is the true representative of the value/wealth/net worth of the enterprise. According to **Ezra Solomon,** *The operative feature of financial management is to maximise wealth or present net worth.*

It should be noted that profit maximisation and wealth maximisation carry the same meaning in a short period. All business activities which generate value exceeding their cost produce wealth. Effective capital management maximises long run earning of business.

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14.4 FINANCIAL DECISIONS OR FINANCE FUNCTIONS

In a financial aspect, financial decisions means the selection of best financing alternative or best investment alternative. Financial decisions involve three decisions which are as under:

1. **Investment Decision (Capital Budgeting decisions).** The investment decision involves now the firm's funds are invested in different assets. Therefore, the firm is able to earn the maximum possible return for its investors. Investment decision can be a short-term or long-term. A long-term decision is also called as capital budgeting decision. For example, making investment in a new machine to replace an existing one or acquiring a new fixed assets or opening a new branch etc. A short-term investment decisions is also called working capital decision involves decision about the cash, inventories and debtors level. These decisions affect day to day working of a business.

   Factors Affecting Capital Budgeting Decisions

   Following are the factors which affect capital budgeting decisions:

   (*i*) *Cash flows of the project.* A company expect a cash flow when investment takes place involving a huge amount. These can be in term of receipts and payments for the period of an investment. The amount of these cash flows should be considered before taking a capital budgeting decision.

   (*ii*) *The rate of return.* It is a most important factor before the decision. These calculations are based on expected returns from each proposal and the assessment of risk involved. If there are two project A and B with 10 and 8 per cent of return. In normal conditions project A should be selected.

   (*iii*) *The investment criteria involved*. The decision to invest in a project involves a lots of calculation for the amount of investment, cash flows, rate of return etc. There are different techniques to evaluate investment proposals which are known as capital budgeting techniques. These techniques are applied to each proposal before selecting a particular project.

   (*iv*) *Risk involved*. Every investment proposal passes certain degree of risk. The financial management of the organisation should calculate the risk involved in each and every investment opportunity. Those investment proposals should be preferred which passes mode rate degree of risk.

2. **Financing Decision.** This decision is about the quantum of finance to be raised from various sources (long-term and short-term). It involves the process of identifying various available sources. There are two types of main sources for funds:

   (1) Share holders funds (2) Borrowed funds.

   Share holders funds are equity capital and retained earnings. Borrowed funds are in the forms of debentures or other forms of debt. The cost of each finance is estimated. Some sources may be cheaper than the other. Financing decision is thus, connected with the decisions about how much to be raised and from which source.

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Factors Affecting Financing Decision

Important factors are discussed as follows:

(*i*) *Cost.* The cost of getting funds through different sources are different. A manager would like to choose a cheaper source of funds.

(*ii*) *Risk.* The risk element with different sources is different.

(*iii*) *Floatation cost.* Higher the floatation cost, less attractive the source.

(*iv*) *Cash flow position of the business.* The stronger cash flow position of the business raises debt financing more than raising funds through equity.

(*v*) *Level of fixed operating costs.* If a business has high fixed operating cost, lower debt financing is better. If fixed operating cost is less, more of debt financing may be preferred.

(*vi*) *Control considerations.* Raising funds through equity may lead delution of manager control over the business. Debt financing has no such implication.

(*vii*) *State of capital market.* Health of the capital market also affects the choice of source of funds. When stock market is at top, more people are ready to invest in equity. However, down capital market would make difficult for a company to issue equity shares.

3. **Dividend Decision.** The final decision is related with the distribution of dividend. Dividend is that portion of profit which is distributed to shareholders. This decision involves how much of profit earned by the company should be distributed to the shareholders and how much of it should be retained in the business for meeting the investment requirement. The decision regarding dividend should be taken keeping view the overall objective of maximising shareholder's wealth.

Factors Affecting Dividend Decisions

Some of the important factors are discussed as follows:

(*i*) *Earnings.* Dividends are paid out of current and past earnings. Therefore, earning is a major factor of decision about dividend.

(*ii*) *Stability of earnings.* If a company has stable earnings, it will provide high dividends to its employees. If not, then would like to pay less dividends.

(*iii*) *Stability of dividends.* Dividend per share is not altered if the change in earnings is small or seen too temporary in nature.

(*iv*) *Growth opportunities.* Companies having good growth opportunities retain more money out of their earnings so as to financial the required investment. The dividend in growth companies is therefore smaller than the non-growth companies.

(*v*) *Cash flow position.* Dividends involve an outflow of cash. A company may be profitable but short on cash. Availability of enough cash in the company is necessary for declaration of dividend by it.

14.5 ROLE OF FINANCIAL MANAGEMENT

The financial management, these days has assumed significant role in the modern business world. Increase in the number of corporate business enterprises, varied sources of procuring funds, growth of investment opportunities and constant increase in the prices of factors of production have made the financial management a distinct and important element of management.

Managerial Functions/Role of Financial Manager

The financial information is used to measure profitability and liquidity of the business. These pieces of information are also needed by shareholders, creditors, investors, economists, researches and even by the government.

1. **Management of assets.** Assets are valuable resources owned by the business. The assets are classified as fixed, current, tangible and intangible. These assets are used in the normal operation of the business. Financial management is required to advise regarding management of assets as follows:
   (*i*) Determination of total value of assets.
   (*ii*) Proper balancing between different types of assets.
   (*iii*) Suggesting the measures for the effective utilisation of various assets.
   (*iv*) Suggesting means of minimising wastages in the use of assets.
   (*v*) Provision for depreciation.
2. **Management of funds.** Funds are the important asset of the business. Funds are received from operations, decrease in current assets, sale of fixed assets, increase in non-current liabilities. These funds are utilised for the purchase of fixed assets, payment of non-current liabilities. Funds may also be consumed by loss from operation and increase in working capital. The financial manager has to arrange funds to meet cost of raw material, direct and indirect expenses, purchase of various assets and also to meet abnormal requirements. The financial manager prepares cash flow and funds flow statements, analyses it and suggests effective measures for procuring funds and their best possible utilisation.
3. **Management of cash.** It is the prime responsibility of the financial manager to maintain the solvency of the business. He should make such cash arrangement that the current liabilities may be paid on their due dates and there should remain no unutilised cash. He should take into consideration the transactional opportunity, contingency needs and even long-term financial needs during different intervals of the year. He is also required to prepare cash budget and cash flow statement. In order to meet the prospective needs of the business, he may arrange overdraft and cash credit facilities from banks. Financial assistance from specialised financial institutions may also be arranged, if necessary.
4. **Management of surplus.** Surplus generated in the business out of business activities should be distributed among shareholders as dividend at reasonable rates. A part of the surplus may be retained as accumulated surplus to meet future uncertainties. It should be ensured that the surplus has been ascertained after satisfying all the claims against the business as per agreement.

14.6 FINANCIAL PLANNING

NOTES

Meaning

Financial planning is an intellectual process, which decides in advance the capitalisation and capital structure of the enterprise. The financial manager has to decide the amount of capital required by the company. It should also be clearly laid down that what part of capital will be borrowed. Proper balancing between owned and borrowed capital is also required. Owners' capital may further be procured by issue of equity and preference shares.

Capital of the business enterprise is also classified as fixed capital and working capital. **Fixed capital** is the amount invested in the fixed assets. This capital is blocked in fixed assets such as land and building, plant and machinery, vehicles, furniture and fixtures, tools and equipments, etc. **Working capital** is required to meet the cost of raw material, manufacturing, selling, distribution and other operational expenses. Working capital is the excess of the current assets over current liabilities. Working capital is the result of the operating cycle of the business. Working capital should be sufficient to meet current liabilities.

Provisions made in the Financial Planning

Financial plan of new company must make provision for following costs:

(*i*) Cost of goodwill for acquiring the business.
(*ii*) Promotional expenses.
(*iii*) Cost of required fixed assets.
(*iv*) Cost of raw material.
(*v*) Cost of acquiring raw material.
(*vi*) Cost of manufacturing goods.
(*vii*) Cost of selling and distribution of goods.
(*viii*) Other operating and non-operating costs.
(*ix*) Provision for contingencies.

Decisions made in the Financial Planning

The financial plan must determine the capital structure of the enterprise. The financial manager will have to decide the amount of capital met by the following sources individually:

(*i*) Issue of equity and preference shares.
(*ii*) Issue of debenture.
(*iii*) Ploughing back of profit.
(*iv*) Public deposits.
(*v*) Bank loans.
(*vi*) Institutional finance.

Financial plan, in this way may be defined as predetermining the amount and type of capital required for the commencement and smooth functioning of the business enterprise.

14.7 FACTORS INFLUENCING FINANCIAL PLAN

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The following factors influence the structure of financial plan:

1. **Nature of the industry.** In case of large scale capital intensive industries, huge amount of capital is required, whereas small scale industries need lesser amount of capital. Capital is also affected by the stability of the industry, value of assets required, growth rate, competition and seasonality.
2. **Nature of enterprises.** Funds will be easily available to those enterprises which have assumed sales and higher rate of earning. It will be very difficult to procure funds for an organisation with declining sales and lower rate of earning. The financial plan will have to take into consideration this aspect also.
3. **Risk involved in the investment.** Enterprises financed by equity capital, can undertake more risk. If the funds are financed by loans, the enterprise can bear lesser risk.
4. **Sources of funds available.** It will always be advisable to finance new projects through internal sources of financing. In case of large projects requiring large amount of capital for longer period, external financing should be adopted.
5. **Government regulations.** The monetary policies of the government affect both the sources and cost of finance. Approval from the controller of capital issues is not required now. Change in the bank rates and credit control operations will vitally affect the amount and cost of finance.
6. **Future growth plan.** Financial plans are made in accordance with the future plans. The quantum of capital required depends upon the size and structure of the growth plan.

14.8 IMPORTANCE/OBJECTIVES/PURPOSE OF FINANCIAL PLANNING

Finance is said to be the blood of the body structure of the enterprise. As no one can survive without blood, so no enterprise can think of its existence without finance. Both the situations of surplus and shortage of funds are injurious to the financial health of the enterprise. It is not true to say that Financial Planning does not serve any useful purpose. The importance of the financial planning is justified herewith:

1. **Ensuring sufficient funds.** Financial planning estimates optimum amount of funds required in different situations. It avoids the situations of both the surplus and shortage of funds and maintains adequate flow of funds.
2. **Ensuring liquidity.** Financial planning maintains the balance between inflow and outflow of funds and makes it liquid funds available throughout the year. It ensures availability of requisite funds and their optimum utilisation.
3. **Availability of funds for expansion.** An effective financial plan anticipates the period, when the funds will be surplus with the enterprise. During this period the surplus funds can be utilised for the expansion of the business.

4. **Ensuring increased profitability.** Procurement of funds at cheaper rates and making the best possible utilisation of funds increases the amount of profit and consequently there is increase in the profitability also. Financial planning is based upon cost-benefit analysis, so profit at higher rates is earned on the basis of the financial plan.
5. **Better financial control.** An effective financial planning predetermines the desired achievement of the financial plan. In actual practice if desired results are not achieved, causes of deviation are identified and effective remedial measures are applied to prevent and eliminate the causes responsible for failure.

Conclusion. An effective financial plan ensures the procurement of sufficient funds and their optimum utilisation. A company will remain under or over capitalised in the absence of proper financial planning. Both the situations of over and under capitalisation are injurious to the financial health of the enterprise. As such, there must be financial planning for rapid growth.

14.9 CAPITAL STRUCTURE

According to **Gertenberg,** capital structure of a company of financial structure *refers to the make up of its capitalisation*. In a broader sense capital **structure includes all the long-term funds consisting of share capital, debentures, bonds, loans and reserves.** Capital structure refers to the mix between owners and borrowed funds these shall be referred as equity and debt in the subsequent text. It can be calculated through the formula given below:

$$\text{Debt to Equity Ratio} = \frac{\text{Long-term loans}}{\text{Shareholders' funds}} \text{ or } \frac{\text{Debt}}{\text{Equity}}.$$

The ideal debt equity ratio in India is accepted as 2:1, meaning that long-term liabilities of the business should ideally be two times of shareholders' funds. In other words, shareholders' funds should be .5 times of long-term loans. Higher debt equity ratio shows lesser margin for long-term lenders. This ratio indicates of what extent the firm depends on outsiders' funds for existence. It also shows the cushion or cover of owners' funds available to creditors.

$$\boxed{\textbf{Debt to Equity Ratio} = \frac{\text{Debt}}{\text{Equity}} \text{ or } \frac{\text{Long-term loans}}{\text{Shareholders' funds}}}$$

Example 1. *From the following calculate the debt to equity ratio:*

	₹
10,000 Equity shares of ₹ 10 each	*1,00,000*
General reserves	*45,000*
Accumulated profit	*30,000*
Debentures	*75,000*
Sundry trade creditors	*40,000*
Outstanding expenses	*10,000*

Solution. Debt to equity ratio = $\frac{\text{Total long-term loans}}{\text{Shareholders' funds}} = \frac{75,000}{1,75,000}$ = **3 : 7.**

Example 2. *Calculate debt to equity ratio from the following data:*

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	₹
Equity share capital	*5,00,000*
12% Preference share capital	*2,50,000*
Reserves	*2,50,000*
Loan from IDBI	*5,00,000*
Current Liabilities	*2,00,000*
Debentures	*7,50,000*

Solution. Debt to equity ratio = $\frac{\text{Long-term loans}}{\text{Shareholders' funds}} = \frac{12,50,000}{10,00,000}$ = **5 : 4.**

Note. *Long-term loans consist of loan from IDBI and Debentures (5,00,000 + 7,50,000).*

Shareholders' funds consist of equity and Preference Share Capital
+ Reserve (5,00,000 + 2,50,000 + 2,50,000).

While deciding capital structure of the company the promotors will have to decide the proportion of capital to be raised by issue of shares and debentures. It should be noted that shareholders are paid dividend out of profit, so they bear the risk involved in carrying out the business activities. Interest is paid on funds raised through loans irrespective of profit or loss. Funds obtained through shares and loans have their own plus and minus points. Investors with a psychology of regular source of income invest their funds in debentures and loans. Those persons, who are adventurous by nature invest their funds in shares. The company in order to capitalise itself tries to avail all of the benefits from the psychology of both the shareholders and debenture holders.

Capital structure of a business affects both the profitability and the financial risk. The company is said to be **high geared,** if large part of its capital is raised by the issue of securities carrying fixed rate of interest and dividend. The company is said to be **low geared,** if it is not required to pay interest and dividend at fixed rate. For example, if the company raises ₹ 15,00,000 by issue of shares and ₹ 10,00,000 by issue of debentures it will be said to be low geared. In this way, **share capital obtained by issue of equity and preference shares, loans raised by issue of debentures, bonds and loans and the retained earning constitute capital structures.**

Features of Sound Capital Structure

Sound capital structure is achieved when the proportion of debt and equity is such that it results in maximising the returns for the equity shareholders. There is no standard way of saying what a sound capital structure is. It depends from company to company on the basis of size of operations, cash flow etc.

A sound capital structure should possess the following features:

1. **Financial safety.** The most important factor of a sound capital structure is safety. Safety is determined in such a way that fluctuation in the running of company does not have a major impact on financial structure. The risk profile should be balanced so that there is no strain in the functioning of the company from financial stability perspective.

2. **Cost of funds.** The cost of acquisition of funds should be minimal. Capital structure should ensure the minimum costs of capital which in turn would increase its ability to generate more wealth for the company.
3. **Maximum return on investment.** Capital structure should be designed in such a way that there is maximum return on investment. It should ensure that the maximisation of shareholders wealth is achieved.
4. **Control.** There should not be dilution of control of equity shareholders of the company out of capital structure of the company. In this case, Convertible debentures should be issued with great caution so that it does not impact the rights of equity shareholders.
5. **Low risk profile.** The capital structure should achieve a balance between different types of securities like debt, equity, preference shares. This is essential to reduce risk on the use of debt capital.
6. **Flexibility of choice.** A sound capital structure should be able to procure more capital in times of need. It should also be able to pay all its debts when it does not require funds.

Factors Influencing Capital Structure

The following factors influence capital structure of the company:

1. **Trading on equity.** Trading on equity means taking advantage of equity share capital to borrowed funds on reasonable basis. It refers to additional profits that equity shareholders earn because of issuance of debentures and preference shares. It is based on the premises that if the rate of dividend on preference capital and the rate of interest on borrowed capital is lower than the general rate of company's earnings, equity shareholders are at advantage which means a company should go for a judicious blend of preference shares, equity shares as well as debentures. Trading on equity assumes more importance when expectations of shareholders are high.
2. **Degree of control.** The equity shareholders have got maximum voting rights in a concern as compared to the preference shareholders and debenture holders. Preference shareholders have reasonably less voting rights while debenture holders have no voting rights. If the company's management policies are such that they want to retain their voting rights in their hands, the capital structure consists of debenture holders and loans rather than equity shares.
3. **Choice of investors.** The company's policy generally is to have different categories of investors for securities. Therefore, a capital structure should give enough choice to all kind of investors to invest. Bold and adventurous investors generally go for equity shares and loans and debentures are generally raised keeping into mind conscious investors.
4. **Flexibility of financial plan.** In an enterprise, the capital structure should be such that there is both contraction as well as relaxation in plans. Debentures and loans can be refunded back as the time requires. While equity capital cannot be refunded at any point which provides rigidity to plans. Therefore, in order to make the capital structure possible, the company should go for issue of debentures and other loans.

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5. **Period of financing.** When company wants to raise finance for short period, it goes for loans from banks and other institutions; while for long period it goes for issue of shares and debentures.
6. **Size of a company.** Small size business firms capital structure generally consists of loans from banks and retained profits. While on the other hand, big companies having goodwill, stability and an established profit can easily go for issuance of shares and debentures as well as loans and borrowings from financial institutions. The bigger the size, the wider is total capitalization.
7. **Capital market condition.** In the lifetime of the company, the market price of the shares has got an important influence. During the depression period, the company's capital structure generally consists of debentures and loans. While in period of boons and inflation, the company's capital should consist of share capital generally equity shares.
8. **Cost of financing.** In a capital structure, the company has to look to the factor of cost when securities are raised. It is seen that debentures at the time of profit earning of company prove to be a cheaper source of finance as compared to equity shares where equity shareholders demand an extra share in profits.

14.10 FINANCIAL LEVERAGE OR CAPITAL GEARING

Financial Leverage refers to the existence of fixed interest bearing debts in the capital structure of the company. In other words, it is an arrangement under which fixed return bearing securities like debentures are used to raise cheaper funds to maximise the return to equity shareholders.

Capital gearing is the ratio between the amount of equity capital and the total amount of securities including equity shares, preference shares and debentures issued by a company.

Capital Gearing = Equity Share Capital/(Equity Share Capital + Preference Share Capital + Debenture)

For example, a company has equity share capital of ₹ 6 lacs, preference share capital of ₹ 9 lacs and debentures worth ₹ 5 lacs. In this case the capital gearing will be 30% [6/(6 + 9 + 5)]. Higher the capital gearing the less will be financial risk and vice versa. Equity capital is less risky as dividend is required to be paid only if profits are made. This means that higher proportion of equity capital in the capital structure of the company will entail less risk. Debentures should be issued when the company expects fairly higher earning in future to pay interest to the debenture holders and increase the return of equity shareholders. Equity shares should be issued where there is uncertainty of earnings. Preference shares, particularly the cumulative one, should be issued when the average earnings are expected to be fairly good.

14.11 FIXED CAPITAL

The amount invested in acquisition and development of fixed assets is known as fixed capital. The money invested in fixed capital is blocked and not available for day-to-day dealings. This is why, it is called fixed. According to **Flaney & Miller,** *Fixed assets are assets of relatively permanent nature used in the operation of business and not intended for sale*. The purpose of purchasing fixed assets is to retain them in the business. These assets increase the profit earning capacity of the business and generate additional revenue.

Fixed assets are also known as block capital or assets. Certain example of fixed assets are goodwill, land and building, plant and machinery, furniture and fittings, development of property, vehicles, livestock, trade marks and patents.

Fixed capital represented by fixed assets are the long-term requirement of the business. These long-term funds are procured through issue of shares, debentures, securities and loans from specialised institutions etc.

As such, management of fixed capital refers to procurement and utilisation of long-term funds. Allocation of funds for fixed assets is practically current expenditure in return for anticipated future revenue. Expected benefits may be either by generation of additional revenue or reduction in the cost. It should be noted that the investment in fixed assets affects the profitability of the enterprise. Fixed assets are true earning assets of the business. Funds are generated by the fixed assets. **Even current assets are the surplus, generated by fixed assets.**

Fixed investment decisions determine the future course of action of the venture. It is strategic decision and determines expected profit and the risk involved in earning the profit. The true worth of the company is evaluated in terms of its fixed assets.

Nature/Characteristics of Fixed Capital

Important features of fixed capital are summarised herewith:

(*i*) It is concerned with long-term funds.
(*ii*) It involves heavy expenditure.
(*iii*) It affects cost structure.
(*iv*) It involves considerable risk.
(*v*) There is time lag between investment and its return.
(*vi*) It determines future course of action of the business.

14.12 FACTORS DETERMINING THE AMOUNT OF FIXED CAPITAL

Fixed Capital is determined by following factors:

1. **Nature of the business.** Public enterprises, such as Railways, water supply undertakings, electric companies, public transport undertakings etc., require larger fixed capital for making investment in fixed assets. Heavy industries like, iron and steel, ship and aircraft building etc., also require more fixed capital. On the other hand, trading enterprises require lesser fixed capital.
2. **Size/Scale of the unit.** If the size of the unit is large, it will require larger amount of fixed capital, whereas small sized enterprises require lesser fixed capital.
3. **Financing alternatives.** Enterprises purchasing fixed assets on cash basis will require larger amount of fixed capital. Those enterprises which acquire on hire purchase and installment system will require lesser amount of fixed capital.

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4. **Technique of production.** The techniques of production can be classified into two categories, Capital-intensive and labour-intensive. Companies opting for capital-intensive technique of production need more amount of Fixed capital as compared to the companies relying upon labour-intensive technique of production.
5. **Growth prospects.** Companies having future plans of expanding their scale of production need more amount of fixed capital in order to invest in fixed assets like plant and machinery.
6. **Diversification.** Companies aiming to diversify their activities by extending their range and line of products require more fixed capital. Such companies need huge amount of fixed capital for the purpose of Investment in fixed assets.
7. **Collaboration.** A company opting for a collaboration or a joint venture need less fixed capital as the Investment is shared by the collaborations. While companies operating independently need more amount of fixed capital.

14.13 OBJECTIVES OF FIXED CAPITAL MANAGEMENT

Efficiency is the basic reason behind investment of large funds for long period in the fixed assets. We anticipate excellent return by investments and expect future prosperity of the business. This is why, out of date and obsolete plants, machines and equipments are replaced by modern up-to-date equipments. The investment in fixed assets, if wisely and judiciously made may result in:

(*i*) Revenue generation investment decision.

(*ii*) Cost reducing investment.

(*i*) **Revenue generation investment decision.** These decisions are income-expansionary and generate additional revenue. Investment are made in the new line of product or the expansion of present operations.

(*ii*) **Cost reducing investment.** These investments are made with a view of increase margin of profit by reducing cost. Profit as we know is the excess of revenue over cost, so the reduction in cost will definitely increase the amount of profit. Cost reduction proposal may be the replacement of obsolete machines and equipments. The new equipments will produce more quantity and superior quality of goods. Expenses of repair renewals and maintenance of outdated machines will no longer be required. As such investment in modern up-to-date machines will definitely increase total profit by reducing cost.

14.14 WORKING CAPITAL

Working capital, as we know constitutes two basic elements i.e., current assets and current liabilities. Working capital may be defined as the excess of current assets over current liabilities. Current assets consist of cash in hand, cash at bank, sundry debtors, stock, accrued income, prepaid expenses and marketable securities. Current liabilities include creditors, Bills payable, Bank overdraft, outstanding expenses, income received in advance and short term loans. Current assets are those assets, whose value goes on the changing from time to time and it can be encashed within a year. At the same time current liabilities are repayable within a year. Now, it becomes clear that the working capital management refers to the period not exceeding one year, and interaction between current assets and current liabilities is the spirit behind working capital management.

Interaction between current assets and current liabilities shows liquidity *i.e.*, the capacity and capability to repay loans. Higher liquidity means better capability of the enterprise to repay current liabilities but lesser profitability. Higher liquidity in other words, means retaining larger funds in the form of current and liquid assets. Retention of larger amount of funds means withdrawing funds from profitable uses and consequently profitability will suffer. Liquidity is ascertained by calculating current ratio (dividing current assets by current liabilities). The ideal current ratio is two times *i.e.*, current assets should be twice the current liabilities. In case current ratio is more than two times, it will show better liquidity at the cost of profitability. In other words, it shows that the funds are lying idle and we are not in a position to make the best possible utilisation of funds. If the current ratio is lesser than two times, it shows insufficient funds available with the enterprise for meeting its short-term commitment and thus short-term financial position is unsound.

The current financial position can also be analysed by calculating liquidity ratio. It is liquid assets divided by current liabilities. The ideal liquid ratio is 1 : 1 *i.e.*, liquid assets should be equal to current liabilities. Higher liquid ratio will show better liquidity but lesser profitability and *vice-versa*. An efficient working capital management will have to decide the ideal ratio between current assets and current liabilities taking into consideration liquidity, profitability and risk factor. In other words, current assets should have optimum value. In the opinion of **Smith K.V.,** *working capital management is concerned with the problems that arise in attempting to manage the current assets, current liabilities and the inter-relationship that exists between them*.

The Concept of Gross and Net Working Capital

Working capital may be taken as Gross Working Capital and Net Working Capital. Gross Working Capital, also known as working capital means total current assets. Net working capital may be presented in two ways:

(*i*) It is commonly known as excess of current assets over current liabilities.

(*ii*) Net working capital is that portion of current assets which is financed with long-term funds. The *ultimate objective of the working capital management is to maintain optimum level of net working capital so that effective* balance between liquidity and profitability can be maintained.

14.15 IMPORTANCE OF WORKING CAPITAL MANAGEMENT

Working capital management is important due to the following reasons:

(*i*) Maintaining uninterrupted regular flow of business operations.

(*ii*) Making the fullest utilisation of available working capital.

(*iii*) Effective utilisation of surplus funds.

(*iv*) Arrangement of funds in emergency situations.

(*v*) Determining effective credit policy.

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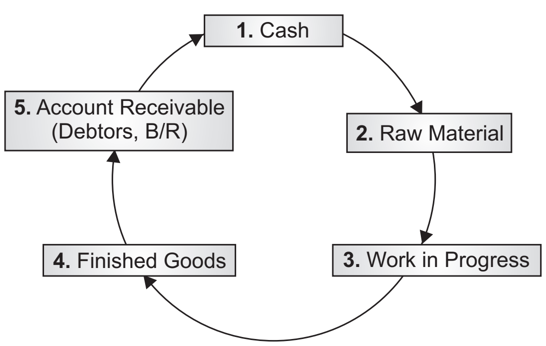
14.16 OPERATING CYCLE OF WORKING CAPITAL (CASH CYCLE)

While planning for working capital due consideration is paid to the *cash cycle*. Important elements of cash cycle are:

The operating cycle of working capital starts from cash itself. The cash available with the enterprise is used for purchasing raw material, which is converted into work in progress and finished product, which is sold either for cash or on credit. In case of credit sales payment is received through debtors and bills receivable, which generate cash after certain period.

In case, the operating cash cycle completes in the shorter duration, lesser working capital will be required. In case the duration is lengthy more working capital will be required.

Working capital management needs to determine the amount of permanent and temporary working capital requirement. Business is a continuing activity, so working capital is continuously required. *The minimum level of working capital required as regular basis is known as permanent working capital. Excess capital required over and above the permanent working capital* is known as *temporary, fluctuating or variable* working capital. An effective working capital management should ensure the regular, uninterrupted and continuous supply of permanent working capital and should also be prepared to meet the temporary, seasonal working capital requirement.



Operating Cycle of Working Capital

Changes in working capital can also take place due to the following reasons:

(*i*) Changes in the level of sales

(*ii*) Changes in operating expenses

(*iii*) Changes in the technology

(*iv*) Changes in the policy

Working capital is financed generally by the following sources:

(*i*) Cash sales

(*ii*) Credit sales (Collection from debtors)

(*iii*) Bank Credit

(*iv*) Short-terms loans and current provisions

(*v*) Long-term sources

The important constituent of working capital are cash, receivables and inventory. The efficient management of cash, receivables and inventory leads to the effective working capital management.

14.17 FACTORS AFFECTING WORKING CAPITAL OR DETERMINANTS OF WORKING CAPITAL

Maintaining optimum level of working capital is the desired goal of the financial management. The quantum of working capital is determined by following factors:

1. **Nature of the business.** In case of cash nature of business, inventories and book debts are lesser, so small working capital will be sufficient. This is why, public utilities, whose goods and services are sold for cash can carry on with small amount of working capital. On the other hand, trading and manufacturing business enterprises have larger stock and book debts, so their net working capital is higher. The study of Indian industries shows that current assets in hotels, restaurants and eating houses were only 10–20% of the total assets. It was between 20–30% in the electricity generation. The trading shops and construction companies had highest working capital *i.e.*, between 80–90% of the total assets.
2. **Technology and production cycle.** Production cycle means times involved in the manufacturing process of goods *i.e.*, the period between the procurement of the raw material and the production of finished product. In case of longer span of production cycle, higher working capital will be required. For example, the cotton mill will require more working capital than the bakery. The quantum of working capital may be reduced by taking advance payment for goods, cash sales and improvement in production technology etc.

   The use of modern technology, machines and equipments makes the production process faster. Conversion of raw material into finished goods becomes quicker. Labour cost is reduced. As such working capital requirement becomes lesser.
3. **Trade/Business cycle fluctuations.** The operation of trade cycle results in boom, recession, depression and recovery in the economy. In the boom situations demand for goods increases resulting in the increase of price, production and expansion of business activities. It will require larger amount of working capital to meet the demand and for the modernisation of plant.

   In case of depression and recession, business activities slow down, demand for goods declines, low level of inventory is required, debtors are also reduced. As such lesser working capital is required.

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4. **Credit policy.** Credit policy has dual effect on the quantum of capital. Firstly the credit terms allowed by firm to other firms and secondly the credit terms allowed by other firms to the firm. More credit sales will require more working capital and in the same way in case of cash sales, lesser working capital will be sufficient. On the other hand, in case of liberal terms from the suppliers *i.e.*, credit sales for longer duration or payment after sales, lesser working capital will be required and vice-versa.
5. **Profit level changes (Efficiency in management).** Higher level of profits generates more internal funds. It provides an opportunity to the enterprise to allocate more profit for working capital. It shows that the quantum of profit and the allocation policy of the enterprise affects the amount of working capital.
6. **Price level changes.** In case of price rise, the cost of raw material and labour cost increases, so more working capital will be required. If the firm is able to increase the price of its commodities, the working capital requirement may not be so severe. Price level changes have different impact on the working capital of different firms.
7. **Dividend policy.** Dividends are paid in cash, so they eat up considerable amount of working capital. In company, while planning for working capital, we will have to take into consideration the dividend policy of the company. In case of the policy of excellent dividend declaration, we will have to arrange more working capital. Lesser amount of working capital will be required if sufficient amount of profit is retained in the business.
8. **Market competition.** In case of higher competitive market, larger working capital will be required, because the enterprise will be required to follow liberal credit policy, resulting in increased debtors and blocking of working capital. It will require larger inventory and further result in the increase of working capital.

In the situation of monopoly, the company will collect advances from purchasers or ask customers to wait for some time for delivery of goods and go on with lesser working capital.

Working Capital Requirement of Certain Business Units

Nature/Type of Enterprise	Working Capital Requirement
1. Cash nature of business requiring lesser inventories and book debts	Lesser
2. Trading enterprise having larger stock and book debts	Larger
3. Hotels, restaurant and eating houses	Lesser (10–20% of total capital)
4. Electricity generation	Lesser (20–30% of total capital)
5. Trading shops and construction companies	Larger (80–90% of total capital)
6. Longer span of production cycles *i.e.*, mills	Larger
7. Bakery	Lesser
8. Boom in the industry	Larger

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9.	Depression in the industry	Lesser
10.	More credit selling enterprises	Larger
11.	Higher profit earning units	Larger
12.	Increased tax liability	Larger
13.	Higher dividend rates	Larger
14.	Coolers	Larger
15.	Bread	Larger
16.	Sugar	Larger
17.	Locomotive	Lesser
18.	Furniture manufacturing against order	Lesser

Difference between Fixed Capital and Working Capital

Bases of Difference	Fixed Capital	Working Capital
1. *Period*	Fixed capital is required for longer period.	Working capital is required for short period.
2. *Uses*	Capital is required for acquiring fixed assets.	Capital is required for buying current assets.
3. *Utilisation*	Capital is blocked and sunk in the business. It is not available for routine business activities.	Capital is working and revolving, so always available for routine business activities.
4. *Source*	Raised through shares, debentures and loans.	Raised through cash sales, collection from debtors, overdraft etc.
5. *Circulation*	Fixed capital is restricted to fixed assets.	It is realised and re-invested on a regular basis.
6. *Nature*	It remains sunk in the business.	It fluctuates regularly.

SUMMARY

- **Financial Management—Meaning**

  Financial management refers to forecasting of financial requirements, raising of necessary funds and controlling over the utilisation of available financial resources.
- **Objectives and Importance of Financial Management**

  (1) Obtaining funds at minimum cost (*Ensuring availability of funds at reasonable rates*) (2) Profit maximisation (*Ensuring the effective utilisation of funds*) (3) Risk minimisation (*Ensuring safety of funds through creation of reserves, reinvestment of profit etc.*) (4) Financial control (5) Capital budgeting (6) Working capital management (7) Disposition of profit (8) Wealth maximisation.

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- **Financial Decisions**

  It is concerned with three broad decisions which are as under:

  (1) Investment decision (2) Financing decision

  (3) Dividend decision.

- **Role of Financial Management**

  Managerial Functions/Role of Financial Manager:

  (1) Management of assets (2) Management of funds (3) Management of cash (4) Management of surplus.

- **Financial Planning**

  Financial planning is an intellectual process, which decides in advances the capitalisation and capital structure of the enterprise.

- **Factors Influencing Financial Plan**

  (1) Nature of industry (2) Nature of the enterprises (3) Risk involved in the investment (4) Sources of funds available (5) Government regulation (6) Future growth plan.

- **Importance of Financial Planning**

  (1) Ensuring sufficient funds (2) Ensuring liquidity (3) Availability of funds for expansion (4) Ensuring increased profitability (5) Better financial control.

- **Capital Structure**

  Capital structure refers to the make up of the capitalisation. In a broader sense, capital structure includes all long-term funds consisting of share capital, debentures, bonds, loans and reserves.

  Features of Sound Capital Structure

  (1) Financial safety (2) Cost of funds (3) Maximum return on investment (4) Control (5) Low risk profile (6) Flexibility of choice.

  Factors Influencing Capital Structure

  (1) Trading on equity (2) Degree of control (3) Choice of investors (4) Flexibility of financial plan (5) Period of financing (6) Size of a company (7) Capital market condition (8) Cost of financing.

- **Fixed Capital**

  Management of fixed capital refers to procurement and utilisation of long-term funds. In other words, management of fixed capital is the process of generating, evaluating, selecting and following up capital expenditure alternatives.

- **Factors Determining the Amount of Fixed Capital**

  (1) Nature of Business (2) Size/Scale of the unit (3) Financing alternatives (4) Technique of production (5) Growth prospects (6) Diversification (7) Collaboration.

- **Working Capital.** Management of current assets, current liabilities and inter-relationship between them is termed as working capital management.

- **Operating Cycle of Working Capital**

  (1) Cash (2) Raw material (3) Work in progress (4) Finished goods (5) Account receivable (Debtors, B/R).

- **Factors Affecting Working Capital**

  (1) Nature of the business (2) Technology and production cycle (3) Business cycle fluctuations (4) Credit policy (5) Profit level changes (6) Price level changes (7) Dividend policy (8) Market competition.

- **Bases of Difference between Fixed and Working Capital**

  (1) Period (2) Uses (3) Utilisation (4) Source (5) Circulation and (6) Nature.

SELF ASSESSMENT QUESTIONS

1. Explain briefly steps involved in the process of financial planning.
2. What is financial planning? Explain in brief the role of financial planning in the management of finance.
3. What is meant by financial planning? Explain in brief the important decisions taken under financial planning.
4. Explain briefly any five points of importance of the Financial Planning.
5. Explain the meaning of capital structure. Also discuss the factors affecting capital structure.
6. Explain, in brief, any five factors that should be taken into consideration while determining capital structure.
7. You are the finance manager of a newly established company. The directors of the company have asked you to plan the capital structure for the company. State any five factors that you should consider while planning the capital structure of the company.
8. Explain five features of an appropriate capital structure.
9. Determination of capital structure of a company is influenced by a number of factors. Explain any five such factors.
10. Explain briefly any five factors which may influence the amount of working capital needed in a business enterprise.
11. Explain, in brief, any five factors that should be taken into consideration while determining the requirements of working capital for a business enterprise.
12. Explain any four factors affecting the working capital requirements of a company.
13. Explain, in brief any five factors which affect the requirement of fixed capital of an enterprise.
14. What is meant by 'Fixed Capital'? Describe any four factors which affect the fixed capital requirement of a company.
15. State whether the working capital requirement of business manufacturing the following items are big or small. Justify your statement:

    (*i*) Coolers (*ii*) Bread (*iii*) Sugar (*iv*) Locomotives (*v*) Furniture manufactured against orders (*vi*) Motor car.

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[**Hints:** (*i*) **Coolers—**More, being seasonal product.

(*ii*) **Bread—**Less, being quick cash turnover.

(*iii*) **Sugar—**More, Ratio of raw material cost to total cost is more.

(*iv*) **Locomotives—**Less, Gestation Period is more.

(*v*) **Furniture manufactured against order—**Less, It does not require large stock.

(*vi*) **Motor Car—**More, Because it requires huge investment.]

16. Harish is engaged in warehousing business and his warehouses are generally used by the businessman to store fruits. Identify the working capital requirements of Harish giving reason in support of your answer. Further Harish wants to expand and diversify his warehousing business. Explain any two factors that will affect his fixed capital requirements.

17. Amar is doing his transport business in Delhi. His buses are generally used for the tourists going to Jaipur and Agra. Identify the working capital requirements of Amar giving reason in support of your answer. Further Amar wants to expand and diversify his transport business.

Explain any two factors that will affect his fixed capital requirements.

18. Briefly explain any four factors that affect the fixed capital requirements of a company.

19. 'Abhishek Ltd.' is manufacturing cotton clothes. It has been consistently earning good profits for many years. This year took, it has been able to generate enough profits. There is availability of enough cash in the company and good prospects for growth in future. It is a well managed organisation and believes in quality, equal employment opportunities and good remuneration practices. It has many shareholders who prefer to receive a regular income from their investments.

It has taken a loan of ₹ 50 lakhs from I.C.I.C.I. Bank and is bound by certain restrictions on the payment of dividend according to the terms of the loan agreement. The above discussion about the company leads to various factors which decide how much of the profits should be retained and how much has to be distributed by the company. Quoting the lines from the above discussion, identify and explain any four such factors.

20. Saksham Ltd. a firm manufacturing textiles, wished to diversify their business. They were considering two options, either to diversify into manufacturing toothpaste or switches. They wanted to invest in the purchase of land, to set up a manufacturing unit in the backward areas of Gujarat, which would also lead to the generation of employment opportunities in the area, but only after fulfilling all legal requirements and taking appropriate steps to ensure that the environment was not polluted. The finance manager of the company, Mr. Ramakant was asked by the management to prepare a report on the factors which should be considered while making the above investment decision.

(*a*) State any two factors that Mr. Ramakant would give in his report.

(*b*) Also state any one reason which makes it important for the above decision to be made carefully.

21. 'Sarah Ltd.' is a company manufacturing cotton yarn. It has been consistently earning good profits for many years. This year too, it has been able to generate enough profits. There is availability of enough cash in the company and good prospects for growth in future. It is a well managed organisation and believes in quality, equal employment opportunities and good remuneration practices. It has many shareholders who prefer to receive a regular income from their investments.

It has taken loan of 40 lakhs from IDBI and is bound by certain restrictions on the payment of dividend according to the terms of loan agreement.

The above discussion about the company leads to various factors which decide how much of the profits should be retained and how much has to be distributed by the company.

Quoting the lines from the above discussion identify and explain any four such factors.

22. Determining the overall lost of capital and the financial risk of the enterprises depends upon various factors. Explain any six such factors.

23. You are the finance manager of a newly established manufacturing company. Explain any six factors that you will consider determining the fixed capital requirements of the company.

24. Radha is an enterprising businesswoman who has been running fishery for the past ten years. She has saved ₹ 10 lakhs from her business. She shared with her family her desire to utilize this money to expand her business. Her family members gave her different suggestions like buying new machinery to replace the existing one, acquiring altogether new equipment with latest technology, opening a new branch of the fishery in another village and so on. Since these decisions are crucial for her business, involve huge amount of money and are irreversible except at a huge cost, Radha wants to analyse all aspects of the decisions, before taking any step.

(*i*) Identify and explain the financial decision to be taken by Radha.

(*ii*) Also explain briefly any two factors that affect this decisions.

25. Explain the following factors affecting the requirements of fixed capital.

(*i*) Scale of operations (*ii*) Choice of technique

(*iii*) Technology upgradation (*iv*) Financing alternatives

26. Explain the following factors affecting dividend decision

(*i*) Stability of earnings (*ii*) Growth opportunities

(*iii*) Cash flow position (*iv*) Taxation policy

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15. HUMAN RESOURCE MANAGEMENT

STRUCTURE

15.1 INTRODUCTION

Personnel management is concerned with the effective use of the skills of people. They may be sales people in a store, clerks in an office, operators in a factory, or technicians in a research laboratory. In a business, personnel management starts with the recruiting and hiring of qualified people and continues with directing and encouraging their growth as they encounter problems and tensions that arise in working towards established goals. In addition to recruiting and hiring, some of the responsibilities of a personnel manager are,

- To classify jobs and prepare wage and salary scales.
- To advice employees.
- To deal with disciplinary problems.
- To negotiate with labour unions and service union contracts
- To develop safety standards and practices.
- To manage benefit programs, such as group insurance, health, and retirement plans.
- To provide for periodic reviews of the performance of each individual employee, and for recognition of his or her strengths and needs for further development.
- To assist individuals in their efforts to develop and qualify for more advanced jobs.

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- To plan and supervise training programs
- To keep abreast of developments in personnel management.

To understand the personnel management's job consider the following examples of challenging employee situations.

The firm's employee – especially the most qualified ones – can get comparable, if not better jobs with other employers.

When a firm faces a scarcity of supervisory and specialized personnel with adequate experience and job capabilities, it has to train and develop its own people. This can be time consuming and expensive.

The cost of hiring and training employees at all levels is increasing, for instance, several thousand rupees for a salesperson. A mistake in hiring or in slow and inefficient methods of training can be costly.

Personnel managers must comply with the law by employing, training and promoting women and persons from minority groups. The problem in doing so is that many of these employees have not had appropriate experience and education in the past.

Most employees, whether or not represented by labour unions, continue to seek improvements in direct compensation, employee benefits, and working conditions. All commitments must be based upon what the firm can afford, comply with current practices of other employers, and be understood and accepted by the employee. To do this, all employee policies and operating procedures should be developed and negotiated with great care.

Some employees may not perform satisfactorily simply because their firm offers competitive compensation, benefits, and working conditions. In addition to these financial or physical, compensations, they want responsibility, the opportunity to develop, and recognition of accomplishment in their jobs.

The law has requirements for pension and other benefit plans, and also mandatory retirement age. Complying with such changes presents real challenges. Personnel management works to achieve practical solutions to such problems. In large firms, it generally provides support to line management. In this staff capacity, the personnel department has the responsibility to develop and implement policies, procedures, and programs for recruitment, selection, training, placement, safety, employee benefits and services, compensation, labour relations, organization planning, and employee development.

Often, the owner – manager of a firm also has to be the personnel manager. In such a case it is necessary to have an overview of current trends and practices in personnel management. All small businesses must staff their operations. This involves brining new people into the business and making sure they are productive additions to the enterprise. Effective human resource management matches and develops the abilities job candidates and employees with the needs of the firm, A responsive personnel system assists in this process and is a key ingredient for growth.

Human resource management is a balancing act. At one extreme, we hire only qualified people who are well suited to the firm's needs. At the other extreme, we train and develop employees to meet the firm's needs. Most expanding small businesses fall between the two extremes i.e., they hire the best people they can find and afford, and they also recognize the need to train and develop both current and new employees as the firm grows.

One function of personnel management deals with how to hire and train the right people and addresses the characteristics of an effective personnel system, such as;

- Assessing personnel needs
- Recruiting personnel
- Screening personnel
- Selecting and hiring personnel
- Orienting new employees to the business
- Deciding compensation issues

Another function addresses the training and development side of human resource management. A thin function deals with how the personnel system and the training and development functions come together to build employee trust and productivity. These three functions stress the importance of a good human resource management climate and provide specific guidelines for creating such a climate.

15.2 SCOPE OF PERSONNEL MANAGEMENT

- Does the business have a plan for forecasting long-term personnel needs?
- Are there guidelines for hiring personnel, or are employees hired based on gut feelings?
- Are there job descriptions for all positions? What do employees like about their jobs? What do employees leave the organization?
- Is there an active training programme? It is based on an assessment of where the firm is now or where it should be in the future?
- Are a variety of training programmes available?
- How is morale in the firm?
- Do employees really believe what you have to say?
- Are all employees treated fairly?

15.3 DEVELOPING A PERSONNEL SYSTEM – ASSESSING PERSONNEL NEEDS

The small business owner should base the firm's personnel policies on explicit, well proven principles. Small businesses that follow these principles have higher performance and growth rates than those that do not follow them. The most important of these principles are,

- All positions should be filled with people who are both willing and able to do the job.

- The more accurate and realistic the specifications of and skill requirements for each job, the more likely it is that workers will be matched to the right job and therefore, be more competent in that job.
- A written job description and definition are the keys to communicating job expectations to people. Do the best job you can is terrible job guidance.
- Employees chosen on the basis of the best person available are more effective than those chosen on the basis of friendship or expediency or recommendation.
- If specified job expectations are clearly spelled out, and if performance appraisals are based on these expectations, performance is higher. Also, employee training results in higher performance if it is based on measurable learning objectives.
- The first step in assessing personnel needs for the small business is to conduct an audit of future personnel needs.

Personnel Management Must ask to Himself

- Can the work load I visualize be accomplished by the present work face? Will more or fewer employees be needed? Consider seasonal patterns of demand and probable turnover rates.
- Can any jobs be eliminated to free people for other work? What balance of full-time or part time, temporary or permanent, hourly or salaried personnel do I need?
- What does the labour supply look like in the future?
- Will I be able to fill some of the jobs I have identified? How easily?
- What qualifications are needed in my personnel?

Develop a method to forecast labour demand based on your answer to these questions. Once your needs are estimated, determine strategies to meet them.

The process of selecting a competent person for each position is best accomplished through a systematic definition of the requirements for each job, including the skills, knowledge and other qualifications that employees must possess to perform each task to guarantee that personnel needs are adequately specified,

1. Conduct a job analysis
2. Develop a written job description, and
3. Prepare a job specification.

15.4 SCOPE OF PERSONNEL MANAGEMENT

Scope of personnel management was very limited in beginning. In those days was called "Health and happiness" department. The scope of management in general and personnel in particular has changed considerably, covering more areas and responsibilities. According to American Society for Training and Development CASTD) it is broadly classified into nine major areas namely,

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1. Human Resource Planning (HRP)
2. Design of Organisation and Job
3. Selection and Staffing
4. Training and Development
5. Organisation Development
6. Compensation and Benefits
7. Employee Assistance
8. Union/Labour Relations
9. Personnel Research and Information Systems

Human Resource Planning (HRP)

HRP, this function is to ensure, the right type of persons at the right time at right place. It also forecast demand and supplies and identify sources.

Design of Organisation and Job

The objective of Design of organization and job is to form the organization structure, authority, relationship and responsibilities and work contents for each position in organization.

Selection and Staffing

This is the process of recruitment and selection of staff. In recruitment, process of attracting qualified and competent personnel for different jobs. This includes identification of existing sources of labour market, new development of new sources and the need for attracting a large number of potential applicants so that a good selection is possible. Selection is concerned with the development of selection policies and procedures and evaluation of potential employees in terms of job specification. Selection process includes the development of application blanks, valid and reliable tests, interview techniques, employee referral techniques, evaluation and selection of personnel in terms of job specifications, the making up of final recommendations to the line management, and the sending of offers and rejection letters.

Training and Development

Process of increasing the capabilities of individuals and groups to that they may contribute effectively to attainment of organizational goals. This includes, the determination of training needs of personnel at all levels, skill training, employee counseling, and programmes for managerial, professional and employee development. Self initiated developmental activities, (formal education) during off hours (including school/college/professional institutes) reading and participation in the activities of the community.

Organisation Development

This is an important aspect where by developing healthy interpersonal and inter-group relationship in the organization.

Compensation and Benefits

The bulk of your employee's earnings should come from a base salary competitive with the pay offered by other similar local firms. It may be possible to supplement the base salary with some form of incentive, such as a small commission or quote bonus plan. Try to relate the incentive to both your goals of your employees. Whatever plan you use, be sure each employee understands it completely.

Employee Assistance

Each employee is unique in character, Personality, expectation and temperament. By and large each one of them faces problems every day. Some are personal some are official. In either case he remains worried such worries must be removed to make him more productive and happy. Counseling is one such step.

Union/Labour Relations

This is very important for enhancing the productivity in an organization. This is one of the important areas of personnel management.

Personnel Research and Information Systems

This areas is concerned with, a systematic inquiry into any aspect of the broad question of how to make more effective an organization's personnel programmes recruitment, selection, development, utilization off, and accommodation to, human resources. Procedures and policies and findings submitted to the top executive. Data relating to quality, wages, productivity, grievances absenteeism, labour turnover, strikes, lock-outs, accidents etc., which are collected and supplied to the top management so that it may review, alter or improve existing personnel policies, programmes and procedures. Morale and Attitude surveys.

15.5 OBJECTIVES OF PERSONNEL MANAGEMENT

The following are the objectives of personnel management:

1. Study the requirement of occupation.
2. Development of recruitment procedure.
3. Development of Management Information Systems (MIS)
4. Forecasting of future requirement, recruitment, training.
5. Periodical appraisals by means of questionnaires, interviews, seminars contests etc., to insure the most complete development and most efficient use of individual's ability.
6. Development and use of tests and other refined techniques in the specific placement of workers and executives.
7. Formulation of best methods of human energy.
8. Determination of optimal conditions of work with clear cut job description.
9. Analysis of characteristics of individual organizations for the determination of the type or types that is best adaptive to serve both the economic, social and broadly human objectives of individual organization.
10. Examination and control of motivating forces in the case of both workers and executive which influence the harmonious relations in the industrial situations.

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15.6 TRAINING—INTRODUCTION

Training makes the employees more effective and productive on their present jobs. Also it provides opportunities to employees in acquiring appropriate attitudes and in developing skills which will enable them to occupy higher places in the organization. An employee’s success at a given job largely depends upon his positive response to training and his willingness to accept instruction and gain the techniques and skills required performing the job at an acceptable level of efficiency.

15.7 NEED FOR TRAINING

The need for training in part depends upon the company’s selection and promotion policies. Companies that attempt to employ only people who already have the needed skills, place less emphasis on training. On the other hand, firms that stress promotion from within may have to take special steps to ensure that employee develop the skills which will be needed. Three trends have contributed, in recent years, to more attention to the development of skill. One, fewer and fewer skills are now regarded ‘born’ that cannot be taught. It is hoped that one can learn almost all aspects of a job by reading. That is why we find now a days almost all technical details of a job written out in the instruction manuals. Two, the accelerated rate of technological change in the plant, office, and market place-is making many skills obsolete. Workers have to be retrained to do new tasks. Three globalization is making it increasingly essential for workers and executives to be aware of diverse gaffes, life styles and attitudes of people in other countries. They need to learn many things such as how to introduce oneself before a foreign client, converse and negotiate, talk on telephone, use body language and so on.

15.8 OBJECTIVES OF TRAINING

The major objectives of training are as follows:

(*a*) To train the employee in the company culture pattern.

(*b*) To train the employee to increase his quantity and quality of output.

(*c*) To train the employee for promotion to higher jobs.

(*d*) To train the employee to avoid social mistakes

(*e*) To train the employee toward better job adjustment and high morale.

(*f*) To reduce supervision, wastages and accidents.

15.9 IMPORTANCE OF TRAINING

Training and development programmes, help to remove performance deficiencies in employees. This is particularly true when,

1. the deficiency is caused by a lack of ability rather than a lack of motivation to perform.
2. The individual (s) involved have the aptitude and motivation needed to learn to do the job better, and
3. Supervisors and peers are supportive of the desired behaviors.

There is greater stability, flexibility and capacity growth in an organization. Training contributes to employee stability in a least two ways. Employees become efficient after undergoing training. Efficient employees contribute to the growth of the organization. Growth reader's stability to the workforce. Further trained employees tend to stay with the organization. They seldom leave the company training makes the employees versatile in operations. Flexibility is therefore ensured. Growth indicates prosperity, which is reflected in increased profits from year to year. Accidents, scrap and damage to machinery and equipment can be avoided or minimized through training. Further needs of employees will be met through training and development programmes?

15.10 RESPONSIBILITY FOR TRAINING

Training is the responsibility of four main groups.

1. The top management, which frames the training policy.
2. The personnel management department, which plans, establishes and evaluates instructional programmes.
3. Supervisors, who implement and apply developmental procedure, and
4. Employees, who provide feedback, revision and suggestions for corporate educational endeavors.

15.11 PRINCIPLES OF TRAINING

1. Top management should give high priority and take personal interest and decide upon the training policy based on organizational objective.
2. Managerial and supervisory personnel must be made to involve and should be impressed upon regarding the benefits of training.
3. Training programme must be need oriented and be accepted to all concerned.
4. Selection of trainees must be made on the basic of interest in the leaving and acquiring skill process.
5. Duration must be short enough to spare the employees without hampering regular/ normal work.
6. The number of participants limited to 15 or 20 in order that they can interact and take active part in the programme.
7. As far as possible supervisor officers of the trainees should not be present in the training are to enable the trainees to express then ideas and opinion freely.
8. Training must be arranged outside the industry and the participants freed mentally and physically from the routine duties.
9. Regular follow up procedure to evaluate the usefulness of the course as well as trainees program.

15.12 TRAINING METHODS

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As a result of research in the field of training, a number of programmes are available. Some of these are new methods, while others are improvements over the traditional methods. The training programmes commonly used to train operative and supervisory personnel are discussed below. These programmes are classified into on-the job and off-the job training programmes.

On-the-Job-Training Methods

This type of training, also known as job instruction training, is the most commonly used methods. Under this method, the individual is placed on a regular job and taught the skills necessary to perform that job. The trainee learns under the supervision and guidance of a qualified worker or instructor. On-the-job training has the advantage of offering first hand knowledge and experience under the actual working conditions. On-the-job training methods include job rotation, coaching, job instruction or training through step-by-step and committee assignments.

(a) Job Rotation

This type of training involves the movement of the trainee from one job to another. The trainee receives job knowledge and gains experience from his supervisor or trainer in each of the different jobs assignment. Though this type of training is common in training, managers for general management positions, trainees can also be rotated from job to job in work ship jobs. This method gives an opportunity to the trainee to understand the problems of employee on other jobs and respect them.

(b) Coaching

The trainee is placed under a particular supervisor who functions as a coach in training the individual. The supervisor provides feedback to the trainee on his performance and offers him some suggestions for improvement. Often the trainee shares some of the duties and responsibilities of the coach and relieves him of his burden. A limitation of this method of training is that the trainee may not have the freedom or opportunity to express his own ideas.

(c) Job Instruction

This method is also known as training through step by step. Under this method, trainer explains the trainee the way of doing the jobs, job knowledge and skills and allows him to do the job.

(d) Committee assignments

Under the committee assignment, group of trainees are given and asked to solve an actual organizational problem. The trainees solve the problem jointly. It develops team work.

Off-the-Job Training Methods

Under this method of training trainee is separated from the job situation and his attention is focused upon learning the material related to his future job performance. Since the trainee is not distracted by job requirements, he can place his entire concentration on

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learning the job rather than spending his time in performing it. There is an opportunity for freedom of expression for the trainees. Off-the-job training methods are as follows:

(a) Vestibule Training

In this method, actual work conditions are simulated in a class room. Material, files and equipment those are used in actual jobs performance are also used in training. This type of training is commonly used for training personnel for clerical and semi-skilled jobs. The duration of this training ranges from a few days to a few weeks. Theory can be related to practice in this method.

(b) Role Playing

It is defined as a method of human interaction that involves realistic behavior in imaginary situations. This method of training involves action, doing and practice. This method is mostly used for developing interpersonal interactions and relations.

(c) Lecture Method

The lecture is a traditional and direct method of instruction. The instructor organizes the material and gives it to a group of trainees in the form of a talk. To be effective, the lecture must motivate and create interest among the trainees. The major limitation of the lecture method is does not provide for transfer of training effectively.

(d) Conference or Discussion

It is a method in training the clerical, professional and supervisory personnel. This method involves a group of people who pose ideas, examine and share facts, ideas and data, test assumptions, and draw conclusions, all of which contribute to the improvement of job performance. Discussion has the distinct advantage over the lecture method in that the discussion involves two-way communication and hence feed back is provided. The participants feel free to speak in small groups. The success of this method depends on the leadership qualities of the person, who leads the group.

(e) Programmed Instruction

In recent years this method has become popular. The subject matter to be learned is presented in a series of carefully planned sequential units. These units are arranged from simple to more complex levels of instruction. The trainee goes through these units by answering questions or filling the blanks. This method is expensive and time consuming.

15.13 STEPS IN TRAINING PROGRAMMES

Training programmes are a costly affair, and a time consuming process. Therefore, they need to be drafted very carefully. Usually in the organisation of training programmes, the following steps are considered necessary.

1. Discovering or identifying the training needs.
2. Getting ready for the job
3. Preparation of the learner
4. Presentation of operation and knowledge

5. Performance try-out
6. Follow-up and Evaluation of the programme.

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1. Discovering or Identifying Training Needs

A training programme should be established only when it is felt that it would assist in the solution of specific operational problems. The most important step, in the first place, is to make a thorough analysis of the entire organisation, its operations and manpower resources available in order to find out "the trouble spots" where training may be needed.

Identification of training needs must contain three types of ana, ses are organizational analysis, operations analysis and man analysis.

Organizational analysis centre primarily upon the determination of the organizations goals, its resources, and the allocation of the resources as they relate to the organizational goals. The analysis of the organizational goals establishes the frame work in which, training needs can be defined more clearly.

Operational analysis focuses on the task or job regardless of the employee doing the job. This analysis includes the determination of the worker must do the specific worker behavior required, if the job is to be performed effectively.

Man analysis reviews the knowledge, attitudes and skills of the incumbent in each position and determines what knowledge, attitudes or skills he must acquire and what alterations in his behaviors he must make if he is to contribute satisfactorily to the attainment of organizational objectives.

2. Geeting Ready for the Job

Under this step, it is to be decided who is to be trained, the new comer or the older employee, or the supervisory staff, or all of them selected from different departments. The trainer has to be prepared for the job, for he is the key figure in the entire programme.

3. Preparation of the Learner

Following are the steps involved in the preparation of the learner,

(*a*) in putting the learners at ease

(*b*) in stating the importance and ingredients of the job, and its relationship to work flow,

(*c*) in explaining why he is being taught

(*d*) in creating interest and encouraging questions, finding out what the learner already knows about his job or other jobs.

(*e*) in explaining the 'why' of the whole job and relating it to some job the worker already knows.

(*f*) in placing the learners as close to his normal working position as possible.

(*g*) in familiarizing him with the equipment, materials, tools and trade terms.

4. Presentation of Operation and Knowledge

This is the most important step in a training programme. The trainer should clearly tell show, illustrate and question in order to put over the new knowledge and operations. The learner should be told of the sequence of the entire job, and why each step in its performance necessary. Instructions should be given clearly, completely and patiently;

there should be an emphasis on key points and one point should be explained at a time. For this purpose, the trainer should demonstrate or make use of audio-visual aids and should ask the trainee to repeat the operations. He should also be encouraged to ask questions in order to indicate that he really knows and understands the job.

5. Performance Try Out

Under this, the trainee is asked to go through the job several times slowly, explaining, him each step. Mistakes are corrected, and if necessary, some complicated steps are done for the trainee the first time. The trainee is asked to do the job, gradually building up skill and speed. As soon as the trainee demonstrates that he can do the job in a right way, he is put on his own, but not abandoned.

6. Follow-up

This step is undertaken with a view to testing the effectiveness of training efforts. This consists in:

(*a*) Putting a trainee "on his own"

(*b*) Checking frequently to be sure that he has followed instructions, and

(*c*) Tapering off extra supervision and close follow-up until he is qualified to work with normal supervision. It is worth remembering that if the learner hasn't learnt, the teacher hasn't taught.

15.14 IMPLEMENTATION OF THE TRAINING PROGRAMME

Once the training programme has been designed, it needs to be implemented. Implementation is beset with certain problems. In the first place, most managers are action oriented and frequently say they are too busy to engage in training efforts. Secondly availability of trainers is a problem. In addition to possessing communication skills, the trainers must know the company's philosophy, its objectives, its formal and informal organization, and the goals of training programme. Training and development requires a higher degree of creativity than, perhaps, any other personnel specialty. Programme implementation involves action on the following lines:

(*a*) Deciding the location and organizing training and other facilities.

(*b*) Scheduling the training programme.

(*c*) Conducting the programme

(*d*) Monitoring the progress of trainees

15.15 EVALUATION OF TRAINING PROGRAMME

Evaluation is an essential feature of all programmes for the training of employees. The concept of evaluation is most commonly interpreted in determining the effectiveness of a programme in relation to its objectives.

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Evaluation can be done for various purposes. The evaluator should be clear about why he has been asked to evaluate training. Evaluation of training programme may be done.

1. To increase effectiveness of the training programme while it is going on.
2. To increase the effectiveness of the programmes to be held next time.
3. To help participants to get the feedback for their improvement and efficient.
4. To find out to what extent the training objectives are achieved.

15.16 EFFECTIVE MANAGEMENT

The basic objective of management functions and techniques is to make one an effective manager. The organizations require effective managers because these bears cost for employing them. However, the basic question is: who is an effective manager? From, this point of view, one must identify the various characteristics of effective managers so that attempts are made to correlate the various functions of management for achieving effectiveness.

Truly speaking, the concept and criteria of effectiveness are quite debatable points in management. Effectiveness is not one-dimensional concept that can be measured and predicted from a set of clear-cut criteria. However, managerial effectiveness can be defined mostly in terms of organizational goal-achieving behavior.

15.16.1 Effectiveness and Efficiency

Often a confusion arises between effectiveness and efficiency as both these terms are used quite closely and, sometimes, interchangeably, though both these denote different states of affairs. For example, Barnard has viewed that: “Organisation effectiveness is the degree to which operative goals have been attained while the concept of efficiency represents the cost/benefit rate incurred in the pursuit of these goals”.

Thus, effectiveness is related to goals which is externally focused. Efficiency is used in engineering way and it refers to the relationship between input and output. This denotes how much inputs have been used to produce certain amount of outputs. It is not necessary that both go together always. For example, Barnard says that, ‘‘When unsought consequences are trivial, or insignificant, effective action is efficient: when unsought consequences are not trivial, effective action may be inefficient’’. These may be three types of situations:

1. An organization may be efficient but may not be effective.
2. An organization may be effective but may not be effective.
3. An organization may both efficient and effective.

In the first situation, the organization may be efficient but it may not be effective because efficiency refers to internal conversion processes whereas effectiveness reflects external phenomenon.

In the second situation, an organization may be effective at a point of time without being efficient. It may not be efficient but because of the external environment, it may earn profit and show effectiveness.

In the third situation, an organization may be efficient and effective both at the same time. Many types of organizations may fall under this category, and this is the situation which is required for the long term survival of organization. It is in this situation that people tend to use efficiency and effectiveness interchangeably.

15.16.2 Effectiveness Manager

An effective manager is one who is positive in his personality, that is, what type of person he is, his managerial process, and results of his managerial process, although all these are interdependent.

1. **The Person:** The Bapic question in this context is what types of persons are most likely to become effective managers, and what types fail? There are various such studies to suggest the possible personal qualities of a successful manager.
2. **The Process:** Managerial effectiveness depends upon the managerial process involved in managing the affairs of the organization. In this category, there is a long list, because it is not just possible to specify here the behavior of a manager as related to his various functions. However, the following are some of the important behaviors of effective managers.
    1. They manager people instead of work.
    2. They plan and organize effectively.
    3. They set goal realistically.
    4. They derive decision by group consensus but accept responsibility for them.
    5. They delegate frequently and effectively.
    6. They rely on others for help in solving problems.
    7. They communicate effectively.
    8. They are stimulus to action.
    9. They co-ordinate effectively.
    10. They co-operate with others.
    11. They show consistent and dependable behavior.
    12. They win gracefully.
    13. They express hostility tactfully.
3. **The Results:** Effective managers and effective managing will lead inevitably to good things, that is, the achievement of goals for which they are working in the organization. Thus what will be the outcome depends upon the type of organizations they are working for. There may be some conflict about the organizational goals and their measurement criteria, but here it is sufficient to say that managerial actions and behaviors must contribute to the realization of organizational goals.

SUMMARY

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- Training and development programmes, help to remove performance deficiencies in employees.
- On-the-job training methods include job rotation, coaching, job instruction or training through step-by-step and committee assignments.
- A training programme should be established only when it is felt that it would assist in the solution of specific operational problems.
- Evaluation is an essential feature of all programmes for the training of employees. The concept of evaluation is most commonly interpreted in determining the effectiveness of a programme in relation to its objectives.
- An effective manager is one who is positive in his personality, that is, what type of person he is, his managerial process, and results of his managerial process, although all these are interdependent.
- Managerial effectiveness depends upon the managerial process involved in managing the affairs of the organization.

REVIEW QUESTIONS

1. Are management and administration different? How will you resolve their terminological conflict?
2. What is the nature of management principles? How do they contribute in effective managing? What precautions will you take while applying management principles in practice?
3. What is effective management? How does effectiveness differ from efficiency?
4. Discuss the main characteristics of an effective manager.

16. CHANGE MANAGEMENT

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STRUCTURE

16.1 RESISTANCE TO CHANGE

Even though change is inevitable, people tend to resist change. Resistance to change is not always bad or harmful. In some cases, resistance is positive also. Resistance to change can also be a source of functional conflict. For example, resistance to a change in product line can simulate a healthy debate over the merit of the ideal and thus result in a better decision. However, resistance to change also hinders adaptation and progress.

The reasons of resistance to change can be divided into two broad categories for analytical purposes. 1. Individual 2. Organizational resistance to change.

16.1.1 Individual Resistance

1. **Fear of the unknown:** Changes often bring with them ambiguity and uncertainty. For example, the introduction of new computer system requires that the employees learn some specific statistical techniques, some may fear they will be unable to do so. They may, therefore develop a negative attitude toward introduction of a new computer system.
2. **New learning:** For doing a new task one requires to learn a new language, develop a new technology, or adjust to a totally new culture.
3. **Disruption of stable friendship:** Almost all organization changes disrupt the previous stable friendship. This in turn results in uncomfortable feeling of social isolation.
4. **Distrust of management:** The change which is initiated by the management may harmful effects. This maybe the feeling of the work force. That's why employees often suspect the reason for change and try to oppose the same.

16.1.2 Organizational Resistance

1. **Threats to the power structure:** Most change has the capacity to disrupt the organization's power structure.
2. **Structural inertia:** Organizational structures have several mechanisms designed to produce stability. Accordingly, job assignments, selection and

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training of new employees and performance reward system are designed to maintain stability, thereby resisting change.

3. **System relationship:** Change in one sub-system, affects other sub-systems also. For example, a change in the Accounts Department may influence the methods of reporting and record keeping of every other department. Hence, the other departments may resist such change.

16.2 MANAGING RESISTANCE TO CHANGE

Six key strategies have been suggeseted for managing resistance to change.

16.2.1 Education and Communication

Employees can be educated about the change through one-to-one discussion, memos, group presentations or reports. New information is a powerful force for change in ambiguous situations. For example, new employee orientations are particularly effective in changing the behaviour of new employees because they would not have known to behave otherwise.

16.2.2 Participation

Research evidence lends support to the fact that individuals find it difficult to resist a change decision in which they participated. Hence, before a change is introduced, who particularly those who oppose the change can be brought into the decision process.

16.2.3 Facilitation and Support

Another strategy for managing resistance to change is providing support and encouragement to those employees who have trouble dealing with the change. Counseling and therapy, skill training or a short paid leave maybe examples of support extended to the employees.

16.2.4 Negotiation

A specific reward package can be negotiated with the powerful individuals to meet their individual needs.

16.2.5 Manipulation and Co-optation

Manipulation implies covert attempts to influence. Examples of manipulation are twisting the facts to make them more attractive.

Withholding information not pleasant to the receivers, and spreading rumours to make employees ready to accept a change. As regards co-optation, it includes both manipulation and co-optation. The leaders of a resistance group are invited not to reach a better decision, but to get their endorsement.

The organization, as a last resort, can apply director threats on the resistance to make them ready to accept the proposed change. Threats of transfers, loss of promotion, negative performance evaluation are the examples of coercion.

Organizational change is both inevitable and desirable. Also, it is people's involvement that makes change successful. Then the question is how to involve people in the change process ? Research findings lend support to the view that change introduced sudden by is often resisted and rejected. On the other hand, evidences prove that a gradual change often tends to succeed.

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17. ORGANISATIONAL CONFLICT

STRUCTURE

17.1 INTRODUCTION

Conflict is an essential fact of organisational life. In fact, the very nature of an organisation guarantees the emergence of conflict. Firstly, organisations consist of people with divergent personalities, perceptions, and values. Secondly, these people are put on jobs with contrasting features that impart unequal degrees of status and frequently foster competition. Finally, organisations contain groups that often compete for scarce resources while trying to achieve assigned goals. In organisations, conflict can take many forms and can stem from many sources. If the fires are not put out in time, conflict has the potential to seriously disrupt organisational life.

17.2 MEANING

Conflict may be viewed as a clash between individuals arising out of a difference in thought process, attitudes, understanding, interests, requirements and perceptions. A conflict results in heated arguments, physical abuses and definitely loss of peace and harmony. A conflict can actually change relationships. Friends can become foes as a result of conflict within no time. Conflict, thus, implies opposing interests or goals and opposing or incompatible behaviour. Broadly stated, **it is a process that begins when one party perceives that another party has taken or will take actions that are incompatible with one's own interests**. This definition reveals the following features of conflict:

- ***Incompatibility:*** Conflict occurs when two or more parties pursue mutually exclusive goals, values or events. It is based on the assumption that there are two or more parties whose interests or goals appear to be incompatible.
- ***Perception:*** Conflict arises out of two perceptions. If X perceives his goals to be incompatible with those of Y there is conflict if, however X has no opportunity to frustrate the goal attainment of Y, there is no conflict.
- ***Blocking:*** Conflict refers to deliberate (blocking) behaviour. X deliberately tries to prevent Y from attaining his (Y's) goals. If interference is accidental, there is no conflict.
- ***Scarcity:*** Conflict arises, basically because of scarce resources. Possibilities for conflict expand when there are limited resources such as office space, equipment, training opportunities , operating funds and pay allocations.
- ***Latent or overt:*** Conflict can exit either at the latent or overt level, but generally speaking, conflict is a term that is limited to overt acts.
- ***Verbal or non verbal:*** Conflict behaviour may be verbal or non verbal. One can express opposition by words, by a shake of the head, by an indecent gesture, by writing a scathing memo, or by scratching the paint of a new car with a nail as it moves down the assembly line.
- ***Active or passive:*** Conflict behaviour may be active or passive. One can sometimes counter the behaviour of another by tactics such as 'dragging one's feat' or withholding information. It is implicit in what has been said that perception of a loss or of a potential loss, accurate or inaccurate, can create conflict.

Conflict is not limited to interacting groups alone, since it can also occur within groups and between individuals and between organisations. Conflict occurs when two groups have mutually exclusive goals and their interactions are intended to defeat, suppress or inflict damage on the other. *Organisational conflict results in when the goal directed behaviour of one person or group blocks the goal directed behaviour of another individual or group.*

17.3 Conflict, Competition and Collaboration

Conflict implies both, opposing interests/goals and opposing or incompatible behaviour. Competition on the other hand, may involve considerable commonality of interests or goals, and only a limited amount of opposing behaviours. Competition occurs when

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two or more individuals or groups are structuring for a goal that can be achieved by only one. Fixed or limited resource base is one of the important features of a competitive situation. For example, the person with the maximum sales wins the sales contest; the bidder with the lowest quotation wins the contract; only one sales officer becomes the Head of Sales. In case of competition, the person who gets promoted, out of the two who applied for the post of Head of Sales is undoubtedly the winner. But the person who lost the race has other options as well including promotion into some other unit in the same or a different location. Such competition might be relatively friendly. However, if such a situation is marked by a great amount of antagonism, verbal battles and other negative behaviour, the situation might be more aptly called conflict. Competition, generally, has some ground rules that the parties have agreed to in advance. Parties are aware of how far they can gain or lose. Conflict, however, has few or no rules and when parties engage in a negative behaviour, they are not aware of how far the situation can escalate. The outcomes definitely have the potential to negatively impact one of the parties and sometimes, the whole system as well. Competitive rules are generally framed by authorities, for example, Top Management framing promotion policies, or a Chess Federation developing contest rules and schedules. Conflict, on the other hand, is more spontaneous and is outside of certain pre-planned set or rules and regulations.

As pointed out previously, groups come into existence with a view to achieve some common goal(s) depending on how they approach the goal, conflict or collaborations takes place. If members feel that the goal is unshakeable and can be achieved exclusively by only one, conflictful situations emerge. However, if they perceive that the goal is shareable and they can join hands to achieve it, collaboration is generated. Collaboration supplements what competition does. It performs several important functions. It helps individuals to respect and accept each other in the workplace. It allows people to see the brighter side of people more closely. When people join hands to achieve goals, they can think through various creative ideas in an atmosphere of cordiality. They can generate and evaluate alternative solutions without dissipating energies in arguments and counter-productive criticisms. They get feedback from colleagues immediately and this helps in reinforcing workable solutions. They can also give feedback to collaborating partners that helps in building strong team ties. Members can work more productively, generating as many ideas (or solutions) as possible. They can multiply their contributions through such synergetic behaviours. Members tend to work with zeal, enthusiasm and confidence as they think they are part of a cohesive team. They can exchange notes freely without any fear of leg-pulling and ultra-initial actions. They will be keen to go beyond the four walls and take initiative in taking responsibility for the actions of the group as a whole. All people, additionally, get a chance to participate in organisational activities and test their capabilities.

17.4 Three Distinct Views of Conflict

Over the years, three distinct views of conflict have been presented by management thinkers:

1. The **classical approach** viewed conflict as negative and is something that must be avoided at all costs. Organisations (with their clear policies, procedures and

rules) should be known for discipline and order. There should be no room for conflicts of any kind. If conflicts erupt, management must put them to rest quickly and effectively. Conflict by definition is harmful and therefore needs to be put to rest immediately.

2. **Behaviouralists** also had a similar **jaundiced** view of conflict. They also believed that conflict, by definition, was harmful and should be avoided. Those who generated conflict were trouble-makers and were bad for the organisation. This view reflected a "popular pre-occupation with morals, human relations and cooperation, and the general value that peace is good and conflict bad". They, however, accepted the fact that conflict is a natural occurrence in all organisations. The interactionist views may be summarised thus:
   - *Conflict is not an organisational abnormality. It is a fact of life that must be understood rather than fought.*
   - *Conflict is inevitable. It is an inherent structural component in all social relations.*
   - *Conflict is neither bad nor good for organisations. Perfect organisational health is not freed0m from conflict.*
   - *Conflict is not always caused by trouble makers. It is rather determined by structural factors like the design of a career structure, the physical shape of a building etc.*
   - *Conflict is integral to the nature of change. Conflict is not only inevitable but sometimes desirable*
3. The emerging view of conflict, called as **interactionist view.** It recognises that in some cases conflict may be helpful, facilitative and functional. The interactionist views may be summarised thus: (i) Conflict is not an organisational abnormality. On the other hand, it is a normal aspect of social intercourse. It is a fact of life that must be understood rather than fought. (ii) Conflict is inevitable. It is an inherent structural component in all social relations. (iii) Conflict is neither bad nor good for organisations. Perfect organisational health is not free from conflict. (iv) Conflict is not always caused by trouble makers. It is rather determined by structural factors like the design of a career structure, the physical shape of a building etc. (v) Conflict is integral to the nature of change. (vi) Conflict is not only inevitable but sometimes desirable.

17.5 Positive (Functional) vs. Negative (Dysfunctional) Conflict

The following are some of the *positive consequences* of conflict:

1. ***Major stimulant for change:*** Conflict spotlights the problems that demand attention, forces clarification of their nature and channelises organisational efforts towards finding better solutions. It initiates a search for ways to polish and refine objectives, methods and activities.
2. ***Group think is avoided:*** Without strong vocal disagreement, group think could overpower a highly cohesive group, preventing it from making rational decisions based on facts. Conflict also counteracts the lethargy that often overtakes an organisation.

3. ***Conflict fosters creativity and innovation:*** It prevents stagnation; it stimulates interest and curiosity. In an atmosphere of open confrontation, people tend to put forward more imaginative solutions to problems. A climate to challenge compels individuals to think through their own ideas before airing them out. Conflict can help individuals to test their capacities to learn and develop.
4. ***Cohesion and satisfaction:*** Inter-group conflict and competition drives groups closer together. Under conditions of mild inter-group conflict, group membership can be very satisfying to members. The whole purpose and internal unity of athletic groups, for example, would disappear if there were no conflict. In the face of a common enemy, group members close ranks and put aside former disagreements. For example, petty conflicts between cricket team members are generally put aside before the big game.
5. ***A minimum level of conflict is optimal:*** Conflict is necessary for the internal stability of organisations. The occasional flareup of inter-group conflict serves to balance power relationships between departments. It also helps individuals in reducing accumulated ill-feelings and tensions between them. A good fight clears the air.

The following are the **negative consequences** of conflict:

1. ***Conflict creates stress in people:*** Conflict exacts its toll on the physical and mental health of the combatants. Intense conflicts generate feelings of anxiety, guilt, frustration and hostility. Winners try to injure the feelings of the defeated. Losers feel defeated and demeaned. The distance between people increases. A climate of mistrust and suspicion develops. Discussion replaces cohesion. Losers indulge in non-cooperation and pay scant attention to the needs and interests of other group members.
2. ***Diversion of energy:*** One of the most dreadful consequences of conflict is the diversion of the group's time and effort toward winning the conflict rather than toward achieving organisational goals. Parties focus on their own narrow interests and tend to put their own aims above those of the organisation. Long term goals begin to suffer as short term problems become more important. Much energy is drained off in trying to put out the 'fires'. In extreme cases, sabotage and even illegal activities occur.
3. ***Instability and chaos:*** Under intense conflicts, collaboration across individuals, groups and departments decreases or vanishes. Tensions will continue to mount up and each new conflict will split organisation subunits further apart leading to communication breakdowns. In the heat of such an internecine warfare, the disputants squander away energy and resources that could be devoted to better use. The normal work-flow is disrupted; the moral fabric of the group torn apart and the whole system is skewed out of balance.
4. ***Loss of productivity:*** Conflict divides people. It turns friends into foes. Each party is on a constant look out to find faults with the other. When one commits a mistake, the other would magnify it beyond imagination. Cooperative and friendly relations vanish from the work spot. The interests of the organisation are

discounted thoroughly. Communication links will break down between people and departments. Parties involved in a conflict would be more keen to teach a lesson to the other party. Talented people may begin to leave the company—unable to take the tensions on a daily basis. When people lose their focus and tend to waste their energies on petty fights, the resultant productivity losses could sink an organisation.

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17.6 STAGES OF CONFLICT EPISODE

According to Pondy, conflict can be more readily understood if it is considered as a dynamic process. "Process" here indicates a series of events. Each conflict is made up of a sequence of interlocking conflict episodes. The model (Fig. 17.1) presents conflict as a series of stages namely, latent conflict, perceived conflict, felt conflict, manifest conflict and conflict aftermath.

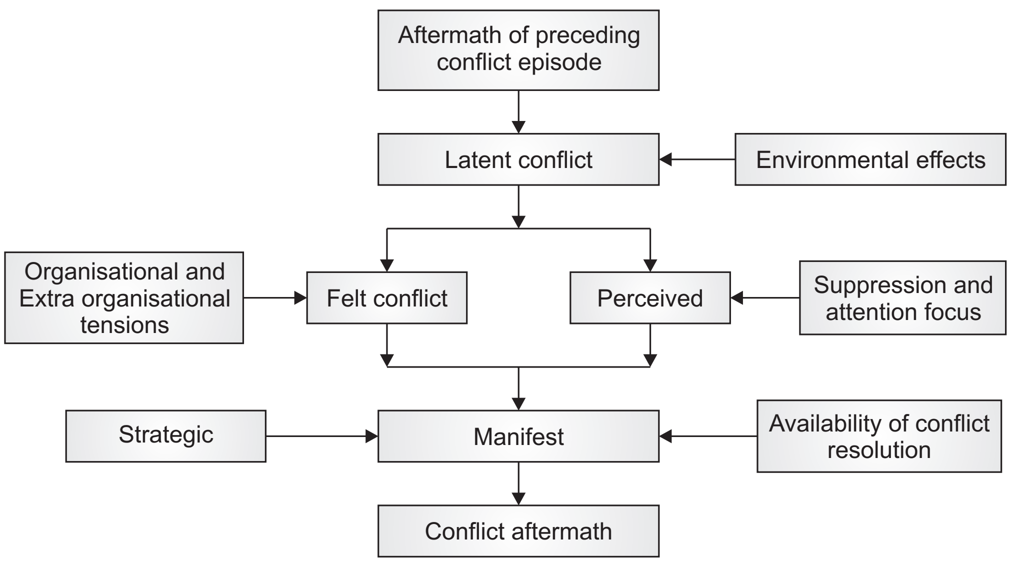

Fig. 17.1 Stages of Conflict Episode

1. ***Latent conflict:*** Each episode of conflict begins with a "latent conflict". Important sources of organisational conflict such as competition for scarce resources divergence of subunit goals, competition for positions in the organisation, imply that role conflict are present, but the conflict has not yet emerged. Latent conflict provides the necessary antecedent conditions for conflict in organisations. Here, participants only anticipate conflict.
2. ***Perceived conflict:*** Here the basic sources of conflict like divergent goals competition for scarce resources do not exist. Conflict results due to the parties' misunderstanding of each other's true position. Such a conflict can be resolved by improving communication between the parties.

3. ***Felt conflict:*** X and Y working in a departmental store are in serious disagreement over the interpretation of the policy "Customer is the King" and are arguing for hours together. If this episode does not make X tense or anxious and has no effect on X's relationship with Y then it can be safely concluded that conflict is not 'felt' by the parties. Even though people preceive that there is a basis for conflict, conflict will not arise unless the differences become personalized or internalized (felt).
4. ***Manifest conflict:*** This is the stage for open confrontation. It takes the form of conflictful behaviour, including open aggression, sabotage, apathy, withdrawal, letter perfect obedience to rules etc., all of which reduce organisation's effectiveness.
5. ***Conflict aftermath:*** The aftermath of a conflict may be either positive or negative for the organisation depending on how the conflict is resolved. If the conflict is genuinely resolved, it can lead to a more enduring and cooperative relationship between organisational participants; if the conflict is merely supressed but not resolved, the latent conditions of conflict may be aggravated and explode in more violent and serious forms. This legacy of conflict is called "conflict aftermath".

17.7 CONFLICT AND ORGANISATIONAL PERFORMANCE

The relationship between conflict and organisational performance is illustrated through the Fig. 17.2:

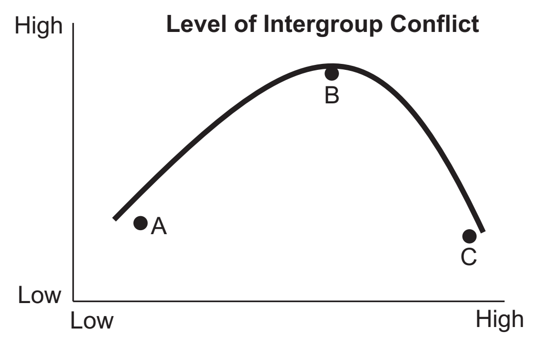

Fig. 17.2 Level of Intergroup Conflict—Relationship Between Conflict and Organisational Performance

Organisational performance, as can be seen, is low when the level of conflict is either extremely high or extremely low, while moderate levels of conflict contribute to high organisational performance. At point A, where conflict is low, performance suffers because of a lack of arousal and stimulation. Individuals find their environment devoid of any challenge. They do not search for new ideas and the organisation is slow to adapt to environmental changes. At point C, where conflict level is higher, performance suffers due to lack of coordination and cooperation. The organisation is in a state of chaos because of disruption to important activities. People spend more time defending themselves or attacking others rather than doing productive work. At point B, conflict is sufficient enough to provoke people to think creatively, act enthusiastically and achieve goals.

17.8 Types of Conflicts

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Conflict can be studied, generally, under the following heads;

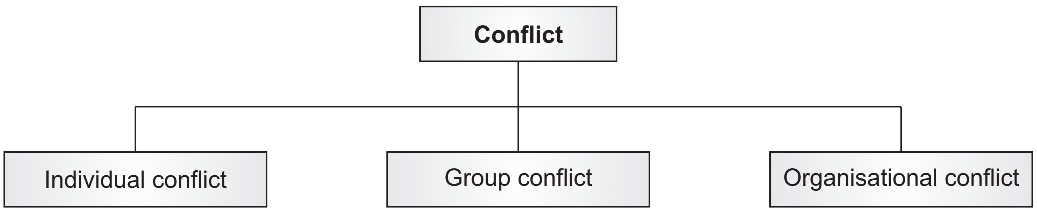

Fig. 17.3

1. **Individual Conflict:** Individuals are often caught in a dilemma especially when confronted with competing goals and are made to play different roles. *Goal conflict* occurs when one is forced to make a choice that has both positive and negative features. A Delhi University teacher may be offered an excellent job in a bad location. In pursuing a challenging goal like obtaining First rank in the University, many students must make personal sacrifices (time, energy, away from entertainments etc.). Again, a worker may dislike his present job, but the alternative of leaving and looking for another job may be even less attractive. Role conflict occurs when a person is expected to play many roles that come with lot of expectations from others. Professors may slip into many roles such as teachers, researchers, consultants, wives or husbands, community leaders etc. While enacting these roles, a professor might actually carry out things that are guided by his own conscience rather than look at what others expect from such roles. Role conflict is the result of divergent role expectations.
2. **Group Conflict:** In an organisation group level conflicts occur at two levels: at the interpersonal level or at the intergroup level. *Interpersonal conflict* involves two or more individuals fighting for a promotion, space, opportunities etc. It arises due to personality differences, due to varied backgrounds (in terms of education, training, experience etc) and interests, power and status differences etc. *Intergroup conflicts* also are common in every organisation where different groups fight for space, authority, jurisdiction and resources. The primary sources of inter-group conflict may be presented thus:
   - *Incompatible goals:* Quite often, the goals of one group are incompatible with those of other groups. Differences in group goals can easily lead to group conflict. Goal incompatibility implies that goal attainment by one or more other groups. The achievement of one department’s goal often interferes with another departments’ goal. Quite often, this is due to high horizontal differentiation and task specialisation.
   - *Task interdependence:* Task interdependence refers to the dependence of one unit on another for resources or information. The relationship between mutual task dependence and conflict is not direct. But in general, it can be said that as interdependence increases, the potential for conflict increases.

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- *Resource allocation:* Quite often resource allocation is a bone of contention between organisation members and groups. Recourses symbolize power, influence and are the means of accomplishing goals. As such, most of the departments in an organisation jockey for resources and power base. In their anxiety to achieve goals, groups try to cut a bigger slick out of the common pool. Generally, the more fixed the resources in terms of size, and the more parties competing for them, the more intense the conflict. Conflict may be minimized if the organisation is prospering and new resources are growing in allowing a greater share to each and every department.
- *Competitive incentive and reward system*: When jobs can be performed independently, competitive incentive plans based on individual excellence can be successfully implemented. However, when tasks are interdependent, competition can hurt cooperation among members and performance may actually decline. When all students in a group received the same grade regardless of individual contribution, coordination and communication was better and the quality of the group project was better. But when students were graded according to their personal contributions to the group, they try to succeed at the expense of others and were more frequently in conflict. Similarly, intergroup conflict is more likely to occur when the reward plan is tied to individual group performance rather than to overall organisational performance. If departments are regarded and judged only for departmental performance, managers are motivated to excel at the expense of others.

- *Line and Staff conflicts:* Today, line and staff differences are the most common type of intergroup conflict. This conflict is basically a clash of domain caused by dividing expertise, authority and roles. Dalton's study of line and staff conflict highlighted the following sources:
  - Line managers dislike to take advice from younger staff specialists. They fear being 'shown up'.
  - Line managers label "staff" as agents on trial. The staff, in turn, views himself as an expert.
  - Line managers feel that staff oversteps its authority.
  - Line people resent staff's highly academic and untested ideas.
  - Staff people feel that line managers are bull-headed and do not clothe staff with enough authority and resist new ideas
- *Differences in values or perceptions:* The differences in goals among the members of the various departments in the organisation are frequently accompanied by differences in attitudes, values and perceptions that can also lead to conflict. Young bank clerks with post graduate qualification may resent being given routine work, while the older, higher level (less educated sometimes) may view such task as a necessary part of training. Engineering people may value sophisticated designs while manufacturing people may prefer simple designs.

Many a time status differences also may spoil the show between two groups—for example group members of a prestigious project might perceive themselves as having higher status than others.

3. **Organisational level Conflict:** Conflict at the organisation level could occur at two levels within the same organisation-intra-organisational conflict or between two organisations (inter-organisational conflict). Conflict within the same organisation can take the shape of a horizontal conflict (between employees or departments at the same hierarchical level) or a vertical conflict (conflict between levels in an organisation such as the fight between senior and junior faculty in a college or between superiors and subordinates in an organisation. Interorganizational conflicts between two organisations are extremely common when they fight for limited opportunities.

17.9 CONFLICT STIMULATION AND RESOLUTION

Conflict may be harmful to an organisation, but there are times when it is useful. It is for this reason that managers must learn to recognize the differences between constructive and destructive conflict situations. The way conflict is managed rather than suppressed, ignored or avoided, contributes significantly to an organisation's effectiveness.

Distinction between Constructive and Destructive Conflict

Constructive conflict exists when	Destructive conflict exists when
1. Problems are brought out, identified and clarified.	Too much stress is created for individuals.
2. Group think is avoided.	Group decision-making is reduced to a 'feeble walk'.
3. Organisational lethargy is dissolved; creativity is promoted.	Cooperation is replaced by in-fighting.
4. More thought goes into ideas; individual effort is stimulated.	Focus on short range goals at the cost of long range goals.
5. Encourages group cohesiveness, and provides for a system of checks and balances within an organisation.	Goals are distorted and resolution of conflict is viewed as win-lose rather than win-win.

Since conflict has constructive and destructive consequences, it must be analyzed and managed carefully. The manager should seek a level of conflict appropriate to the existing conditions. There are basically two approaches to deal with conflict in an effective way: *to create and stimulate constructive conflict and to resolve destructive conflict.*

Conflict Stimulation Techniques

Conflict stimulation might be required in organisations where there is too much lethargy, people turn into' yes men' and do not ask any questions, when there is no competitive spirit between groups/individuals, when everyone tries to arrive at a consensus at any cost etc. S. P. Robbins had offered certain guidelines to stimulate conflict in an organisation thus:

Communication

Managers can manipulate messages in such a way as to stimulate conflict. Ambiguous or threatening messages encourage conflict. Information that a plant will close, that a department is to be wiped out or that a lay-off is certain can reduce apathy and force members to confront their differences to stimulate new ideas and force re-evaluation of current practices etc. Sometimes, a manager can also redirect messages and alter channels to encourage conflict. Intelligently planted rumours in the informal channels can also serve a useful purpose.

1. ***Bringing in outsiders:*** A commonly used method of 'shaking up' a stagnant unit or organisation is to bring in people whose back-grounds, attitudes, values and managerial styles vary significantly from the prevalent norms. Introduction of heterogenous people into the organisation helps in disturbing the status quo (for example, suggesting innovative ideas, offering divergent options, demonstrating originality etc.,) bringing back life a stagnant organisation.
2. ***Restructure the organisation:*** Changing the structure of an organisation is an excellent way of creating conflict. Breaking up old work groups and departments to reorganise them so that they have new entrants or responsibilities will create uncertainties that call for readjustments immediately. Conflict that develops during this period may ultimately lead to improved methods of operation as members try to adjust to new circumstances.
3. ***Encouraging competition:*** The use of bonuses, incentive pay and awards for excellent performance will stimulate competition. Such incentives, when administered properly, foster a competitive spirit among individuals and groups. Conflict will be productive as one group struggles hard to out do the other.

17.10 REACTIONS TO CONFLICT

The most common reactions to conflict are avoidance, accommodation, competition, collaboration and compromise. Managers can resolve conflicts taking different postures and adopting different styles—depending on the requirements of the situation. These may be listed thus:

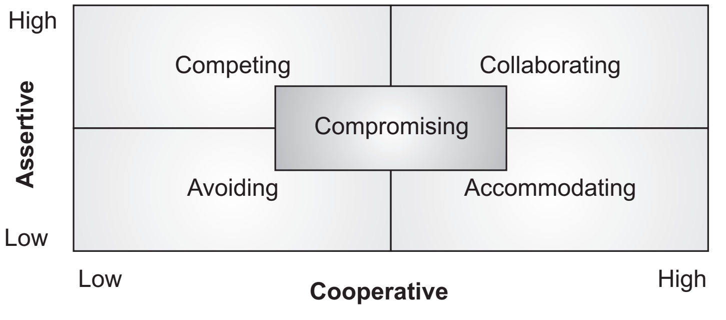

Fig. 17.4 Five Types of Reactions to Conflict/Conflict Resolution Styles

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1. ***Avoiding (withdrawal):*** The user of this style attempts to passively ignore the conflict rather than resolve it. Important issues are not properly addressed. It is childish to argue, so you detach yourself from the conflict believing that it is a more mature approach. The person stays out of conflicts, ignores disagreements takes no position on the issues involved, and may even be hesitant to talk about the situation. A lose-lose situation may arise because the real issues do not get resolved. The avoiding style is appropriate to use when (i) the conflict is trivial, (ii) your stake in the issue is not high (iii) confrontation will seriously dent a important relationship, (iv) you simply do not have time to resolve the conflict and (v) emotions are at a pretty high level. Avoiding confrontation, of course, is not the answer in most cases because when things turn ugly you end up yelling at other people. Such a passive-aggressive behaviour tends to make the situation by impacting human relationships.
2. ***Accommodating (smoothing):*** The accommodative style is low in assertiveness and high on cooperativeness. The user of this style attempts to resolving conflict by passively giving in to the opposing side. When you make use of this style, you are being unassertive but cooperative. You are trying to satisfy the needs of others, and in the process, completely discounting your own needs. You are allowing others to get their own way. You are trying to maintain relationships by doing things other people's way. You simply end up doing things that you really do not want to do. The real problem with this style is that others tend to take you for granted over a period of time. The accommodating style is appropriate to use when (i) you enjoy being a follower (ii) maintaining the relationship outweighs all other considerations, (iii) the changes agreed to are not significant to you but are to the other person, (iv) there is very little time to resolve the knotty issues involved, and (v) the other person you are in conflict with uses the dominating style.
3. ***Competition (dominance):*** The competitive style is high on assertiveness, and low on cooperativeness. The user of this style attempts to resolve conflict by using aggressive behaviour to get his own way. You are prepared to do whatever it takes in order to win at the expense of others. Dominating managers often use authority and power to make others submit to their demands. They threaten, intimidate and call for majority rule whenever they are sure of winning the game. When the manager proves right, this style might lead to better organizational results. One clear disadvantage is that overuse of this style breeds resentment and hostility toward its user. Forcers end up getting labelled as heartless people with very poor interpersonal skills. The dominating style can be put to use when (i) unpopular action needs to be taken on important issues, (ii) people do not resist doing what you want them to do (or their resistance is not going to impact the results), (iii) maintaining relationships is not very important, or (iv) the conflict needs to be resolved urgently.
4. ***Collaboration (with-win, problem solving style):*** The user of collaborating style assertively attempts to resolve conflict by working together with the other person to find an amicable solution. You assert yourself and join hands with the other party in order to find an acceptable way. The focus is not on one's own interests or preferences but find the best possible answer to the problem that

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would meet the requirements of parties involved in the conflict. Collaborators, unlike forcers, are willing to adapt and change, whenever they find a better solution. Collaboration is built around honest and open communication between parties. Parties openly share information, attempt to listen and develop empathy. There is an attempt to depersonalise the issue. Parties debate the issue bringing together all relevant information, consider full range of alternatives and try to solve the problem rather than merely trying to accommodate different points of view. Through sharing and communicating the problem is mutually defined. Questions of who is right or wrong; who wins or loses are avoided. All parties are seen as playing a constructive role. Of course, this style is difficult to practice as it clearly demands skill, effort and time of parties drawn into the conflict.

Characteristics of Problem Solving Style

- Conflict is viewed as a non-zero sum game.
- Other party is seen as a mutual problem solver.
- Parties propose joint outcomes.
- Issues are looked at objectively.
- Open, honest sharing of information.
- Flexibility.
- Tries to solve the conflict in a way that will benefit both the parties.

The collaborating style is appropriate when (i) you are facing an important issue that demands an optimal solution, (ii) people are willing to place the group goal before self-interest, (iii) maintaining relationships is important, (iv) time is available, and (v) the conflict is between peers. (R.N. Lussier, Management Fundamentals, Cengage, New Delhi, 2012)

5. **Compromising/Negotiating Style (lose-lose):** This is a traditional method of resolving conflicts. There is no distinct winner or loser because each party is expected to give up something of value for a concession. It is commonly used where the conflict involves differences in goals, attitudes or values. It is effective when the sought after goal (for example, resource sharing) can be divided. In this style, the emphasis is on the process of compromise and bargaining. It is based on a simple give-and-take process and typically involves negotiation and a series of sacrifices. The amount given up by each party in conflict, however, will be in direct relation to its strength. The compromising style is appropriate to use when (i) the issues are complex and critical and there is no simple and clear solution, (ii) parties have about equal power and are interested in different solutions, (iii) a solution will be only temporary, and (iv) time is short.

17.11 CONFLICT MANAGEMENT STRATEGIES

There are many ways to handle conflict at the organisation level :

- ***Ignoring the Conflict:*** If the conflict is not too severe and the consequences are not very serious, managers tend to ignore it and pretend that it does no exist. Some managers think conflicts speak badly about an organisation, so they ignore the conflict and hope it will eventually resolve itself. Because the sources of conflict are neither identified nor resolved, this strategy fails to put out the fires in time. Eventually, the situation may go from bad to worse.

- ***Physical separation:*** If the warring factions or parties are physically separated, the likelihood of open hostility and aggression is reduced. Parties, however, may continue to indulge in sabotage and occasional acts of aggression unless the source of conflict is eliminated. Physical separation may work when the two groups are not required to interact while achieving targets. If they need to interact, however, separation may not solve the issue.
- ***Withdrawal:*** Another way may be to withdraw from a conflict it when it takes place. The withdrawal may be from the situation (fighting for resources, for promotion etc.) or from the relationship with the other group (one party may severe connection with the other as in the case of Proctor and Gamble and Godrej Soaps Ltd).
- ***Dominance:*** Quite often, managers use *positional authority* to fire a lower ranking subordinate they consider to be a trouble-maker. Conflicting parties are told to maintain a calm composure, an appearance of grace and drop their fight and get on with the job.
- ***Appeal procedures:*** Here parties involved in a conflict seek help from a higher authority in order to resolve a knotty issue. For example if, the faculty members could not decide on the allocation of work load, they may refer their disagreement to the principal of the college for a final, binding decision.
- ***Compromise:*** Parties involved in a conflict arrive at a solution through a compromise formula. For example, management may offer to increase wages by 4 percent, while the union may be seeking 8 per cent. Both may finally agree on a figure of 6 percent. . Compromise can be used very effectively when the goal sought (e.g. money) can be divided equitably. If this is not possible, one group should be prepared to give up something of value as concession. Compromise may also involve third-party interventions as well as total group or representative negotiating and voting.
- ***Liaison group/intermediaries/integrators:*** To arbitrate differences between two warring fractions, a full-time integrator can be appointed who can speak the language of both the parties. The integrator has to use expertise and persuasion to achieve coordination and get people together. He must understand each group's problems and able to rally both groups toward a mutually agreeable solution.
- ***Forcing people to assume another role/position:*** Inter organisational activities, sometimes, help in reducing conflict. Exchange of people between interdependent departments creates an atmosphere where the newcomer can exchange his views with others. It helps him see the big picture and his role in it. As group members understand each other better they tend to lessen some of their perceptual distortions. Role reversal or empathy helps them in "shaking up" their narrow perspectives, departmental loyalties and misunderstandings created by the organisational boundaries.

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- ***Reduce interdependence:*** The potential for conflict is very great in situations where two departments have to work in an interdependent fashion and share scarce resources. As a result of this mutual dependency there are more occasions for disagreement and conflict. One way to resolve conflict is to reduce interdependencies by moving from reciprocal to sequential or from sequential to pooled interdependence. Departments maybe provided with resources and inventories that are independent of those provided for other departments (known as "**decoupling**") However, decoupling is an expensive proposition; it increases costs because of duplication of effort and equipment. To avoid this, large 'buffers' (inventories) are created. For example, department A might send its output into the buffer inventory and department B might be allowed to process goods from this inventory independently. Sometimes, formal integration departments may also be created to facilitate coordination and smoothen work flow.
- ***Procedural and Structural Changes:*** Conflict can be put to rest if procedures are changed to facilitate effective delivery of a service. In stead of asking the cashier to prepare the draft, every bank executive may be empowered to handle customer requests for making drafts quickly. The arrangement of physical facilities can also be changed to eliminate barriers that come in the way of executing work. For example, when known antagonists are seated in conference directly across from each other, the amount of conflict increases. When they are seated side by side, the conflict tends to decrease.
- ***Super ordinate goals:*** A super ordinate goal is a common goal that appeals to all the parties involved and cannot be accomplished by the resources of any single party separately. Super ordinate goals demand interdependence and cooperation between departments. It is believed that the possibilities for achieving harmony are greatly enhanced when disagreeing parties are brought together to work towards overriding goals which are real and compelling to all concerned. For example, national leaders use the ploy of claiming that their countries are about to be attacked in order to bring about (at least) a temporary unification on the opposing factions in their own countries.
- ***Identifying a common enemy:*** "A strong enemy is a great unifying force. If the parties are made to perceive that their very existence depends on how they tackle a conflictful situation, they work unitedly to realize the goal. The threat of Hitler, for example, produced an alliance between the Western powers and Russia that fell apart as soon as the common threat disappeared.

- ***Integrated problem solving:*** Another conflict management strategy tries to find a solution that incorporates the requirements of both parties. Both parties work together to define the problem and identify mutually satisfactory solutions. They freely exchange task-related information. A minimum level of trust between parties is essential for this strategy to produce results. Since it takes time for parties to resolve issues through healthy interaction, there should be no pressure for a quick settlement of contentious issues. Problem solving is a healthy approach for it recognizes that usually neither party is completely right or wrong. Creating a concession is not interpreted as a sign of weakness. Neither party feels that it has to win every battle to maintain self-respect.

- For conflicts resulting from misunderstanding or language problems, the problem solving or confrontation method has yielded good results. For solving more complex problems (e.g. conflicts where parties have different value systems), the method has not been very successful.

17.12 CONTINGENCY APPROACH TO CONFLICT MANAGEMENT

Derr has argued in favour of a contingency approach to conflict management consisting of three strategies: collaboration, power play and bargaining:

- ***Collaboration:*** It is the result of a constructive rethinking on the part of people involved in a conflict. They begin to share information openly, attempt to listen, develop empathy, depersonalise the issue, gather relevant information, consider available alternatives and try to put an end to the problem—through a win-win approach.
- ***Power play:*** When the parties to a conflict are not able to resolve differences on their own, some form of power intervention or dominance comes in. Higher level managers may step in and say "All right, you guys, that's the end of it, no more." In addition to the universal decree that conflict will go no further, the command may be accompanied by threats such as termination or transfer to a different group. Higher-level managers may also establish rules and procedures to contain the conflict to an acceptable level.
- ***Bargaining:*** {In some cases, people use the word bargaining taking a short-term view like you bargain for a carpet in a shopping mall and negotiate a long-term housing loan from a housing finance company). The terms bargaining and negotiation are used interchangeably in this text). In the third strategy– bargaining – the opposing parties exchange offers and concessions directly or through representatives. The principal difference between dominance and bargaining lies in interdependence. In dominance, the dominator does not need the loser any longer, in bargaining, both sides recognize that they are mutually dependent and they must work together after the conflict. The two parties are aware that each is trying to influence the other, and that agreement is a function of the power they bring to the situation and their bargaining skill.

17.13 NEGOTIATION

Negotiation is the process of bargaining between two or more interdependent parties to reach a solution that is mutually acceptable. It is usually a give and take process. There is no room for threat or coercion. Both parties come to the table not to shake hands but to arrive at a solution that is mutually beneficial. Both expect the outcome to be a win-win solution. There is also an implicit belief that each party is willing to listen, to make sacrifices in order to get meaningful outcomes that are fair and equitable. Parties are willing to shift their focus and attention on protecting self interests in the interest of a joint, mutually agreeable solution. Another important assumption surrounding the negotiation process is that both parties have equal strength. If one party tries to dominate the other by showing brutal force, negotiations fail inevitably. The possibility of one party throwing its weight on the other is ruled out, at least on theoretical grounds at the beginning of a negotiation process. Parties are also aware of the fact that other options to come to an agreement exist but they have come to the table believing in the process of give and take to be a superior alternative. (Saiyadain2007)

Essential Features

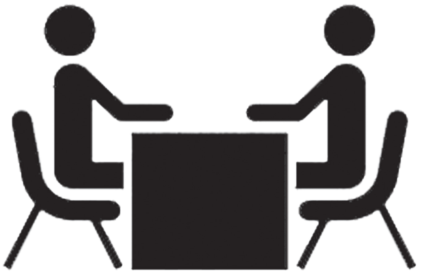
Negotiation is the process that takes place when two or more parties, each of whom is seen as controlling some resource which the other desires, confer to reach an agreement on mutual exchange of the resources. For negotiation to happen, transactions between a minimum of two individuals or groups must take place. Parties, having a conflict of interest, present their proposals and counter proposals for division and/or exchange of resources in a mutually helpful manner. A fair share of the pie is all that the parties want. The focus on narrow self interests and individual issues gets diluted as parties begin to focus on finding a solution through joint effort. Negotiation, thus, is a process of building on common interests and reducing differences in order to arrive at an agreement, which is, at least, minimally acceptable to all parties concerned. Parties get together with a view to resolve differences and find solutions. People conduct negotiations to get workable agreements. To this end, parties put forward their proposals and counter proposals. Feelings, attitudes, beliefs and values gain the upper hand while proposals find their way into negotiation chambers. People do not always act in perfectly rational and expected ways. People with superior power may try to bulldoze others into submission. Weak hands may get united and come out with outrageous demands—as in the case of labour-management negotiations. It all depends on the bargaining strategies that are pressed into service to meet the specific goals of negotiating individuals/groups.

Distributive Bargaining

Distributive bargaining is all about the pieces to be cut from the pie (a zero sum game where either side gains at the expense of the other). The method seeks to find the size of the slice for each party that reflects each side's power and ability to harm the other, without totally disrupting the relationship. Each side tries to inflate its projected power and readiness to absorb injury while attempting to find the other's true minimum position.

In a soft approach, one of the parties may give in to the other or compromise in which case both give up something of value in order to reach an agreement. Each party may decide to split the difference between the original positions equally. Still, parties may not be happy because they are still deprived of what was originally demanded. Most labour management bargaining falls in this category. In a typical labour management dispute regarding wage hikes, workers may demand minimum wage of say 8000 for unskilled labour and 12000 for skilled. Management may start with 5000 for unskilled and 8000 for skilled. When we split the difference between the two, equally unskilled may get 6500 and skilled 10000, still away from the original demand. Confusion, obfuscation and deception are inherent and necessary in this process. Closely associated with distributive bargaining is the commonly used positional bargaining approach. This strategy typically involves successfully taking, and then giving up a sequence of positions (e.g. what happens when one haggles in an open market).

Bargaining Zone Model for Negotiations



Bargaining zone is the range between one party's minimum reservation point and other party's maximum reservation point. X, an MBA from a premier management institute may be willing to work for a minimum monthly salary – minimum reservation point, or the lowest outcome of negotiations that is acceptable (also called resistance point)—of ₹ 35,000 but may quote ₹ 45,000 as her preferred salary (called as the initial offer point). The recruiting firm might actually offer initially ₹ 30,000 but has a maximum reservation point of ₹ 40,000 per month in mind. The bargaining zone, accordingly, is ₹ 40,000-45000. 40,000 is the resistance point beyond which recruiting firm will call of negotiations, likewise a monthly salary of ₹ 30,000 is the resistance point for X below which he will not take up the offer. At this point, parties are not willing to make further concessions. Both parties start off with an initial offer, knowing fully well that the scene will change quickly. As negotiations proceed further, each will come to know the resistance point of the other. To what extent they can push forward without breaking off negotiations—each party will come to know during negotiations and this knowledge helps them settle down to work out a solution accordingly.

Integrative Bargaining

In contrast to the distributive bargaining approach, there is the integrative bargaining approach that uses problem solving techniques to find win-win outcomes. This process does not reject conflict because the parties still must look out for their own interests. Rather, it transcends conflict by shifting from bargaining to problem solving. The focus shifts from reducing demands to "expanding the pie" (resources); from how the small pie is to be sliced toward how to bake a larger pie, so that both sides can increase their welfare. Ideally, the new satisfactions are bigger than the original demands so that whatever concessions the parties must make are perceived not as defeats but as "sacrifices to the common cause".

In a conflict bargaining situation, such mutually satisfying agreements do not come by easily. Usually, the person who does not demand is taken for a ride. People tend to 'walk over the fool' who leaves himself vulnerable. Bargaining often tends to concede small initial concessions and keeping this in mind, parties in a conflictful situation should proceed cautiously. In general, a combination of a 'cautious trust' showing readiness to extend cooperation and a firmness preventing partners from exploiting the cooperativeness seems to characterize persons who hammer out joint agreements in competitive situations. For integrative bargaining to flourish, certain conditions, however, should be present. These include parties, who are open with information, and candid about their concerns, a sensitivity by both parties to each other's needs, the ability to trust one another and willingness by both parties to maintain flexibility. Effective bargaining, above all requires cool rationality rather than emotional game-playing.

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17.14 THE NEGOTIATION PROCESS

Negotiation requires demands preparation, hard work and the ability to foresee the moves of the adversary and respond appropriately. One needs to have a game plan before one undertakes the journey. Such a game plan, inevitably, would involve the following steps:

Preparation

- ***Set realistic goals and the bargaining zone:*** At the outset you should be clear about what you want to achieve. This may mean three things: the best achievable outcome, the lowest—still acceptable—outcome and a realistic outcome which would compel you to settle for—as indicated in the bargaining zone model. When you are not losing much, you can be generous. You may in fact try to help the other party feel satisfied with the outcome. When you happen to lose lots of ground, you need to be firm and willing to say 'quits'. In negotiations, firmness and clarity of thought are the essential prerequisites. If you get confused or get angry too early, you may end up losing the grip over the issue completely. Those who have very little tolerance for ambiguity end up losing in a big way.
- ***Assess the adversary:*** Research evidence suggests that people having a similar background in terms of religion, caste, etc. or subscribing to the same ideology tend to cooperate with each other. Cultural differences may come in the way of understanding each other's moves. If you are able to get sufficient information about the other party's objectives, needs and interest in advance, you will be able to respond better.
- ***Tactics:*** Where to negotiate may be the first question to be answered. A neutral local location is preferable, because most negotiators prefer to conduct the show in places where they have a grip or feel comfortable. You need to pay attention to secretarial help and also seating arrangements, too, at this stage. Next issue is about the timing. Provide a time frame for everything. There must be sufficient time for critical analysis, discussion, and agreement. Always avoid starting negotiations on the spur of the moment. To be effective, the negotiators need a common understanding of what is to be discussed and why. The subject, scope and purpose, therefore, need to be agreed upon before negotiations kick off.

Discussion

- ***Give the mike to the other party:*** The very beginning is perhaps the most important element of any negotiation because it sets the tone for all that follows. It is a good idea to allow the other party to open the discussion. Before negotiations begin, you can come out with a brief sketch of the issue in question. Based on the opening moves made by the adversary, you can find whether the mood is cooperative or competitive. To this end, pose a lot of questions. The more information you can

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get from the other side the better. Look for factual errors, faulty logic, statistical misrepresentation, hidden agenda, etc.

- ***Your sales pitch:*** The convention is that you always demand more than you expect to get and offer less than you expect to give. Your opening position must leave enough time and space for you to manoeuvre subsequent moves to your advantage. As a matter of abundant precaution, you should resist the temptation of accepting the early offers made by the other party—however attractive they might be. At the same time you cannot be too liberal or too conservative in advancing your initial offers. When you turn extremely generous, people try to extract more juice out of you to maximize their own gains. When you hold up everything, it may take painfully long time to reach the comfortable zone where both parties are willing to settle the issue.
- ***Clarification and justification:*** After the initial offers get exchanged and parties begin to look at each other more closely, the period of clarification and justification begins. Both must try to explain, amplify, clarify, bolster and justify original demands in an accommodating and non-confrontational style. Both must try to inform and educate each other with lots of clarity, empathy and understanding.
- ***Frequency and size of Proposals:*** Frequency refers to the number of times proposals are advanced and size refers to the quantity/value of the proposals. You can straightaway make a large initial concession followed by several small concessions. Another way is to come out with several small concession followed by one big concession at the final stage. Alternatively, you can make uniform concessions throughout where size remains the same but the frequency is large. Better to avoid a high frequency of offers and counter offers, because that would confuse the parties and compel them to think about the next offer that's in the queue. When parties exhaust their gun powder after an emotional battle lasting several hours or days, they tend to make a concession, change their stand a bit and impatiently shout at the other: "Take it or leave it." Skilful negotiators drop names of influential people, use their expertise in coming out with novel solutions, and pin pointedly present the benefits of reaching an agreement or the prohibitive costs of not moving towards a solution. If the other party is equally tough and is not afraid to face the music and resists every move with a powerful counter move, then parties end up shaking their head in frustration.

Deadlock

When negotiations breakdown, both parties may quit the field and a deadlock may raise its ugly head. **Deadlock** or stalemate can arise due to a variety of reasons:

- Both parties have widely divergent objectives
- One party interprets firmness as rigidity and impatiently declares its unwillingness to make further concessions—even to keep the negotiation 'alive'
- As a deliberate tactic during a negotiation to force the other party to reconsider its position and make concessions
- You can overcome such painful outcomes by advancing a last minute offer unilaterally aimed at closing the deal, or seek third party intervention as in the case of labour management negotiations. When both parties fail to resolve issues to mutual satisfaction—third party intervention in the form of government officials, judiciary, general public, etc. step in to close the deal.

When parties realise that the outcomes are really beneficial to both parties, they may try to dissolve their differences and overcome last minute hurdles and move towards reaching an agreement. After all, the basic purpose of negotiation is to reach an agreement, not to score points in arguments. However, quick settlements may not put out fires easily. They may often favour someone who is skilful and experienced and the party that is at the receiving end may start the battle all over again.

Post-negotiation

Both parties must come out of the negotiation room in a positive frame of mind. The sacrifices made, the concessions extracted and the agreement reached and in fact every outcome that is likely to emerge out of the room is mutually agreed upon and beneficial to all. It is not a" tough guy" or "nice guy "approach but a kind of **win-win approach** where both parties have worked together to find ways that are mutually rewarding in the long run. Once the agreement comes in black and white, an action plan should take care of every aspect that has been agreed upon in terms of commitment of resources, careful monitoring and evaluation

17.15 SUMMARY

- Conflict may be defined as a process in which one party perceives that another party has taken or will take actions that are incompatible with one's own interests.
- Traditionally, conflict was looked as essentially bad and hence, avoided or suppressed. at all costs. The modern view of conflict is that it is neither good nor bad for organisations. In fact, a minimum level of conflict is essential to spur people to action.
- Conflict triggers can cause either constructive conflict or destructive conflict. Organisational performance suffers when the level of conflict is extremely high or extremely low. Moderate levels of conflict generally contribute to high organisational performance.
- Conflict can be examined from three broad angles: at the individual level, at the group level or at the organisational level.
- Intrapersonal conflict deals with conflict that is basically related to competing goals that an individual pursues and divergent role expectations.
- Interpersonal conflicts result in such cases where each person is jockeying to possess a scarce resource which may be a material thing or an immaterial state such s status, prestige, power, etc.
- Intergroup conflicts over authority jurisdiction and distribution are also exceedingly common in modern organisations.
- In addition to these conflicts, between organisations such as management-government; union-government; unions-management also show their ugly face time and again for various reasons.
- To put out fires, five different conflict resolution styles are followed: competing, avoiding, accommodating, compromising and collaborating depending on situational requirements.

- Negotiation is the process of bargaining between two or more interdependent parties to reach a solution that is mutually acceptable.
- Negotiation demands preparation, hard work and the ability and willingness to foresee the response of the adversary.
- To be useful, all agreements need to be implemented with lot of sincerity and commitment.

SELF ASSESSMENT QUESTIONS

1. 'Some people feel that conflict is necessary for organisational activity'. Explain why?
2. Bureaucracies are mechanisms that simultaneously resolve and stimulate structural conflicts. Do you agree or disagree? Discuss.
3. Discuss the benefits and wastes of interdepartmental conflicts. At what level of conflict do these benefits and wastes appear?
4. Is conflict at the organisation level inevitable? Why or why not?
5. Identify the various types of conflict.
6. How could a manager stimulate conflict in his department?
7. Under what conditions might conflict be beneficial to a group?
8. What are the components in the conflict process model?
9. While short notes on:
   (a) The process of negotiation
   (b) Conflict resolution styles
   (c) Line and staff conflicts
   (d) Inter-Group conflict
10. Explain what you mean by distributive bargaining and constructive bargaining. Why isn't integrative bargaining more widely practiced in organisations?
11. Would you consider an argument in which you disagreed with someone on which movie to go to a conflict? Use the conflict model to explain why or why not.
12. How do the traditional assumptions about organisational conflict differ from the modern assumptions? What implications do these new assumptions have for the management of organisational conflict?
13. Identify an organisational conflict situation of which you are aware the trace the causes?