স্কুল অব বিজনেস

SCHOOL OF BUSINESS

বাংলাদেশ উন্মুক্ত বিশ্ববিদ্যালয়

MBA 1301
Principles of Management

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MBA 1301

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Principles of Management (MBA 1301)

1. **Management - Science, Theory and Practice:** Definition of management, its nature and purpose: Managing: Science or art (The elements of science), Managerial skills and the organizational hierarchy. Functions of managers.
2. **The Evolution of Management Thought:** Frederick Taylor and scientific management, Followers of Taylor, Fayol. The emergence of behavioral science. The recent contributions to management thought: Changing environment of management, Social and ethical responsibilities of the managers.
3. **Planning:** Nature, Types and steps of planning, Importance of planning; Nature of objectives, Management by Objectives (MBO); Nature and purpose of strategies and policies. The strategic planning process, Major kinds of strategies and policies, Effective implementation strategies.
4. **Decision Making:** The importance and limitations of rational decision making, Decision making under certainty, Risks and uncertainty; The systems approach and decision making.
5. **The Nature and Purpose of Organizing - Basic Departmentation:** Formal and informal organization, Organizational division-the department, The structure and process of organizing, The span of management; Departmentation by time, Enterprise function, Geography, Product, Customer, Matrix organization.
6. **Line/Staff Authority and Decentralization:** Line and staff concepts, Benefits and limitations of staff: decentralization of authority, Degrees of decentralization, Delegation of authority, Factors determining the degrees of decentralization of authority, Making staff work effective, promoting an appropriate organisation culture, Contingencies in organizing.
7. **The Nature and Purpose of Staffing:** Definition of staffing, Purpose of staffing, An overview of the staffing functions: Situational factors affecting staffing, Skills and personal characteristics needed by managers, Recruitment, Selection, Promotion, Demotion and transfer.
8. **Human factors and Motivation:** Human factors in managing, Motivation and motivators; Special motivational techniques.
9. **Leadership:** Defining Leadership, Ingredients of leadership, Styles and functions of leadership, Trait approach to leadership, Situational or contingency approaches to leadership.
10. **Committees and Decision making:** The nature of committees, Reasons for using committees, Disadvantages of committees; The plural executive and the board of directors, Misuse of committees, Successful operation of committees.
11. **Communication:** Definition of communication, The communication process, Barriers and breakdowns in communication; Towards effective communication, Electronic media in communication.
12. **The System and Process of Controlling:** The basic control process, Initial control points and standards, Control as a Feedback system, Requirement for effective control; Control techniques - The budget, Traditional non-budgetary control devices.
13. **Comparative Management:** Special features of management Japan, China and Germany.

Preface

Principles of Management is primarily intended for the MBA students of Bangladesh Open University. It is written in modular form and is the first of its kind on management in Bangladesh. The lessons have been so designed that learners find them easy to understand.

The book has thirteen units comprising 42 lessons. We do not claim it to be an original contribution. Rather it should be regarded as a text book of ideas from various renowned authorities in management. We have also quoted from different text books on management usually followed by post-graduate students in our universities. Our endeavour has been to present the lessons in a very lucid manner so that they can be understood and assimilated by an average distance learner of the MBA programme within the stipulated period of a semester.

Each unit is almost equivalent to one chapter of a conventional text book and divided into three to five lessons. Each of them starts with "unit highlights" and ends with one "exercise" and a case study. In fact the lessons are like the lecture notes of a classroom teacher, each with "lesson objectives" to begin with and a "lesson-end assessment", at the end in the form of both essay type and multiple choice questions. We hope that self learners will not find much difficulty in understanding the lessons by themselves and will need only a little help from the tutor.

Because of a severe time constraint, we have had to make do with unit-end cases from conventional text books of western origin. We hope to develop cases extensively in the context of Bangladesh soon so that our MBA students can relate their learning to their immediate environment and reality.

We are grateful to the honorable Vice Chancellor of BOU, who gave us the most needed support for publication of this book. Dr. Masud Mahmood, Professor, Department of English, Chittagong University, has made us indebted by his untiring efforts in editing each and every lesson diligently and meticulously. We also acknowledge with thanks the services of Dr. Md. Mayenul Islam, Associate Professor in Management, School of Business, BOU for editing & style editing. We also thankful to Shaheen Ahmed, Assistant Professor in Management, School of Business, Bangladesh Open University for his best effort and impeccable editing. Our thanks are also due to Mr. A. Matin and Mohammad Wahiduzzaman Howlader, WPO of the School of Business, for doing their very best to complete the task of word processing on schedule.

We shall feel rewarded for our labour if both general readers and self-learners find this book worthwhile and useful.

Md. Mainul Islam
Abdul Awal Khan

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Introduction to Management

1

Unit Highlights

- Definition, Nature and Scope of Management
- Purpose and Importance of Management, Features of Management, Distinction between Management, Organization and Administration
- Managing: Science or Art? The Elements of Science in Managing
- Managerial Skills and the Organizational Hierarchy
- Management Process

এই পৃষ্ঠা খালি থাকবে

Unit-1 : Introduction to Management

Lesson 1: Definition, Nature and Scope of Management

Lesson Objectives

Upon completion of this lesson you will be able to:

- define management
- identify who is a manager
- state the nature of management
- elaborate the scope of management

Management is regarded as the most important of all human activities. It may be called the practice of consciously and continually shaping organisations. Each and every organisation has people who are entrusted with the responsibility of helping the organisation achieve its goals. Those people are called managers. No organisation can carry on its business without management, which is in turn supervised by managers.

Managing is essential to ensure the co-ordination of individual efforts within an organisation. It is exciting because it deals with setting, seeking and reaching objectives of an organisation. Each and every one of us is a manager and the practice of management is found in every facet of human endeavour-educational institutions, business, government or non-government organisations, associations, mosques and families. Whatever may be the type of endeavour and/or organisation, the managerial hurdles to overcome for setting and achieving objectives are surprisingly similar for all organisations.[1]

Management is a group effort to realise the organisation's policy objectives under the leadership of the manager.

Management is universal. Every group effort requires setting objectives, making plans, handling people, co-ordinating and controlling activities, achieving goals and evaluating performance directed towards organisational goals. These activities relate to the utilisation of four types of input or resources from the environment – human, monetary, physical, and informational. Human resources include managerial talent, labour, and so forth. Monetary resources are the financial capital the organisation uses to finance both ongoing and long-term operations. Physical resources include raw materials, office and production facilities and equipment. Information resources are data and other kinds of information utilised by the organisation.[2] The job of the manager is to combine and co-ordinate these resources to achieve the organisation's goals.

Managerial work harnesses and co-ordinates four types of resources: human, monetary, physical, and informational.

Definition of Management

Management has been defined by various authors/authorities in various ways. So, the definitions of management are numerous. Most of them have merit and highlight important aspects of management. A few often-quoted definitions are:

"The process of planning, organising, leading, and controlling the work of organisation members and of using all available organisational resources to reach stated organisational goals".[3]

All popular definitions of management emphasise the achievement of organisational goals through the maximum use of the organisation's resources with minimum waste

"Management is a distinct process consisting of activities of planning, actuating, and controlling, performed to determine and accomplish stated objectives with the use of human beings and other resources".[4]

"Management is the process of planning, organising, leading, and controlling an organisation's human, financial, physical, and information resources to achieve organisational goals in an efficient and effective manner".[5]

All these three definitions put emphasis on the attainment of organisational goals/objectives through deployment of the management process (planning , organising directing etc.) for the best use of organisation's resources.

Many of us are apt to define management as "getting things done through other people in an efficient manner." The term efficient means doing things in a systematic manner without waste. From this perspective of managerial efficiency, the most widely acceptable definition of management could be the act of "designing and maintaining an environment in which individuals, working together in groups, efficiently accomplish selected aims".[6]

At this stage, we need to understand who a manager is. In simple words, ***a manager is a person who is responsible for directing the efforts aimed at helping organisations achieve their goals.***

Nature and Scope of Management

The term management is very comprehensive. Its use is wide-spread and no organised effort can be successful without proper management. As a result, some form of management is found to exist in every type of human organisation.

Encyclopaedia of the Social Sciences states that there are three dimensions of the nature of management: (i) Methods, through which some pre-determined objectives can be reached, (ii) combined effect of human efforts and (iii) some total of all those managers and employees who are associated with these efforts. Joseph A. Lister has identified the nature of management as the co-ordination of (i) transformation, i.e., turning some factors and elements into products, (ii) social system, which satisfies employees' needs through motivation, communication and leadership, (iii) administrative system, through which the activities of the employees are controlled.

In a nutshell, the nature of management can be stated as follows:

- Management is a system comprising planning, organising, staffing, leading, and controlling.
- Elements of production of an organisation such as labour, capital, land, equipment etc. are used efficiently and effectively through management for achieving organisational goals.
- Management applies to any type of organisation.
- Management identifies a special group of people whose job is to direct the effort and activities of other people towards common objectives.
- It applies to managers engaged at all levels of organisation.
- Management is gradually turning towards professionalisation.
- Management has to pay attention to fulfilling the objectives of the interested parties.

- It has to render social responsibilities.
- Management is both science and art.
- The aim of all managers is to create a surplus.
- Managing is concerned with productivity, thereby implying efficiency and effectiveness.

The concept of management has broadened in scope with the introduction of new perspectives by different fields of study, such as economics, sociology, psychology and the like. The study of management has evolved into more than just the use of means to achieve ends; today it includes moral and ethical questions concerning the selection of the right ends towards which managers should strive.[7]

The perspectives of other disciplines have extended both concept and scope of management to include socio-economic and psychological points of view in the general definition of management.

Harbison and Myers[8] offered a classic threefold concept of management for emphasising a broader scope for the viewpoint of management. They observe management as (1) an economic resource, (2) a system of authority, and (3) a class and status system.

(1) As viewed by the economist, management is one of the factors of production together with land, labour and capital. As the industrialisation of a nation increases, the need for management becomes greater. The managerial resources of a firm determine, in large measure, its productivity and profitability. Executive development, therefore, is more important for those firms in a dynamic industry in which progress is rapid.

(2) As viewed by a specialist in administration and organisation, management is a system of authority. Historically, management first developed an authoritarian philosophy. Later on, it turned paternalistic. Still later, constitutional management emerged, characterised by a concern for consistent policies and procedures for dealing with the working group. Finally, the trend of management turned towards a democratic and participatory approach. Modern management is nothing but a synthesis of these four approaches to authority.

From the economic viewpoint, management is a factor of production. The administrative and organisational angle regards it as systemic, while the sociologist would like to view it in hierarchical terms.

(3) As viewed by a sociologist, management is a class-and-status system. The increase in the complexity of relationships in modern society demands that managers become an elite of brains and education. Entry into this class of executives is being more and more dependent on excellence in education and knowledge rather than family or political connections. Some scholars view this development as "Managerial Revolution".[9]

Lesson-end assessment

Essay type questions

1. What do you understand by management?
2. How would you define management?
3. Who is a manager?
4. State the nature of management.
5. Describe the scope of management.

Multiple choice questions

√ the most appropriate answer:

1. Management is essential:
   (a) everywhere
   (b) somewhere
   (c) only in the factory
   (d) in industry only

2. Definitions of management are:
   (a) almost similar
   (b) numerous
   (c) nearly similar
   (d) similar

3. The aim of all managers is to:
   (a) lead a better life
   (b) ensure profit to the owners
   (c) create a surplus
   (d) produce quality goods

4. Management is gradually turning towards:
   (a) civilisation
   (b) revolution
   (c) professionalisation
   (d) organisation

Lesson 2 : Purpose and Importance of Management , Features/ Characteristics of Management , Distinction between Management, Organisation and Administration.

Lesson Objectives

Upon completion of this lesson you will be able to:

- elaborate the purpose and importance of management
- describe the features/characteristics of management
- distinguish between management, organisation and administration

Purpose and Importance of Management

No enterprise can run without management. Some people may say that the main purpose of management is to make a profit. For most business firms, an important purpose is the creation of a surplus. Management is to establish an environment in which people can accomplish organisational goals with the least amount of time, money, materials and personal dissatisfaction or in which they can achieve as much as possible of a desired goal with available resources.[10]

The chief purpose of management is to achieve organizational policy objectives by ensuring unhindered progress and improvement of the organization through the maximum utilization of its resources to the best possible results.

Management can greatly affect not only an organisation but also the socio-economic and political goals of a country. Improving economic and social standards of living and creating a better political environment are the real challenges before modern management. The achievement of socio-political and economic targets in Bangladesh will depend on whether or not the management of the country can efficiently handle and contain the course of current and future events in the social, political and economic arenas.

Management makes human effort more productive. It brings better equipment, plant, offices, products, services, and human relations to our society. Effecting improvements and progress is its chief purpose. There is no substitute for good management. It is an essential social process. It is charged with the responsibility of taking action that will make it possible for individuals to make their best contributions to group objectives. Management thus applies to small and large organisations, to profit and non-profit enterprises, to manufacturing as well as service industries. Effective managing is the concern of the corporation president, the hospital administrator, the government secretary, the football manager, the college principal and the university Vice-Chancellor.

Management draws up plans, and motives and guides the employees for their best performance within the limits of the organization's available resources. It is sound management rather than only the resources that can keep the development process on track.

Nature has given us enormous resources. Most of these resources require managemental attention so that they can be used for the benefit of the society. Management is essential because it makes plans, directs employees and motivates them, co-ordinates the activities of all and ensures performance through control. It may so happen that an enterprise with a weak resource base may become successful with sound management.

Moreover, it is often heard that there are huge natural resources in countries like Bangladesh but it is due to the absence of proper management that they are being wasted. In many countries of Asia with a poor resource base, such as Japan, Singapore, Taiwan and the like, huge industrial development has not been possible without sound management. Research results also prove that the western economic giants like the USA and Germany could not have reached their present position without proper management. Conversely, the oil rich countries like Saudi Arabia, Iran or Iraq have failed to make any headway towards industrialisation because of the poor quality of their managerial capability.

In fact management is the most important of all resources. It is vital both at the micro and the macro level. It is essential for every enterprise, for every society, for every country. President Roosevelt once rightly said, "No ideology, no ism, no political theory can win a greater output with less effort from a given complex of human and material resources without sound management".[11]

There is no disagreement among scholars regarding the importance of management in using the factors of production for achieving desired results. Scientific and technological developments can bear no fruit without management. Thus the contemporary thrust is more on managerial development, than on scientific research. The use of information technology and computer software in management is an added impetus to the overriding importance of management. The only hope of countries with meagre natural and/or economic resources, is to improve management and ensure better life for their people.

Features/Characteristics of Management

For a clear understanding of management, its features/characteristics may be discussed as below:

(1) ***Management is usually associated with group efforts*****:** It is usual to associate management with a group. Although people as individuals manage many personal affairs, the group emphasis of management is universal. Each and every enterprise entails the existence of a group to achieve goals. It is now established that goals are achieved more readily by a group than by any one person alone.

(2) ***Management is accomplished through the efforts of others*****:** Management is sometimes defined as “getting things done through others’ efforts.” Besides the manager of a firm, there may be accountants, engineers, system analysts, salesmen and a host of other employees working but it is the manager’s job to integrate all their activities. Thus it can well be said that participation in management necessitates relinquishing the normal tendency to perform all things oneself and getting tasks accomplished through group efforts.

(3) ***Management is purposeful*****:** Wherever there is management there is a purpose. Management, in fact, deals with the achievement of something definite, expressed as a goal or objective. Management success is commonly measured by the extent to which objectives are achieved. Management exists because it is an effective means of getting the necessary work accomplished.

(4) ***Management is action-oriented*****:** Managers focus their attention and efforts on bringing about successful action. Successful managers have an urge for accomplishment. They know when and where to start, what to do for keeping things moving, and how to follow through.

(5) ***Management is intangible*****:** Management is often called the unseen force, its presence being evidenced by the results of its efforts - motivation among employees, discipline in the group, high productivity, adequate surplus etc. Conversely, the identity of management may also be felt by its absence or by the presence of its direct opposite – mismanagement. The consequence of mismanagement is anybody’s guess.

(6) *Management is indispensable*: Management can neither be replaced nor substituted by anything else. Even the computer which is the wonderful invention of the twentieth century can only aid but not replace management. We know that the computer is an extremely powerful tool of management. It can widen a manager's vision and sharpen his insight by supplying more and faster information for making key decisions. The computer has enabled the manager to conduct analysis far beyond the normal analytical capacities of man. But what happens in reality is that the computer can neither work by itself nor can it pass any judgement. The manager play his/her role by providing judgement and imagination as well as interpreting and evaluating what the information/data mean in each individual case.

(7) *Management can ensure better life*: A manager can do much to improve the work environment, stimulate people to perform better, achieve progress, bring hope and accomplish better things in life.[12]

Organisation, Administration and Management

The terms organisation, administration and management are often used interchangeably. Sometimes they are used to mean one and the same thing. But, for the student of management, a line of distinction needs to be drawn between them and the terms need to be delimited..

By ***organisation*** we simply mean the "collection, preservation and co-ordination of the elements of an enterprise in an integrated manner." It also signifies the bringing together of various resources of an enterprise into a harmonious whole. It is the primary job of an entrepreneur, and the existence of an enterprise cannot be conceived of without it. Scholars suggest that the pre-condition of success of any venture is proper organisation. As a matter of fact, it is organisation which ensures the employment of resources for the accomplishment of enterprise goals. The task of organisation is performed by the promoters and/or entrepreneurs themselves.

The function of organisation is to pull the resources of an enterprise together.

On the other hand, ***administration*** is the driving force of an enterprise which sets the objectives and formulates plans to achieve them. Administration also determines the principles for ensuring the effective performance of the activities of different divisions and branches of the enterprise. In a nutshell, administration is entrusted with the responsibility of making plans and providing leadership for achieving goals. In this sense administration may be viewed as top-level management and the chief boss. Thus the board of directors of a company or the syndicate of an university can be called the administrative organ, performing the planning and leadership functions for the whole enterprise/ institution.

Administration is entrusted with planning and effective execution of company policies through efficient leadership.

Management is primarily entrusted with the responsibility of executing the plans and policies set by the administration for achieving pre-determined goals and objectives. The success of an enterprise/institution is thus dependent on how efficiently the management can execute plans and policies set by the administration. Thus the administration cannot be successful without the co-operation of management. The job of each manager is, therefore, to win the co-operation of all those who work under him so that they work for enterprise goals set by administration.

The job of management is to ensure orderly and methodical accomplishment of the pre-set policy objectives of an enterprise.

Lesson-end assessment

Essay type questions

1. What are the purposes of management?
2. Is it true that management is the most important of all resources? Explain
3. Discuss the features/characteristics of management.
4. How would you distinguish management from organisation and administration?

Multiple choice questions

√ the most appropriate answer:

1. Industrially developed countries do have one common characteristic:
   (a) they are rich in natural resources
   (b) they are thinly populated
   (c) they have well developed management
   (d) they save a lot

2. Manager is one who:
   (a) does everything by himself
   (b) gets things done through the efforts of others
   (c) gives order to people
   (d) earns profit

3. An organiser is one who:
   (a) makes plans
   (b) assembles resources
   (c) executes plans
   (d) controls activities

4. Administration is concerned with:
   (a) executing plans
   (b) making plans
   (c) assembling resources
   (d) co-ordinating actions

Lesson 3: Managing: Science or Art? The Elements of Science in Managing

Lesson Objectives

Upon completion of this lesson you will be able to:

- Understand whether management is a science or an art.
- Explain the elements of science that exist in management.

Managing: Art or Science?

Managing like any other practices - whether engineering, accountancy, law or medicine - is an art.[13] Artistic application of management know-how is evident. It is understood that managing is doing things artistically in the light of the realities of a situation.[14] But a modern manager can do better by using the knowledge, methods, concepts, theories, etc. of managing at his/her work place. As a matter of fact, these knowledge, methods, concepts, theories related to managing can be treated as science.

Thus it may be said that managing in practice is definitely an art but the body of knowledge, methods, principles etc. underlying the practice is science. Even some people might opine that managing is an art struggling to become a science. As a matter of fact, the art and science of managing are not so much conflicting as complementary.

Managing as an Art

The art of managing is a personal creative power of the manager which is, more often than not, enriched by his skill in performance. In fact the art of managing involves the conception of a vision of an orderly whole created from chaotic parts and the communication and achievement of this vision. Managing is the "art of arts" because it organises and uses human talent.

Managing as a Science

Management science is a body of systematised knowledge accumulated and accepted with reference to the understanding of general truths concerning management.[15] It is true that the science underlying managing is inexact, or a soft science at best. It is not so accurate or comprehensive as physical sciences (such as chemistry or biology) which deal with non-human entities. The inclusion of the human element in managing makes this discipline not only complex but also controversial as a pure science. Human behaviour is unpredictable. Different people think, act or react differently under identical circumstances. So management can never become as pure a science as the physical sciences. Nevertheless, the study of the scientific elements in management methodologies can certainly improve the practice of management. Managers who attempt to manage without management science have to trust their intuition or luck at their peril rather than their expertise or skill. Thus they have to turn for meaningful guidance to accumulated knowledge of managing.

Management is not a pure science but it has scientific elements. Managers can improve their skill of management by studying the scientific approaches to their practice of management.

Managing as Both Science and Art

Science teaches us to know while art teaches us to do. In order to be successful, managers have to know and do things effectively and efficiently. This requires a unique combination of both science and art of managing in them. It may, however, be said that the art of managing begins where the science of managing stops. Since the science of managing is imperfect, the manager must turn to artistic managerial ability to perform a job satisfactorily.

The Elements of Science in Managing

Science is organised knowledge. The essence of science is the application of scientific method to the development of knowledge.

Scientific approach requires clear “concepts” - mental images of anything formed by generalisation from particulars.

“Scientific method” involves the determination of facts through observation. This leads to the development of “principles” which have value in predicting what will happen in similar circumstances.

Any branch of science has theories. A “theory” is a systematic grouping of interdependent concepts and principles that gives a framework to, or ties together, a significant area of knowledge.

Concepts, methods, theories and so on of management like those of the physical sciences help organise management knowledge. But they are not so inflexible as those of the sciences.

There is no denying the fact that management at the present day is a distinct field of organised knowledge. It is composed of concepts, methods, principles, theories etc. Concepts and methods of managing help the formulation of principles and theories of management. Principles of management are fundamental truths in managing, explaining relationships between two or more sets of variables. For example, the principle of unity of command states that the more often an individual reports to a single superior, the more likely it is that the individual will feel a sense of loyalty and obligation and the less likely it is that there will be confusion about instruction.

The theories of managing are the results of practice, and the role of such theories is to provide a systematic grouping of interdependent concepts and principles that furnishes a framework to, or ties together significant pertinent management knowledge. The theories of motivation, leadership, and so on may be cited as examples. But it is to be borne in mind that concepts, methods, principles of management are not as rigid as those of the physical sciences. They may undergo revision and change under new socio-political and economic circumstances.

Lesson-end assessment

Essay type questions

1. Is managing a science or an art or both? Explain.
2. Do you agree with the view that management is at best a crude science? Give your arguments.
3. Management is an art struggling to become a science. Discuss.

Multiple choice questions

√ the most appropriate answer:

1. The science of managing is:
    (a) like other physical sciences
    (b) not at all a science
    (c) fairly crude and inexact
    (d) a myth.

2. The many variables with which managers deal are:
    (a) very simple
    (b) extremely complex
    (c) predictable
    (d) controllable.

3. Managing as practice is:
    (a) an art
    (b) a science
    (c) both science and art
    (d) neither science nor art

4. Organised knowledge about management is:
    (a) a science
    (b) an art
    (c) both science and art
    (d) neither science nor art

Lesson 4: Managerial Skills and the Organisational Hierarchy

Lesson Objectives

Upon completion of this lesson you will be able to:

- Understand the different types of managerial skills
- Explain the relative skills needed for effective performance at different levels of management
- Discuss the sources of managerial skills.

Types of Managerial Skills

Robert L. Katz, a teacher and business executive, has popularised a concept developed early in this century by Henri Fayol, a famous management theorist[16] and father of modern management. Fayol identified three basic skills - technical skill, human skill and conceptual skill. Diagnostic skills and analytical skills are prerequisites to managerial success.

***Technical skill*:** Technical skill is the ability to use the specialised knowledge, procedures and techniques of a field of activities. Accountants, engineers, surgeons all have their technical skills necessary for their respective professions. Most managers, especially at the lower and middle levels, need technical skills for effective task performance.

Technical skill is required to perform a particular job in prescribed ways.

Technical skill enables a person to accomplish the mechanics of performing a particular job. This may be knowing how to maintain accounts, how to conduct a financial audit, how to construct a building or how to perform in the operation theatre.

Technical skills are important specially for first line managers, who spend much of their time training subordinates and supervising their work-related problems. In order to be effective as managers and also to command the respect of their sub-ordinates, they must first know how to perform tasks assigned to their subordinates.

Human skill is chiefly necessary for co-ordinating and maintaining relationships with people inside and outside the organisation for taking care of the human factors that exist in the organisational structure.

***Human skill*:** Human skill is the ability to work with, understand, and motivate other people as individuals or in groups. Managers spend much of their time interacting with people both inside and outside their organisations. We may recall here Mintzberg's explanation of how top (and middle) managers spend their time: 59 percent in meetings, 6 percent on the phone, and 3 percent on tours.[17] All of these managerial activities involve other people. Human skill includes the ability to work with others and get co-operation from people in the work group. This means, for example, knowing what to do and being able to communicate ideas and beliefs to others and understanding what thoughts others are trying to convey to the manager. Moreover, the manager with human knowledge and skill understands and recognises what views are brought to situations and in turn what adjustments in these views might be made as a result of working with associates.

The ability to understand others and communicate with people both inside and outside the organisation is of special significance to one who is called on to handle disturbances, allocate resources, and negotiate. As a matter of fact, the roles of leader, disseminator, negotiator and resource allocator require skill in motivating. This skill, for example, will help a manager to persuade a sales force to accept a raised sales presentation or win the co-operation of the group of angry subordinates.

It is, however, interesting to note that not all managers exhibit good human (interpersonal) skill. Managers, who are harsh with their sub-ordinates, would simply tend to increase personal turnover; moreover, it becomes increasingly difficult to replace those who leave. The other things being equal, the manager who has good human skill is likely to be more successful than the one with poor human skill.

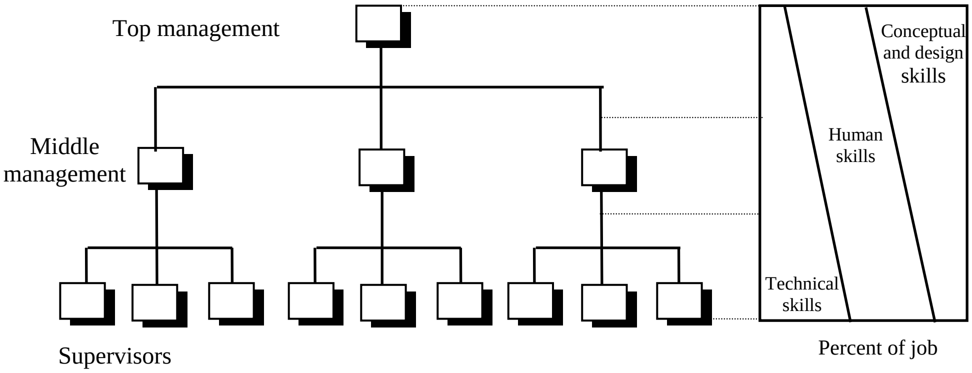
***Conceptual skill*:** Conceptual skill is the ability to co-ordinate and integrate all of an organisation's interests and activities. It requires having the ability to visualise the enterprise as a whole, to envision all the functions involved in a given situation or circumstance, to understand how its parts depend on one another, and anticipate how a change in any of its parts will affect the whole. Conceptual skills, in fact, depend on the manager's ability to think in the abstract and to view the organisation in a holistic manner. Conceptualisation requires imagination, broad knowledge and mental capacity to conceive abstract ideas. Applying this requirement may involve suggesting a new product line for a company, introducing computer technology to the organisation's operations or entering the international market. One example of conceptual skill may be that the managing director of a bank visualises the importance of better service for its clients which ultimately helps attract a vast number of clients and an unexpected increase in its deposits and profits.

Conceptual skill helps the manager conceive abstract ideas and foresee the organisation's future shape.

Relative Skills Needed for Effective Performance at Different Levels of Management

Fayol and Katz suggest that although all the skills i.e. technical, human and conceptual, are essential to a manager, their relative importance depends specially on the manager' rank in organisational hierarchy.

Figure: 1.1



Skills vary in importance at different management levels

SKILLS AND MANAGEMENT LEVELS

Source: Heinz Weihrich and Harold Koontz, "*Management: A Global Perspective*", Tenth Edition, p-7.

Technical skill is specially important for first line managers who spend much of their time training workers and answering questions about work-related problems.

Human skill, although important for managers at all levels, is specially needed by mid-level managers. Their ability to tap this resource of their subordinates is more important than their own technical proficiency.

Conceptual skill is mostly needed at the top level. In fact, the importance of conceptual skill increases as one rises through the ranks of management. At higher and higher levels of organisation, the full range of relationships, and the organisation's place in time are important to understand. This is where a manager must have a clear grasp of the total picture of what his/ her enterprise would look like in the remote future.

Other Skills of Managers

Besides the skills discussed so far, there are two other skills that a manager should possess, namely diagnostic skill and analytical skill.

Diagnostic skill helps locate trouble spots in an enterprise while *analytical* skill helps ascertain appropriate measures to solve problems. But neither of these two skills is the same as decision-making skill.

***Diagnostic skill*:** Successful managers are found to possess diagnostic skill. A manager can diagnose a problem in the organisation by studying its symptoms. For example, a particular division may be suffering from low productivity. With the help of diagnostic skill, the manager may find out that the division's supervisor has poor human skill. This problem might then be solved by transferring or training the supervisor.

***Analytical skill*:** By analytical skill we mean the manager's ability to identify the key variables in a situation, see how they are interrelated, and decide which ones should receive the most attention.[18] This skill enables the manager to determine possible strategies and to select the most appropriate one for the situation. Analytical skill is similar to decision-making skill, but analysis may not involve making an actual decision. For example, when selecting a site for a new plant, a manager may analyse the advantages and disadvantages of several sites and make a recommendation to the board of directors, which in fact takes the ultimate decision.

In short, diagnostic skill enables managers to understand a situation, whereas analytical skill helps determine what to do in the given situation.

Sources of Management Skills

There are primarily two sources of management skills viz. (i) education and (ii) experience. Some managers draw largely from one source or the other, whereas others rely on a combination of the two.

***Education as a source of management skills*:** The principal advantage of education as a source of management skills is that a student can follow a well-developed programme of study, thereby becoming familiar with current research and thinking on management. Moreover, most college and university students can fully devote their time, energy and attention to learning. They can acquire management skills in an academic setting.

In developed as well as developing countries, the number of enrolments in business schools and colleges has tremendously risen in recent years. More and more bright students are seeking degrees in management and administration. B.B.A. and M.B.A. programmes of universities, colleges and institutes have also been experiencing rapid growth, and they often attract students from diverse fields.

Moreover, the current trend is clearly towards formal education as a pre-requisite to business success. Non-business graduates, like engineers, architects, and so on have recently begun to take more and more business courses in an effort to enhance their job opportunities. Even though they have degrees in management, yet most of them have not stopped their academic education in management. Many of them periodically return to the campus to participate in management development programmes. Lower- and mid-level managers also take advantage of programmes offered by open universities under the distance mode.

With the advancement of modern technology, management requires highly qualified managers. Hence, the number of management students is increasing fast, and a great many of them are currently employed executives.

The most recent innovation in extended management education is the Executive MBA programme offered by business schools and institutes of business administration. Under this system, middle and top managers enrol on accelerated programmes of study on weekends.

In Bangladesh, as in most developing countries, most managers in the 70s or even in the 80s were without any degree, let alone a management degree. The most modern developments in information and computer technology, communication etc. have made them redundant as managers. Thus today's employers are very careful in employing only properly educated people in managerial positions.

***Experience as a source of management skills*:** Management education may be too general to make a manager successful in a specific field and herein comes the importance of experience as a source of management skill. In fact, for a variety of reasons, experience has no alternative for success in many managerial positions. Thus many managers get to the top because of their rich resources of experience in other jobs. By experiencing the day-to-day pressures and by meeting a variety of managerial challenges, a manager develops insights that cannot be learnt from a book. His hands-on experience is the invaluable treasure that none can acquire merely by reading books.

Practical experience makes academic education in management tested and foolproof.

Young and prospective managers can gather experience through a number of ways. Organisationally, they can be systematically assigned to a variety of different jobs. Over time they are exposed to most, if not all, of the major aspects of their organisations. In this way managers can perfect their required skills through experience. Both formal and informal training programs also help managers sharpen their job experience.

Lesson-end assessment

Essay type questions

1. What do you mean by managerial skill? Explain with examples the different types of skills required by a successful manager.
2. Would you describe, with the help of a diagram, the relative skills needed for effective performance at different levels of management?
3. Elaborate on the sources of management skills.
4. What do you understand by conceptual skill? Do you think education can improve the skill of a manager? Elaborate.
5. "Education can help improve the skills of a manager but experience has no alternative." Do you agree with the view? Discuss.
6. What is diagnostic skill? How is it different from analytical skill? Do you think both these skills are required of a manager?
7. Can you differentiate between technical skill and human skill? How can they be acquired?

Multiple choice questions

√ the most appropriate answer:

1. Technical skills are specially important for:
   (a) mid-level managers.
   (b) first line managers.
   (c) top level managers.
   (d) all managers.

2. Conceptual skill is the ability to:
   (a) work with others.
   (b) visualise the enterprise as a whole.
   (c) diagnose a problem.
   (d) identify the key variables in a situation.

3. A successful manager needs:
   (a) only technical skills.
   (b) only human skills.
   (c) only conceptual skills.
   (d) all the skills in right proportion.

Lesson 5: Management Process

Lesson Objectives

Upon completion of this lesson you will be able to:

- understand the process of management
- elaborate on the functions of managers
- understand what planning/ organising/ staffing/ leading/ co-ordinating/ controlling is.

Introduction

A process is a systematic way of doing things. We refer to management as a process to emphasise that all managers, irrespective of their aptitude or skill, engage in some inter-related functions in order to achieve their desired goals. In this lesson we will briefly describe the functions that comprise the process of management.

***1. Planning*:** Planning may be defined as making decisions in advance as to what is to be done in the future. It is a future course of action. It implies that managers think through their goals and actions in advance and their actions are based on some method, plan or logic rather than on hunch. Plans give the organisation its objectives and set up the best procedures for reaching them.

Planning involves selecting missions and objectives and the actions to achieve them, it requires decision making, i.e. choosing future courses of action from among alternatives. In short, planning means determining what the organisation's position and situation should be at some time in the future and deciding how best to bring about that situation. Planning helps maintain managerial effectiveness by guiding future activities.

Plans may be of various types (as elaborated in chapter 3) covering various time periods, and are usually set by top-level managers. Anyway, they are the guidelines by which (a) the organisation obtains and commits the resources required to reach its objectives; (b) members of the organisation carry on activities consistent with the chosen objectives and procedures; and (c) progress toward the objectives is monitored and measured so that corrective action can be taken if progress in unsatisfactory.[19]

Planning reflects the vision of an organisation. It means formulating the management's future course of action with a view to achieving the organisation's objectives and goals.

Planning involves a number of steps - the first step is the selection of goals for the organisation. The second step is the establishment of goals for each of the organisation's sub-units, departments, divisions etc. The third step is to establish programmes for achieving goals in a systematic manner.

Planning requires an ability to foresee, to visualise, and to look ahead purposefully. In short, planning is essential and is a fundamental function of management.

***2. Organising*:** Once a manager has developed a work plan, the next phase of management is to organise the people and other resources necessary to carry out the plan. Organising may be referred to as the process of arranging and allocating work, authority and resources among an organisation's members so they can

Organising includes arranging and distributing work, authority and resources among the members of the organisation in order to accomplish the goals best.

achieve the organisation's goals. In fact, organising involves work distribution which is guided by considerations for such things as component activities – the members of the group, and the physical facilities available. These component activities are so grouped and assigned that minimum expenditure or maximum employee work satisfaction is attained.

Organising produces a structure of relationships in an organisation, and it is through these structured relationships that future plans are pursued.

Organising, then, is that part of managing which involves establishing an intentional structure of roles for people to fill in an organisation. It is intentional in the sense of making sure that all the tasks necessary to accomplish goals are assigned to people who can do them best.

The purpose of an organisation structure is to help people create an environment for human performance. The structure must define the tasks to be done. The roles so established must also be designed in the light of the abilities and motivations of the people available.

However, designing an effective organisation structure is not an easy managerial task. Many problems are encountered in making structures fit situations, including both defining the kinds of jobs that must be done and finding the people to do them.[20] All these fall under the definition of organising, which is a fundamental function of management.

Staffing is the effective and efficient deployment of manpower across the organisation.

* *Staffing is related to organising* and it involves filling and keeping filled, the positions in the organisation structure. This can be done by determining the positions to be filled, identifying the requirement of manpower, filling the vacancies and training employees so that the assigned tasks are accomplished effectively and efficiently. The managerial functions of promotion, demotion, discharge, dismissal, transfer, etc. are also included with the broad task "staffing." Staffing is important because it ensures the placement of the right person at the right position and this, in fact, is closely related to "organising" as a function of management [details about organising is discussed in unit-6]

Leading draws all the members working in the organisation into an intimate relationship. The manager also persuades others to join in the common pursuit of the enterprise's future goals.

***3. Leading*:** Leading is an important job of the manager. It involves directing, influencing and motivating employees to perform essential tasks. To lead these people to contribute to organisation and group goals constitutes an essential function of the manager. In fact, the manager has to get on intimate terms with them if he wants to lead them successfully. The manager leads in an attempt to persuade others to join them in pursuit of the future that emerges from the planning and organising steps. By establishing the proper atmosphere, managers help their employees do their best.

Efficient managers need to be effective leaders. Since leadership implies fellowship and people tend to follow those who offer a means of satisfying their own needs, hopes and aspirations it is understandable that leading involves motivation (details are in unit-8), leadership styles and approaches (details are in unit-9), and communication (details are in unit-11).

* *Coordinating is also essential in leading.* Most authors do not consider it a separate function of management.[21] Rather they regard co-ordinating as the essence of managership for achieving harmony among individual efforts towards accomplishing group targets.

Co-ordinating helps achieving harmony among individual efforts towards accomplishing group targets.

Individuals in any organisation often interpret the same interests in different ways, and then efforts toward mutual goals do not automatically mesh with the efforts of others. Thus it becomes the central task of the manager to reconcile differences in approach, timing, effort, or interest and to harmonise individual goals to contribute to organisation goals.[22]

***4. Controlling*: The final phase of the management process is controlling. As the organisation moves toward its goals, management must monitor its progress. It must make sure that events conform to plans. Controlling involves measuring performance against goals and plans and helping correct deviations from standards. As a matter of fact, controlling facilitates the accomplishment of plans. Although planning must precede controlling, plans are not self-achieving. They guide the manager in the use of resources to accomplish specific goals. Activities are evaluated to determine whether they conform to the plans.

Controlling steers the organisation towards its goals according to the guidelines set by planning.

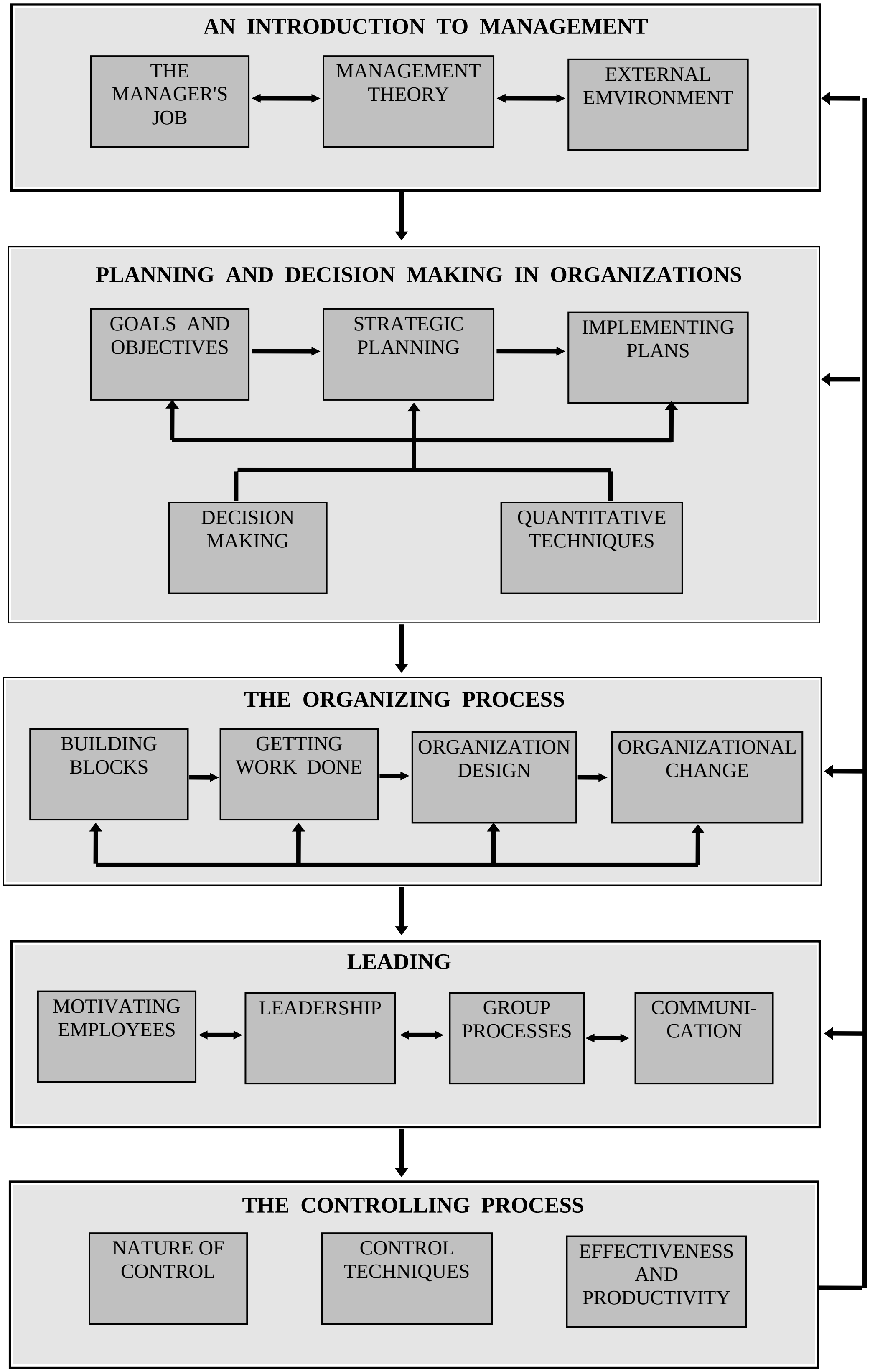
Through the controlling function, the manager keeps the organisation on track. Increasingly, organisations are establishing new ways to enhance the quality of the control function. One popular approach is Total Quality Management (TQM) which focuses management on the continuous improvement of all operations, functions, and, above all, processes of work. Meeting the customers' needs is a primary concern.[23]

It is clear that control activities generally relate to the measurement of achievement. Some means of controlling, like the budget for expenses, inspection records, and the record of labour hours lost, are generally familiar. Each measure also shows whether plans are working out. If deviations persist, correction is indicated. Whenever results are found to differ from planned action, persons responsible are to be identified and necessary actions are to be taken to improve performance. Thus outcomes are controlled by controlling what people do.

Controlling is the last but not the least important function of management. Thus it is rightly said, “Planning without controlling is useless.”

The process of management may be represented by the following diagram.[24]

Figure: 1.2


AN INTRODUCTION TO MANAGEMENT
THE MANAGER'S JOB
MANAGEMENT THEORY
EXTERNAL EMVIRONMENT
PLANNING AND DECISION MAKING IN ORGANIZATIONS
GOALS AND OBJECTIVES
STRATEGIC PLANNING
IMPLEMENTING PLANS
DECISION MAKING
QUANTITATIVE TECHNIQUES
THE ORGANIZING PROCESS
BUILDING BLOCKS
GETTING WORK DONE
ORGANIZATION DESIGN
ORGANIZATIONAL CHANGE
LEADING
MOTIVATING EMPLOYEES
LEADERSHIP
GROUP PROCESSES
COMMUNI-CATION
THE CONTROLLING PROCESS
NATURE OF CONTROL
CONTROL TECHNIQUES
EFFECTIVENESS AND PRODUCTIVITY

Management Process

Source: Griffin, "*Management*", Houghton Mifflin Company, Boston, 1984, p.11

Lesson-end assessment

Essay type questions

1. What do you mean by management process? Discuss.
2. Discuss the functions of management.
3. Why is planning important? What are the steps of planning? Can a manager do without planning?
4. What is organising? Can a manager be called a leader? Is it true that planning without controlling is useless? Discuss.

Multiple choice questions

√ the most appropriate answer:

1. The third step of planning is:
   (a) to establish programs.
   (b) to select goals for organisation.
   (c) to select goals for each of the organisation's departments/divisions.
   (d) to decide.

2. Control activities generally relate to:
   (a) improvement of profit.
   (b) measurement of achievement.
   (c) quality improvement.
   (d) leadership.

Exercise

1. Ask two managers you know of how they learned about managing. Ask what kinds of books they might have read on management. Probe to what extent these books have helped them to manage. Also ask them how their job differs from that of public administrators.

CASE 1-1

BISHOPS' PASTORAL

In 1984 the Catholic bishops issued statements about Catholic social teaching and the U.S. economy. The first draft was debated and criticized as being too negative about the free-market economy in the United States. A second draft was then issued that softened the tone, but the message was the same. Some of the key points are the following:

- Economic decisions must be made with due consideration as to whether they help all people.
- Government, corporations, and individuals must help to reduce the inequities created by the free market system.
- More resources should be allocated for helping the poor and the jobless instead of for military uses.

The purpose of the document is to influence governmental and individual decisions in a way that would bring about a more humane society. The poor, the latter suggests, have not adequately shared the economic resources, and the government has a role to play to bring this about.

These are some of the recommendations in the draft:

- Pursue fiscal and monetary policies that result in full employment.
- Support job-creating programs.
- Remove employment barriers for women and minorities through affirmative action and job training.
- Reform the welfare system to provide minimum levels of benefit for the poor.
- Support international agencies to reduce poverty in Third World countries.

Questions

1. What are the implications for managers?
2. How does the letter relate to the various managerial functions?

Source: Heinz Weihrich and Harald Koontz "*Management: A Global Perspective*" Tenth Edition, p-78.

For further study

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11. A. A. Khan and A. B. Siddique, *Baybasthapana* (Dhaka: Abir Publication, 1998), p.27.
12. Terry and Franklin, op.cit., p. 13-15.
13. Koontz, op.cit., p.12.
14. Ibid., p.12.
15. Terry, op.cit., p.6.
16. Stoner, op.cit., p.17.
17. Griffin, op.cit., p.19.
18. Ibid., p.21.
19. Stoner, op.cit., p.11.
20. Koontz, op.cit., p.21.
21. Ibid., p.22.
22. Ibid., p.22.
23. Stoner, op.cit., p.12.
24. Griffin, op.cit., p.11.

Historical Evolution of Management Thought

2

Unit Highlights

- ☐ Theories of Management and History Thereof
- ☐ Classical School of Management Thought
- ☐ Neo-Classical School of Management Thought
- ☐ Modern School of Management Thought

Unit-2 : Historical Evolution of Management Thought

Lesson 1 : Theories of Management and History Thereof, Classical School of Management Thought

Lesson Objectives

Upon completion of this lesson you will be able to:

- have a brief idea about management theories and history thereof
- define and explain scientific management
- discuss mental revolution as propounded by Frederick Winslow (F.W.) Taylor.
- discuss the universal theory or Operational Management Theory of Fayol
- identify industrial activities mentioned by Henry Fayol
- discuss Fayol's principles of management

Theories of Management and History Thereof

Both theory and history of management are useful to the practising manager. Theories help us by organising information and providing a systematic framework for action. A theory is also a simple blue print or a road map guiding the manager towards achieving organisational goals. The history of management theories can help a manager to be aware of the many insights, ideas and scientific underpinnings that have gone into the making of modern management and the burgeoning of writings on management at the present day.[1]

A good manager works with a sound consciousness of the historical development of modern management.

The practice of management started when man first attempted to accomplish goals by working together in groups. But the systematic study of management began at the advent of the Industrial Revolution which ushered in a new era of serious thinking and theorising on management. At this stage it is considered important and worthwhile to have some knowledge of the background of the evolution of modern management thought, for then the growth of modern thinking on management can be appreciated as the fruit of a long-going historical process and development.

To begin with, there is no single universally accepted theory. The wild array of management theories could even look like a “jungle” as Koontz says. However, to help put the different theories in perspective, we shall discuss them as representing different schools of management thought.

Management theories are too many for any single one to be universally acceptable.

Classical School of Management Thought

*Scientific Management and F.W. Taylor

Scientific management, according to an early definition, refers to “that kind of management which conducts a business or affairs by standards established by facts or truths gained through systematic observation, experiment, or reasoning.”[2] Promoters of this school of thought attempted to raise labour efficiency primarily by managing the work of employees on the shop floor.

Taylor used his firsthand experience to formulate his theory. The focus of his theory is to increase the efficiency of employees by moulding their thought and scientific management.

Frederick Winslow Taylor (1856-1915) is generally acknowledged as “the father of scientific management.” Because of an eye problem, he could not attend Harvard University. As a result he started working as a common labourer in a small machine shop in Philadelphia, USA. Later on he worked as an apprentice, a foreman, a master mechanic and rose to the eminence of a chief engineer of a steel company after obtaining a degree in engineering through evening study. This varied experience gave him ample opportunity to have firsthand knowledge and intimate insight into the problems and attitude of workers and to explore great possibilities for improving the qualities of management in the workplace. Wherever he worked, he found a very ineffective use of employees, unsystematic methods of work, utterly poor co-operation between management and labour. He also observed gross inefficiency, waste and widespread output restriction among workers which he termed “systematic soldering.” Hence Taylor committed himself to the relentless pursuit of “finding a better way” and developing and practising the “science” of work - the underlying laws or principles that govern various activities. He attempted to do it by using systematic study of time, motion and fatigue involved in work with a view to identifying the best way of doing a job.

Taylor’s major concern throughout his life was to increase efficiency which he considered the best recipe to serve the competing interests of both managers and workers for a larger share of a fixed economic pie. To him, solution lies in increasing size of the pie by raising productivity through scientific management. He called for a “mental revolution” or a radical change of mind among workers and management in order to fuse the interests of both groups into a mutually rewarding one.

Mental Revolution and Tylor’s Principles

Mental revolution, propounded by Taylor, was based on five vital principles:

(1) Replacing rules of thumb with science (organised knowledge).

(2) Obtaining harmony in the group action, rather than discord.

(3) Achieving cooperation of human beings, rather than chaotic individualism.

(4) Working for maximum output, rather than restricted output.

(5) Developing all workers to the fullest extent possible for their own and their company’s highest prosperity.[3]

Taylor's theory of scientific management gave rise to a host of disciples who took up the task of spreading the "gospel of efficiency." Carl Barth, Henry Gantt, Frank and Lillian Gilbreth, Harrington Emerson and Morres Cook are his prominent followers who made valuable contributions to the growth of management in a scientific manner. The essence of this school of thought is to make constant endeavour to find better means of management using scientific methods. Historically, it is associated with economic considerations such as cost-effectiveness, efficiency and productivity.

The essence of Taylor's scientific method is to manage an enterprise with the emphasis on economic considerations such as cost-effectiveness, efficiency and productivity.

*The Universal Process or Operational Management Theory and Henry Fayol

As one of the oldest and most popular approaches to management thought, Henry Fayol's theory holds that administration of all organisations – whether public or private, or "large or small" – requires the same rational process or functions. This school is based on two assumptions: first, although the objective of an organisation may differ (for example, business, government, education, or religion), yet there is a core management process that remains the same for all institutions. Successful managers, therefore, are interchangeable among organisations of differing purposes. Second, the universal management process can be reduced to a set of separate functions and related principles.[4]

According to Fayol, the same rational process is involved in the administration of any organization , and the process of management is reducible to a universal set of functions and principles.

It has rightly been said by some scholars that "perhaps the real father of modern management theory is the French industrialist Henri Fayol." Despite the belated appearance of his classic work, **Administration Industrielle et Generale**, in the English speaking world, Fayol's book has left a permanent mark on twentieth-century management thinking. A successful industrialist, Fayol headed a steel and coal combine in France. He is now considered the father of the universal process or operational-management theory, because he made universal generalisations about management based on his keen insight and practical management experience. As opposed to Taylor, Fayol endeavours to deal with "classical administration." He focuses his attention on the enterprise as a whole rather than on a single segment of it. He pioneered the concept of viewing management as being made up of functions, and his work supplied a comprehensive framework from which management could be studied and developed[5] He also repeatedly emphasised that his principles apply not only to business but also to political, religious, philanthropic, military and other undertakings.

Fayol views management as comprising functions that can roundly control an organization. His theory attempts to formulate a broad-based management that can equally apply to other institutions.

Industrial Activities Identified by Fayol

Fayol identifies the following six major activities of any industrial or business organisations:

(1) Technical (production and manufacturing);

(2) Commercial (buying, selling and exchanging);

(3) Financial (search for and optimum use of capital);

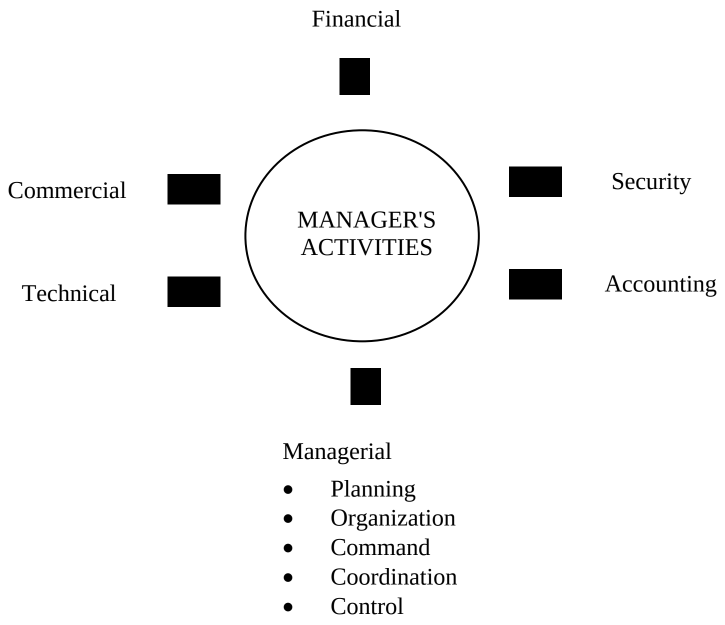
(4) Security (safeguarding property and people);

(5) Accounting (including statistics); and

(6) Managerial (planning, organisation, command, co-ordination and control)

While pointing out the existence of these activities in business of any kind or size, Fayol particularly stresses on the analysis of the sixth, devoting a substantial portion of his book (mentioned earlier) to this aspect of management. Weihrich and Koontz represent it in the following diagram.[6]

FIGURE 2-1



FAYOL'S ACTIVITIES IN INDUSTRIAL UNDERTAKING

Source: Heinz Weihrich and Harold Koontz "*Management: A Global Perspective* - Tenth Edition, p.37.

Fayol's Principles of Management

In addition to these six management activities, Fayol identifies fourteen universal principles of management which are aimed at showing managers how to carry out their functional duties. He himself followed them:

The crux of Fayol's principles of management is that management is a continuous process beginning with planning and ending with controlling.

1. ***Division of labour*:** This improves the efficiency of labour through specialisation, reducing labour time and increasing skill development.
2. ***Authority*:** This is the right to give orders which always carry responsibility commensurate with its privileges.
3. ***Discipline*:** It relies on respect for the rules, policies, and agreements that govern an organisation. Fayol ordains that discipline requires good superiors at all levels.
4. ***Unity of command*:** This means that subordinates should receive orders from one superior only, thus avoiding confusion and conflict.

5. ***Unity of direction*****:** This means that there should be unity in the directions given by a boss to his subordinates. There should not be any conflict in the directions given by a boss."
6. ***Subordination of individual interest to common good*****:** According to this principle, the needs of individuals and groups within an organisation should not take precedence over the needs of the organisation as a whole.
7. ***Remuneration*****:** Wages should be equitable and satisfactory to employees and superiors.
8. ***Centralisation*****:** Levels at which decisions are to be made should depend on the specific situation, no level of centralisation or decentralisation is ideal for all situations.
9. ***Scalar chain*****:** The relationship among all levels in the organisational hierarchy and exact lines of authority should be unmistakably clear and usually followed at all times, excepting special circumstances when some departure might be necessary.
10. ***Order*****:** Here Fayol means that there should be a place for everything (and everyone), and everything (and every one) should be in its place. This is essentially a principle of organisation in the arrangement of things and people.
11. ***Equity*****:** Employees should be treated equitably in order to elicit loyalty and devotion from personnel.
12. ***Stability of tenure*****:** Viewing unnecessary turnover to be both the cause and the effect of bad management , Fayol points out its danger and costs.
13. ***Initiative*****:** Subordinates should be encouraged to conceive and carryout ideas.
14. ***Esprit de corps*****:** Team work, a sense of unity and togetherness, should be fostered and maintained.

Fayol was of the opinion that the application of these principles should be flexible enough to match each specific organisational situation. Subsequently, however, the rigid application of these functions by managers came under criticism. But the fact remains that his contention that management is a continuous process beginning with planning and ending with controlling also remains popular today and can be found in nearly all management texts.

Lesson-end assessment

Essay type questions

1. Can you define scientific management? Discuss the background and focus of scientific management
2. Can F. W. Taylor be called the father of scientific management? Who were his close associates? Discuss mental revolution as enunciated by F. W. Taylor.
3. Can Fayol be called the father of modern management? Why the process of management is called universal?
4. What are industrial activities? How would you account for the development of universal process of management by Fayol?
5. Briefly describe the principles of management by Fayol.

Multiple choice questions

√ the most appropriate answer:

1. Promoters of scientific management attempted to:
   (a) increase profitability of business concerns
   (b) raise labour efficiency
   (c) improve industrial relations
   (d) reduce cost
2. Scientific management is historically associated with:
   (a) economic consideration
   (b) humanitarian concepts
   (c) human relation approach
   (d) psychological aspects
3. Fayol emphasised that his principles:
   (a) are unique
   (b) apply to industries only
   (c) are the best in office management
   (d) apply to all types of undertakings
4. As opposed to Taylor, Fayol endeavours to deal with:
   (a) office administration
   (b) classical administration
   (c) non-scientific management
   (d) productive efforts

Lesson 2 : Neo - Classical School of Management Thought

Lesson Objectives

Upon completion of this lesson you will be able to:

- understand the background upon which Behavioural and Human Relations approaches were developed.
- describe the contributions of Elton Mayo and his associates in the Hawthorne Studies.

Behavioural and Human Relations Approach

The criticism of scientific and administrative management as advocated by Taylor and Fayol respectively gave birth to the behavioural approach to management. They were criticised by several behavioural scientists for their indifference and insensitiveness to the human side of managemental dealings. Instead of taking a mechanistic view of workers as creatures with only economic needs, behavioural scientists came to consider them as people with social and psychological needs, too, such as recognition, respect, social contact, freedom and achievement. To them, a business organisation is a psycho-social system with primary focus on human side.

Taylor and Fayol are criticised for not considering the human sides of workers and employees in their theories.

A good number of sociologists and psychologists like Abraham Maslow, Hugo Munsterberg, Renesis Likert, Douglas McGregor, Frederick Herzberg, Mary Parker Follet and Chester Barnard are the major contributors to this school of thought, which is further subdivided by some writers into the Human Relations approach and the Human Behavioural approach, the latter being considered as a modified version of the former.

The Human Relations theory recognises the social and psychological factors.

By far the most important contribution to human relations school of thought was made by Elton Mayo and his colleagues through their famous Hawthorne study. According to them, employees do not only have economic needs, but also social and psychological needs, which are to be satisfied for motivating them.

McGregor, Likert, Chester Barnard, Kurt Lewin and others, classified as exponents of the Human Behavioural school, modified the Classical Human Behaviour approach of Mayo. They considered the human side of the enterprise as an interactive subsystem of the total organisational system. As distinguished from the classical human relations theory, the Human Behavioural school is devoid of the emotional content, and emphasises the synchronisation of group goals within the broader framework of management. It does not consider the goals of the different groups of employees and managers - as conflicting with each other, but rather co-operative.

The Human Behavioural school emphasises synchronisation of group goals.

The Human Relations theory of management arose out of reaction against the Scientific and universal management process theory of Taylor and Fayol respectively. Main criticisms levelled against them are their indifference to and neglect of the human side of the enterprise. Employees , according to their critics, were viewed as mere parts to be fused in the job structure disregarding their human needs and aspirations.

The Human Relations school views an organisation as a psycho-social system in which workers and employees are human beings in the first place.

While Taylor and Fayol view people at work merely as economic beings the Human Relations theorists emphasise the need for viewing them as social beings with social and psychological needs such as recognition, respect, achievement and social contact. This school regards a business organisation as a psycho-social system with much emphasis on the human side. The Human relations experts believe that management should recognise the need of employees for recognition and social acceptance. Therefore managers need not have only technical skill but also human relations skill to interact with their subordinates as human beings. Followers of this school believe that managers must know why their subordinates behave as they do and what psychological and social factors influence them. According to these theorists, since groups provide members with feelings of acceptance and dignity, management can look upon the work group as a potential productive force.

Elton Mayo and Hawthorne Studies

A good number of sociologists and psychologists like McGregor, Likert, Munsterberg Simon etc. contributed to the development of Human Relations School of Management. However Elton Mayo and Hugo Munsterberg are considered pioneers of this school. But by far the most important contribution to this school of thought was made by Elton Mayo and his associates through Hawthorne plant of the Western Electric Company between 1927 and 1932.

The human/ social factor plays a prominent role in the work place according to Mayo studies.

The findings of Mayo and his colleagues from Hawthorne studies led to the conclusion that a human/ social element operated in the workplace and that productivity increases were as much an outgrowth of group dynamics as of managerial demands and physical factors. Another important suggestion that came from the Hawthorne studies was that social factors might be as powerful a determinant of worker-productivity as were financial motives. Mayo found that informal work groups grew out of formal organisation with their own leaders, influence systems, norms for appropriate behaviour, and pressures for conformity to maximum and minimum acceptable levels of performance.[7]

Improvement of productivity, according to Mayo and his colleagues, is the result of such social factors as morale, satisfactory interrelationships between members of a workgroup, a sense of belonging and effective management. It is this kind of management with an understanding of human behaviour, particularly group behaviour, that serves an enterprise through such interpersonal skills as motivating, counselling, leading and communicating. “This phenomenon,” according to Weihrich and Koontz, "arising basically from people being noticed has been known as the **Hawthorne effect.**"

Mayo is criticised for overemphasis on the social/ human factor and for helping exploiting workers and employees by keeping them happy and satisfied.

The most important contribution of Hawthorne studies is that employees or workers are social beings, and work in organisations is not merely matters of machinery and methods but also of fitting them into a social system resulting in a complete socio-technical system. This led to the recognition of managers as people operating in a social system and they must have some knowledge or understanding of behavioural sciences as applied to management. In other words Mayo and his associates underscored the need for a greater and deeper understanding of the social and behavioural aspects of management.[8]

Critics of this school, however, point out that Mayo gave unreasonably heavy emphasis to the social or human side as against organisational needs. It is also criticised on the ground that this facilitates exploitation of employees by keeping them satisfied and happy manipulating their emotions which in fact, serve the management goal of increasing productivity.

Lesson-end assessment

Essay type questions

1. It is often said that the failure of scientific and administrative management as advocated by Taylor and Fayol respectively gave birth to the behavioural approach to management - Do you agree? Put your arguments.
2. Managers need not only technical skill but also human relations skill - Discuss.
3. Do you agree with the view that social factors are as powerful a determinant of worker productivity as are financial motives? Explain.
4. Can you give a critical appreciation of Hawthorne studies in the development of the Human Relations approach of Management.

Multiple choice questions

√ the most appropriate answer:

1. The Human Behavioural approach of Management:

(a) is devoid of emotional content

(b) considers financial incentive as important

(c) emphasises welfare of workers

(d) is based on scientific management

2. The Human Relations theorists emphasise the need for viewing workers as:

(a) people with innumerable needs to satisfy

(b) human beings

(c) cogs in the machine

(d) social beings

3. Mayo and his associates underscored the need for a greater and deeper understanding of the:

(a) economic needs of workers

(b) welfare of workers

(c) social and behavioural aspects of management

(d) democratic needs of workers

Lesson 3 : Modern School of Management Thought

Lesson Objectives

Upon completion of this lesson you will be able to:

- understand the nature and significance of the Systems Approach to management
- explain the development of the Social Systems Theory by Chester Bernard
- understand the Contingency Management Theory with a brief account of its evolution
- narrate the recent contributions to management thought.

Systems Approach to Management Thought

A system is a collection of parts that operate inter-despondently to achieve a common purpose. The parts of a system are sub-systems. These subsystems are functionally related to each other and to the total system. An organisation may, therefore, be viewed as a system made up of different parts in the form of departments or divisions. According to the Systems Approach school, management involves managing and solving problems in each part of the organisation. But this is to be done with the understanding that actions taken in one part of the organisation affect other parts of the organisation. In solving problems, therefore, managers must view the organisation as a dynamic whole, focusing on the inter-dependence and inter-relationship of the various subsystems from the point of view of overall effectiveness of the organisation.[9]

The Systems Approach is holistic.

Adherents of the Systems Approach consider universal process, scientific management and human relations theories as the study of management in fragments rather than in the round. These theories assume that “the whole is equal to the sum of its parts.” Systems theorists, in contrast, “study management by putting things together, and they assume that the whole is greater than the sum of its parts.”[10] To understand a system, it must be studied as a whole and instead of explaining a whole in terms of its parts, the parts should be explained in terms of the whole.

Chester I. Barnard, Ludwig Von Bertalanffy Russel Ackoff, Kenneth Boulding and William S'cott are among the writers who have influenced the Systems School of management.

Chester Barnard and Social Systems Theory

By far the most important contribution to this school has been made by Chester I. Barnard. His classic treatise entitled "**The Functions of the Executive"**, published in 1938, is considered by some management scholars as “one of the most influential books published in the entire field of management.”[11] Like Fayol, Barnard established a new approach to management on the basis of his life long experience as a top-level executive. But the approach of the former president of New Jersey Bell Telephone Company (1927-48) was different from Fayol's. Barnad devised a more abstract systems approach. In his "The Functions of the Executive," Barnard characterised all organisations as a co-operative system. Such a co-operative organisation is a system of consciously co-ordinated activities needed by individuals, to overcome his biological, physical and social limitations. According to him, "a Co-operative system is a complex of physical, biological, personal and social components which are in a specific systematic relationship by reason of the co-operation of two or more persons for at least one definite end." He emphasised the role of the individual and the importance of his co-operation as a strategic factor.

Barnard viewed willingness to serve, common purpose and communication as three important elements in an organisation (or a co-operative system). He considered that an organisation did not exist if these three elements were not present and working interdependently.[12] His analysis of the manager's job is really a social systems approach as Barnard looks for their major tasks in the system in order to understand and analyse the functions of executives where they operate. In determining their tasks (for all kinds of managers) which are to maintain a system of co-operative effort in a formal organisation, Barnard addresses himself first to the reasons for, and the nature of, co-operative systems.

Three important factors according to Barnard: willingness to serve, common purpose and communication

Barnard was an early pioneer of the Systems perspective. His work encouraged subsequent management and organisation theorists to study organisations as complex and dynamic wholes rather than piecemeal. Barnard led to the opening up of a promising horizon in the development of management thought.[13]

The Systems approach, too, has its critics. According to some management scholars, "Systems approach is long on intellectual appeal and catchy terminology and short on verifiable facts and practical advice." It is also criticised on grounds of complexity, particularly when it comes to the study of large and complex organisations. However, it may be said in conclusion that the "Systems approach is an instructive way of thinking rather than a collection of final answers to managing modern organisations."[14]

Contingency School and Recent Contributions to Management Thought

The Contingency Management theory evolved out of the Systems approach to managing organisations. The Systems approach advocates that managers recognise that organisations are systems comprising independent parts and that a change in one part affects the other parts, too. This insight is important. However, over and above this, managers should also see how the parts fit together to be more effective. The Contingency Approach can help one better understand their interdependence.[15]

According to the Contingency approach, management is circumstantial.

According to the Contingency approach, management is situational; no one best approach to management exists because each situation that a manager faces is too different. They are, however, of the view that situations are often similar to the extent that some principles of management can be effectively applied. But for that appropriate principles are to be identified. This can be done first by identifying the relevant contingency variables in the situation and then evaluating those variables.[16]

Contingency management takes situational factors into account for managing affairs in a given situation.

The major contributors to this school of thought are Mary Parker Follet, Fiedler, Frement, Kast, James Rosenzweig, Katz, Robert Kahn, Tom Burns, G.M. Stalker, Robert Lawrence and Richard Lawrence. This is perhaps the best approach as it encourages management to search for the correct situational factors for applying appropriate management principles effectively. To quote Ivancevich *et al*., "In essence, the contingency approach to management involves identifying the important contingency variables in different situations, evaluating the variables and then applying appropriate management knowledge and principles in selecting an effective approach to the situation." This is by far the best method for analysis as it encourages the manager to find out the situational factors most appropriate for effective management in all situations.

Different scholars from different disciplines at different periods of time in the history of industrial revolution, growth and development have contributed to the different schools of management. Each scholar has taken great pains to stress on his own point of view and point out weaknesses of other schools. This has created a lot of confusion which has been termed by Harold Koontz "The Management Theory Jungle." However every theory or approach highlights a particular aspect of management and helps managers address their tasks with a particular insight. As a relatively young and growing discipline, management has been undoubtedly benefiting from the contributions of all these schools of thought.

Recent Contributions to Management Thought

For Peter Drucker, the human resources are the best resources that an organisation can ever have, and the greatest success can be achieved by amicable relationship with subordinates.

Peter F. Drucker, W. Edwards Deming, Laurence Peter, William Ouchi, Thomas Peters and Robert Waterman and Peters and Nancy Austin are some of the most important contributors to management thought in recent times. Peter F. Drucker, a prolific writer on general management, is considered by some scholars to be a guru of modern management. He postulates three major tasks of management: (1) to decide the purpose and mission of the organisation; (2) to make work productive and (3) to manage social impacts and responsibilities. Drucker lays much emphasis on the second task which is "to make work productive and the worker achieving." To Drucker, the human resource is the only true resource of an organisation. In order that management can achieve maximum success, it must work effectively with subordinates. Drucker further suggests that a manager must be able to judge which technique is appropriate for a given situation.[17]

William Ouche, in his best-seller *Theory Z* (1981), shows how selected management practices of Japan may be advantageously adapted in the USA. It is an attempt to combine elements of Type A (American) and Type J (Japanese) organisations into a form appropriate to many contemporary American organisations to increase productivity in line with Japanese firms.[18]

Finally, by identifying eight attributes of some excellent companies, Thomas J. Peters and Robert H. Waterman in their book *In Search of Excellence* (1982) took the management world by storm. Its purpose is to explain what makes America's best run companies successful. Peters and Waterman did a good job in this book by reminding managers to pay closer attention to basic factors such as customers, employees and new ideas. Generally their findings are that excellent companies are relatively decentralised and value-driven. These organisations are also dedicated to the human treatment of employees, innovation, experimentation and customer satisfaction.[19]

Successful companies are dedicated to the human treatment of employees, innovation, experimentation and customer satisfaction

Lesson-end assessment

Essay type questions

1. Critically discuss the nature and significance of the Systems Management School.
2. Discuss in brief the contribution of Chester Barnard in the development of the Social Systems Theory of Management.
3. Can you narrate briefly the Contingency Management theory with its merits in modern industry?
4. Give a brief account of the recent contributions to management thought.

Multiple choice questions

√ the most appropriate answer:

1.Management, according to the Systems approach school, involves:
    (a) managing and solving problems in each part of the organisation
    (b) managing a system
    (c) management of people
    (d) systematic management

2.Barnard characterised all organisations as:
    (a) important
    (b) a co-operative system
    (c) economic
    (d) necessary
3.According to contingency Approach, management is:
    (a) important
    (b) difficult
    (c) situational
    (d) unnecessary

4.The only true resource of an organisation, according to P. F. Drucker, is:
    (a) capital
    (b) management efficiency
    (c) marketing
    (d) human resources

Exercise

1. Divide the class into groups. Each group should take a management approach, except the operational one and identify its major elements and its contribution, as well as its limitations. Each group should select a leader to present the findings of the group.

CASE 2-1

FRED DENNY

"The trouble with management as a field of study and practice", Fred Denny, a space physicist, said to his laboratory head, Claude Greenwood, "is that it has no scientific base. I feel I know what I am doing when I design a guidance system for a missile because I have the space, propulsion, and other sciences available to tell me what to do. But, when you ask me I am doing a good job as a supervisor of my engineering and technical team, there is nothing, no science of management, to guide me. In my reading of the books on management, I get the idea that managers must operate on a closed-system basis, that the best things managers can do are to be friendly, consult with their subordinates on every little thing, and develop strict rules and procedures so that no subordinate can make a mistake.

"As I think about it, Claude, I cannot see much science in management. And I wonder what good management books, articles, and management development courses are ever going to do any of us. Do we have to wait for centuries when a science of management, as an exact science like physics, is developed?"

Claude Greenwood, having been exposed to a number of management development seminars that had emphasized the usefulness and importance of management knowledge, was taken aback by Fred's outburst. But he was impressed that what his subordinate has said did make a lot of sense. He was, however, at a loss as to how to respond to Fred.

Questions

1. If you were Claude Greenwood, how would you respond to Fred Denny's statement?
2. What would you suggest to be done to make management more scientific?

Source: Heinz Weihrich and Harold Koontz, "*Management - A Global Perspective*", Tenth Edition, p.53.

For further study

1. Heinz Weihrich and Harold Koontz; *Management: A Global Perspective*, McGraw-Hill International Editions, Tenth Edition,1994.
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[3] Weihrich and Koontz, op. cit., p.33.

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[5] Jerry and Franklin, (Delhi: AITBS) pp. 22-23.

[6] Weihrich and Koontz , op. cit., p. 37.

[7] Randall B. Dunham and Jon L. Pierce; *Management*, (Scott, Foresmen and Company, 1989).

[8] Weihrich and Koontz, op. cit., p.42.

[9] Ivancevich, Donnelly, Gibson; *Management Principles and Functions*, p. 15.

[10] Kreitner, op. cit., p. 63.

[11] Weihrich and Koontz, op. cit., p. 43.

[12] Kreitner, op. cit., p. 64.

[13] Ibid, p. 64.

[14] Ibid, p. 67.

[15] Ivancevich et. al., op. cit., p. 17.

[16] Ibid, p. 18.

[17] Ibid, pp. 3, 21.

[18] Griffin, op. cit., pp.57-60.

[19] Kreitner, op. cit., pp.70-75.

Planning

3

Unit Highlights

- Planning: Meaning, Nature, Importance, Types and Steps
- The Strategic Planning Process: Strategy and Strategic Planning, Strategies as Guides, Features of Strategic Plans, The Strategic Planning Process, Effective Implementation of Strategies

এই পৃষ্ঠা খালি থাকবে

Unit-3: Planning

Lesson 1: Planning - Meaning, Nature, Importance, Types and Steps

Lesson Objectives

Upon completion of this lesson you will be able to:

- conceptualize planning and state its nature
- understand the importance of planning
- classify plans and discuss its types
- discuss the steps of planning

Meaning of Planning

Readers have already been introduced to five essential managerial functions, namely, planning, organising, staffing, leading and controlling. This is also the widely accepted conceptual framework of management. Planning is the most basic of all managerial functions. It is the process by which managers establish goals and define the methods by which these goals are to be attained. According to Weihrich and Koontz, "Planning involves selecting missions and objectives and the actions to achieve them; it requires decision making, that is, choosing from among alternatives future courses of action." It is, therefore, a rational approach to achieving pre-selected objectives.

Planning is required to set goals and determine methods of achieving them.

Management has to plan for long-range and short-range future direction by looking ahead into the future, by estimating and evaluating the future behaviour of the relevant environment and by determining the enterprise's own desired role. Planning involves determining various types and volumes of physical and other resources to be acquired from outside, to allocate these resources in an efficient manner among competing claims and to make arrangement for systematic conversion of these resources into useful outputs.

Good planning is done with both the present resources and the future ones to be acquired by the organisation in mind.

As it is clear from the above discussion, plans have two basic components: goals and action statements. Goals represent an end state - the targets and results - that managers hope to achieve. Action statements represent the means by which an organisation goes ahead to attain its goals. Planning is a deliberate and conscious act by means of which managers determine a course of action for pursuing a specific goal. Planning to a manager means thinking about what is to be done, who is going to do it, and how and when he will do it. It also involves thinking about past events (retrospectively) and about future opportunities and impending threats (prospectively). Planning enquires about organisational strengths and weaknesses and involves decision making about desired ways and means to achieve them. There are, however, differences between decision making and planning. Decisions can be made without planning but planning cannot be done without making decisions.[1]

Action statements delineate plans for pursuing goals in certain ways. Planning takes into account the organisation's past records, present status and future prospects.

Nature of Planning

The essential nature of planning can be understood by examining its four major aspects. They are: (1) its contribution to purpose and objectives, (2) its primacy among the manager's tasks, (3) its pervasiveness, and (4) the efficiency of resulting plans. Since plans are made to attain goals or objectives, every plan and all its support should contribute to the achievement of the organisation's purpose and objectives. An organised enterprise exists to accomplish group objectives through willing and purposeful co-operation.

Planning should be done in such a way that the rest of the managerial functions agree with it

That planning is the prime managerial function is proved by the fact that all other functions such as organising, staffing, leading and controlling are designed to support the accomplishment of the enterprise's objectives. Planning quite logically therefore comes first before execution of all other managerial functions as it involves establishing the objectives necessary for all group efforts. Also, all other managerial functions must be planned if they are to be effective. Likewise, planning and controlling are inextricably bound up. Control without plan is meaningless, because plan provides the basis or standard of control.

All managers must do some amount of planning, and plans must not only be effective but also be efficient. An effective plan relates to the organisation's purpose and objective while an efficient plan is mindful of cost, as well as individual and group satisfaction.

Planning is a unique and universal function of all managers. The character and scope of planning may vary with each manager's authority and with the nature of the policies and plans outlined by superiors, but all managers must have some function of planning. Because of one's authority or position in the managerial hierarchy, one may do more or less planning, but some kind or amount of planning a manager must do. According to Weihrich and Koontz, "All managers, from presidents to first-level supervisors - plan."

Plans should not only be effective, but also efficient. Effectiveness of a plan relates to the extent to which it accomplishes the objectives. The efficiency of a plan, however, means its contribution to the purpose and objectives, offset by the costs and other factors required to formulate and operate it. Plans are efficient if they achieve their objective at a reasonable cost, when such a cost is measured not only in terms of time, money or production, but also in terms of satisfaction of the individual or group.

Conceptually planning is necessary , because (i) it can make the most effective and efficient use of limited resources by cutting wastage; (ii) it can meet contingencies in the event of environmental upset.

Importance of Planning/ Why Should Managers Plan?

Both conceptual and practical reasons are put forward in support of planning. Two conceptual reasons supporting systematic planning by managers are limited resources and an uncertain environment. Resource scarcity is a very important consideration for any organisation today. There would be no need for planning if material, financial and human resources were unlimited and cheap. Planners in both private business and public agencies are challenged to stretch their limited resources through intelligent planning. Otherwise, wasteful inefficiencies would give rise to higher prices, severe shortages and great public dissatisfaction.

The second most important conceptual reason is that organisations continually face environmental uncertainty in the course of accomplishing their tasks. Organisations meet this challenge largely through planning safeguards. Some organisations do this job better than others partly because of their differing patterns of response to environmental factors beyond the organisations' immediate control.

Besides, managers have several practical reasons for formulating plans for themselves, their employees, and various organisational units, viz., (1) to offset uncertainty and change; (2) to focus organisational activity on a set of consciously created objectives; (3) to provide a co-ordinated, systematic road map for future activities; (4) to increase economic efficiency via efficient operation; and (5) to facilitate control by establishing a standard for subsequent activities.[2]

Types of Plans

Many different types of plans are adopted by managers to conduct operations, and monitor and control organisational activities. Three such most commonly used plans are hierarchical, frequency-of-use (repetitiveness) and contingency plans.

Hierarchical Plans

These plans are drawn at three major hierarchical levels, namely, the institutional, the managerial and the technical core.

Strategic plans generally involves planning at the top institutional level of an organisation. Strategic plans define the organisation's long-term vision and how the organisation intends to make its vision a reality. In short, strategic planning is the determination of the basic long-term objectives of an enterprise and the adoption of courses of action and allocation of resources necessary to achieve these goals. Strategies do not attempt to outline exactly how the enterprise is to accomplish its objectives, since this is the task of countless major and minor supporting programs. But they furnish a framework for guiding thinking and action.

Strategic plans are intended to design tactics in order to achieve long-term objectives.

Intermediate or administrative planning is done at the level of middle management. It is done to allocate organisational resources and co-ordinate internal subdivisions of the organisation. It is also a process of determining the contributions that sub-units can make with allocated resources.

Finally, **operational planning** is the process of determining how specific tasks can best be accomplished on time with available resources. This is also done to cover the day-to-day operations of an organisation. As such, many operating plans are designed to govern the workings of the organisation's technical core.

Frequency-of-use Plans

Plans can also be categorised according to frequency or repetitiveness of use. They are broadly classified as **standing plans** and **single-use plans**.

Standing plans are drawn to cover issues that managers face repeatedly. For example, managers may be facing the problem of late-coming quite often. Managers may, therefore, design a standing plan to be implemented automatically each time an employee is late for work. Such a standing plan may be called **standard operating procedure** (SOP). Policies, procedures, rules are some of the most common standing plans.

Policies allow managers use their discretion within limited areas.

Policies**:** In most cases, **policies** are standing plans. These are broad-based statements of understanding or general statement of intent. Policies define an area or provide limits within which decisions are to be made and ensure that the decision will be consistent with, and contribute to, an objective. Policies are types of plans that allow decision- makers some discretion to carry out a plan. Otherwise, there will be no difference between policies and rules. Policies must allow for some discretion.

Policies anticipate and forestall problems. They allow managers to deal with contingencies at their own discretion but within certain limits.

Policies help decide issues before they become problems, and make it unnecessary to analyse the same situation every time it comes up. It permits managers to delegate authority and still maintain control over subordinates about the matter. There are many types of policies. Instances are found in the policies of hiring only university-trained engineers, promotion from within, encouraging an employee suggestion system for improved organisational performance, setting competitive prices etc.

Some policies could originate from customary and general ways of behaviour in an organisation. Some of them are put in place through verbal statements or in writing. For example, there might be a policy in an organisation that "except for token gifts of very nominal value or advertising value, no employee shall accept any gift from any supplier." Such formal policies are usually written down in company manuals or regulations for employees.

Policies allow managers certain flexibility in dealing with their organisational problems. But, not being well-defined, policies can sometimes give rise to confusion.

Policy is a means of encouraging discretion and initiative, but within limits. The amount of discretion usually depends on the policy and the position and authority occupied in the organisation.

Since policies are general in nature, they provide guidelines as to how the employees will carry out their jobs. While policies provide managers with some flexibility in approaching various organisational problems, this generality again makes policies rather vague. Control becomes difficult when people start interpreting policy meaning and purpose differently.

Unlike policies, rules do not allow discretion.

Rules**:** Like policies, rules, too, are standing plans that guide action. Rules spell out specifically what employees are supposed to do or not to do. For example, the no-smoking campaign launched by some organisations is supported by some organisational rules. As opposed to policies, rules do not permit exercise of individual discretion. Instead, rules specify what actions will be taken (or not taken) and what behaviour is permitted or not. Policies, on the other hand, tell people how to think about decisions to be made about actions.

Procedures set the chronological order of steps to be followed for accomplishing tasks.

Procedures: Like rules, procedures are standing plans that provide guidance for action rather than speculation. They are plans that establish a required method of handling future activities. Procedures establish customary ways for handling certain activities: hiring a clerk, participating in a co-operative housing society, obtaining a loan from a bank. The major characteristic of a procedure is that it represents a chronological sequencing of events. It specifies a series of steps that must be taken to accomplish a task. Specified series of steps one required to take for admission in the MBA program of Bangladesh Open University is an example of procedure.

Single-use plans are prepared for single or unique situations or problems and are normally discarded or replaced after one use. Generally three types of single-use plans are used. These are programmes, projects and budgets.

Programmes: Programmes are plans of action followed in proper sequence according to objectives, policies and procedures. Thus a programme lays down the major steps to be taken to achieve an objective and sets an approximate time frame for its fulfilment. Programmes are usually supported by budgets. A programme may be a major or a minor one or long, medium or short term one. Since it is not used in the same form once its task is over it belongs to single-use plan category.

Programmes determine major steps and set time frames for achieving objectives.

Projects: A project is a particular job that needs to be done in connection with a general programme. So a single step in a programme is set up as a project. A project has a distinct object and clear-cut termination. "Projects have the same characteristics as programs but are generally narrower in scope and less complex. Projects are frequently created to support or complement a program."[3]

A project is a single step in a programme

Budgets: "A budget is a statement of expected results expressed in numerical terms."[4] It is sometimes called numerised programme and most commonly expressed in terms of money i.e. taka, dollar etc. They may also be expressed in terms of any measurable units like hours, metric tons etc. It covers a particular period of time, and once the period is over, a new budget comes into being.

A budget is a programme expressed in measurable units of money, weight, time, etc.

Contingency Plans

As we already know, the process of planning is based on certain premises about what is likely to occur in the environment of an organisation. **Contingency plans** are made to deal with situations that might crop up if these assumptions turn out to be wrong. Thus contingency planning is the development of alternative courses of action to be taken if events disrupt a planned course of action. A contingency plan allows management to act immediately, if such unforeseen events as strikes, boycotts, natural disasters or major economic changes render existing plans inoperable or unsuitable.[5]

Contingency planning is done to meet with unforeseen emergencies.

Steps in Planning

Usually the same steps are followed by managers in all the cases of planning. All of these steps taken serially results in a planning process. An effective planning process appears future oriented, comprehensive, systematic, integrated and negotiated. Minor plans are normally simpler in nature and therefore, some of the steps can be easily taken. For general application, the following practical steps are discussed along with a flow chart provided by management scholars, Heinz Weihrich and Harold Koontz."[6]

1. **Being Aware of Opportunities:** Awareness of opportunities in the environment both external to and internal in the organization is the real beginning point for planning. At this stage managers tend to create a foundation from which they will develop their plans for the next planning period. This awareness stage is considered by some managers as a precursor to the actual planning process instead of taking it as an actual part of the process.

At this stage, according to Weihrich and Koontz, "all managers should take a preliminary look at possible future opportunities and see them clearly and completely know where they stand in light at their strengths and weaknesses, understand what problems they wish to solve and why, and know what they expect to gain. Setting realistic objectives depends on this awareness"[7] It is a realistic exercise about the opportunity situation and in setting forth a vision of expected gains.

2. **Establishing Objectives :** Establishing specific objectives is the second step of planning. This involves determining goals or objectives for enterprise as a whole and then for each subordinate tier and unit.

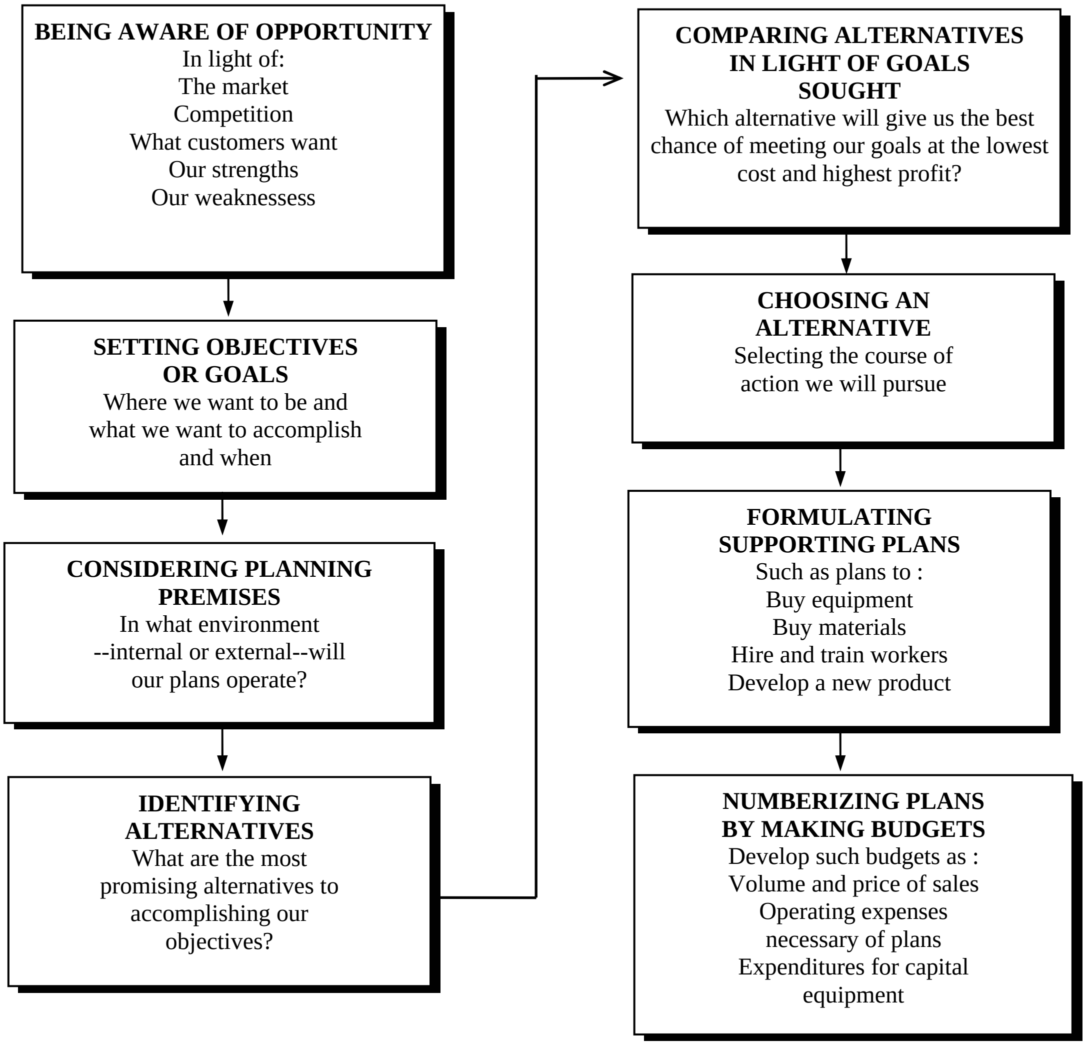
An awareness of opportunities in the context of strength and weakness helps one establish a reasonable goal and draw up an action statement. Establishment of objectives involves determining the same for the enterprise as a whole and for each subordinate level or unit. Many organizations, for example, consist of divisions, each of which is divided into departments which, in tern, may contain additional sub systems such as committees and work groups. Managers are therefore, required to develop an elaborate network of organizational plans to achieve the overall goals of their organization. A comprehensive planning to be effective requires that managers in each subsystem of their organization to be involved in the planning process. Objectives which are going to guide the course of the organization in future years to come, must be clear, concise and specific.

Objectives of enterprise act as direction to the major plans, which, by reflecting these objectives define the objective of every major department. Major department objectives, in turn, control the objectives of subordinate departments and so on down the line. In other words, objectives form a hierarchy. Managers should also have the opportunity to contribute and participate in setting objectives at their own level.

3. **Developing Premises :** The third step in logical sequence of planning is the establishment of the premises or assumptions on which action statements are built. The equality and success of any plan depends on the equality of the assumptions on which it is based. Even one wrong assumption can produce a poor or unrealistic decision. These assumptions are, in fact, about the environment in which the plan is to be carried out. That all the managers involved in planning tend to agree on the premises is very important. "The major principle of planning premises" according to Weihrich and Koontz, "is this : the more thoroughly individuals charged with planning understand and agree to utilize consistent planning premises the more coordinated enterprise planning will be."[8]

Forecasting plays an important role in premising. By means of forecasting organizations try to answer various questions about future expectations and action statements. Forecasting may be made on personal experience and expectation or systematic empirical research. Managers base their forecasts in both cases on assumptions. "Premising" according to Dunham and Pierce,"therefore, involves forecasting what is likely to happen inside and outside an organization. The forecasts go into the formulation of action statement to guide the organization in the future."[9]

Figure 3-1


BEING AWARE OF OPPORTUNITY
In light of:
The market
Competition
What customers want
Our strengths
Our weaknessess
SETTING OBJECTIVES OR GOALS
Where we want to be and what we want to accomplish and when
CONSIDERING PLANNING PREMISES
In what environment --internal or external--will our plans operate?
IDENTIFYING ALTERNATIVES
What are the most promising alternatives to accomplishing our objectives?
COMPARING ALTERNATIVES IN LIGHT OF GOALS SOUGHT
Which alternative will give us the best chance of meeting our goals at the lowest cost and highest profit?
CHOOSING AN ALTERNATIVE
Selecting the course of action we will pursue
FORMULATING SUPPORTING PLANS
Such as plans to :
Buy equipment
Buy materials
Hire and train workers
Develop a new product
NUMBERIZING PLANS BY MAKING BUDGETS
Develop such budgets as :
Volume and price of sales
Operating expenses necessary of plans
Expenditures for capital equipment

STEPS IN PLANNING

Source: Heinz Weihrich and Harold Koontz; *Management: A Global Perspective*, McGraw-Hill, 1993,p.131.

According to Dunhan and Pierce, there are two types of forecasts. One type involves predicting the consequence of a planned course of action. This type helps managers understand what an organization might expect to achieve as a result of a planned course of action. Second type of forecast helps managers to make predictions about environmental events likely to affect an organization's movement towards achieving its objectives. These forecasts are made to generate information for developing their action statements. Premising is based on this second kind of forecasting."[10]

4. **Determining Alternative Courses :** The fourth step is to search for and find out alternative courses of action, especially those not immediately apparent. At this stage managers decide how to move from their current position towards their decided future position. There is hardly a plan for which reasonable alternatives are not available. It is also found quite often that an alternative not considered as obvious, proves to be the best.

Finding alternative is not the problem normally. Reducing the number of alternatives in order to analyze and find out the best one is the problem. There is a limit to the number of alternatives that can be examined thoroughly, even with mathematical techniques and computer. At this, a manager usually draws upon research, experimentation, and experience to identify and develop a number of possible courses of action.

5. **Evaluating Alternative Courses :** Once alternative courses of action have been identified after seeking out alternative courses and examining their strong and weak points, they must be evaluated in light of how well each would help the organization reach its goals. Evaluating alternatives also includes determining the costs and expected efficiency of each. One course may appear to be the most profitable but it may require a large cash involvement with a slow pay back. Second one may look less profitable but that may be less risky. Still another third one may better serve the long-range objectives of the company.

Evaluation can be difficult because of uncertainty about the future, various intangible factors and inaccurate premises behind plans. Several techniques can be used by managers at this step. In fact, it is at this step in the planning process that operations research and mathematical as well as computing techniques can be primarily applied.

6. **Selecting a Course :** After identifying the alternatives and considering the merits of each carefully, managers now shall have to adopt a plan and select one course of action. A plan is adopted at this point and is , therefore, the real point of decision making. Two or more courses may appear to be advisable on occasional analyses and evaluation of alternative courses. Managers may decide to follow several courses instead of one best course.

7. **Formulating Derivative Plans :** Planning is not completed when a decision is made with the adoption of a general plan. Therefore, a seventh step is involved. Managers often still need to develop one or more supportive plans to bolster their basic plan and to explain the many details involved in reaching a broad major plan. It is clear, therefore, that derivative plans are essentially required to support the basic or general plan. Usually there are two kinds of derivative or supportive plans. The first one involves changes in existing supportive plans. These are derivative plans that have been in use, but now need modification to support a

new plan. "The second kind of subsidiary plan involves the creation of a new supportive plan. If, for example, an organization converted a plant from a traditional assembly line to one using a fully automated, computer-integrated manufacturing system, managers would need a new supportive plan for training employees to use the new equipment. They would need another new supportive plan for maintaining the new equipment."[11]

8. **Numbering Plans by Budgeting :** With decisions are made and plans are set, the final step to give meaning to them is to quantify them with numbers converting them into budgets. Budgets are sometimes called numerated programs which are most commonly expressed in terms of money. But they may also be expressed as hours worked, as units sold, or in any other measurable unit. An enterprise usually has overall budgets representing the sum total of income and expenses, with consequent profit or surplus. Each department of the enterprise or organization can have its own budgets, commonly of expenses and capital expenditures, which make up the overall budget.

"If done well" according to Weihrich and Koonz, budgets become a means of adding together the various plans and also set important standards against which planning progress can be measured.[12]

Lesson-end assessment

Essay type questions

1. What do you understand by planning?
2. State in brief the nature and importance of planning.
3. Why should managers plan?
4. What are different types of plans? Discuss them in brief.
5. Would you discuss the types of frequency-of-use plans in brief?
6. What do you mean by hierachical plan? Discuss its types.
7. Discuss in brirf the steps in planning.

Multiple choice questions

√ the most appropriate answer:

1. Planning is a deliberate and conscious act by means of which managers:
    (a) achieve their personal goals
    (b) can enhance production
    (c) determine a course of action for persuing a specific goal
    (d) can earn more profit

2. Effectiveness of a plan relates to:
   - (a) enhancing productivity
   - (b) the extent to which it accomplishes the objectives
   - (c) profitability of the enterprise
   - (d) the size of the enterprise

3. Strategic plans are intended to design tactics in order to:
   - (a) ensure maximum production
   - (b) high productivity
   - (c) serve the interests of both owners and managers
   - (d) achieve long-term objectives

4. Since policies are general in nature, they provide guidelines as to how:
   - (a) the mangers will act efficiently
   - (b) the enterprise will achieve its goal
   - (c) the employees will curryout their jobs
   - (d) profits can be maximised

Lesson 2 : The Strategic Planning Process

Lesson Objectives

Upon completion of this lesson you will be able to:

- understand the meaning and nature of strategy and strategic planning
- describe the features of strategic plans
- discuss the strategic planning process
- identify factors that may cause failure of strategic planning

Strategy and Strategic Planning

Strategy is a comprehensive concept and, for this reason, it is often used in different ways. But this difference creates a major problem when some writers focus on both the end points (mission, goals, objectives) and the means of achieving them (policies and plans), but the others emphasise the means only rather than the ends in the strategic process. **Strategy,** as has already been said, refers to the determination of the purpose or mission and the basic long-term objectives of an enterprise, and the adoption of courses of action and allocation of resources necessary to achieve these aims. Therefore, objectives discussed earlier are a part of strategy formulation.

Strategies and policies chiefly unify and give direction to plans.

Policies are general statements which guide managers' thinking to take decision. They provide a broad boundary within which decisions should fall. Therefore the essence of policy is discretion. Strategy, on the other hand, concerns the direction in which human and material resources will be applied with a view to increasing the chance of achieving selected objectives. The key function of strategies and policies is to unify and give direction to plans. But if one of them stand alone, can hardly ensure that an organisation will reach its goal.

Strategic planning takes into account factors external to the organisation.

Apparently strategic planning seems to be a simple exercise: analyse the current and expected future situation, decide the direction of the firm, and develop means for achieving the goal. In reality, it is a very complicated process that demands a systematic approach to identify and analyse factors external to the organisation and matching them with the firm's capabilities.[13]

Strategies as Guides

Effective frameworks for enterprise plans depend on a good understanding of strategies and policies.

Strategies and policies assist managers to plan properly by guiding them to make operational decisions. The basic principle of the strategy and policy framework, is as follows: the more strategies and policies are clearly understood and implemented in practice, the more consistent and effective will be the framework for enterprise plans. For example, according to Weihrich and Koontz, "if a company has a major policy of developing only new products that fits its marketing organisation, it will avoid wasting energy and resources on new products that do not meet this test."

Tactics are the action plans through which strategies are pursued and practised and implemented.

Strategic planning accounts for the organisation’s existence, strategic objectives and operational strategies.

A strategic plan guides decisions that ascertain and control organisational activities.

Strategies and policies, to be effective, must be put into practice by means of detailed plans embodying minutest of ingredients necessary for operation. These detailed plans, also called **tactics,** are the action plans through which strategies are pursued and implemented. Hence strategies must be supported by effective tactics.

Dunham and Pierce have defined strategic planning as the top management's active and conscious effort to design a plan in order to place an organisation within its external environment. A strategic plan outlines a long-term perspective for the organisation. It specifically states the organisation’s reason for existence, its strategic objectives, and its operational strategies.

A strategic plan of an organisation, therefore, answers a set of fundamental questions: what business is it doing or does it want to do in future? What kind of organisation is it or does it like to be? How is it going to conduct itself to achieve this strategic position? "A strategic plan, therefore, is a comprehensive framework that guides the decisions that determine the nature and direction of organisational activities".[14] For a broader and better understanding of strategic planning, the following three concepts need to be appreciated, viz. **organisational mission, strategic objectives** and **operational strategies**.

An **organisational mission** is a statement specifying the kind of business it wants to undertake. It puts forward the vision of management based on internal and external environments, capabilities, and the nature of customers of the organisation. Particular mission statement, however, does not necessarily state specific strategic objectives or operational strategies or tactics.

A **strategic objective** provides statements of definable and measurable achievements. Realisation of such achievements marks the fulfilment of an organisation’s mission statement.

Finally, **operational strategies** specify the actions that are to be taken in order to attain objectives. Therefore, operational strategies or tactics mean the same thing which are action plans designed to execute or implement strategies.[15]

Features of Strategic Plans

The following are some of the most important characteristics of strategic plans:

1. They are **long-term** in nature and place an organisation within its external environment.
2. They are **comprehensive** and cover wide range of organisation activities.
3. They **integrate, guide** and **control** organisational activities for the immediate and long-range future.
4. They set the **boundaries** for managerial decision making. Since strategic plans are the primary document of an organisation all managerial decisions are required to be consistent with its goals.

Strategic plans, thus, set forth the long-term objectives, intermediate objectives and main purpose or basic role of an organisation.[16]

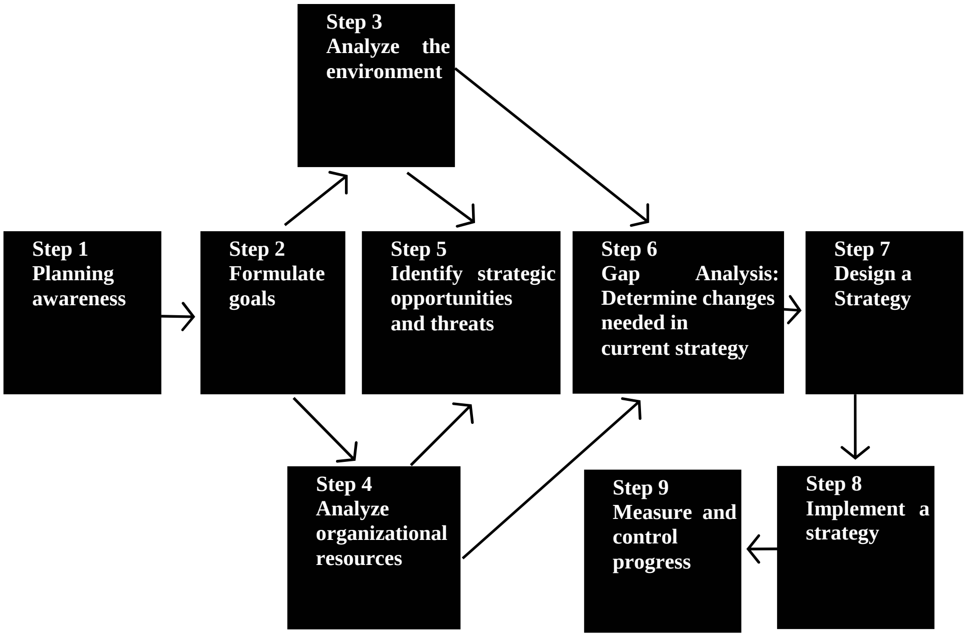
The Strategic Planning Process

It covers several steps, starting from the initial examination of the current state of affairs, through the preparation of a plan and down to the final checks on how the plan is affecting daily performance. These steps are discussed below:

Step-1: Planning Awareness: The first step in developing a strategic plan is to take stock of the existing situation: an organisation's current mission, its goals, structure, strategy and performance; the values and expectations of the major stake-holders and power brokers of the organisation and the environment in which the organisation exists and operates.

The first step in developing a strategic plan is to take thorough stock of the organisation's past and present missions, goals, performance, liabilities, and achievements.

FIGURE 3-2


Step 3
Analyze the environment
Step 1
Planning awareness
Step 2
Formulate goals
Step 5
Identify strategic opportunities and threats
Step 6
Gap Analysis: Determine changes needed in current strategy
Step 7
Design a Strategy
Step 4
Analyze organizational resources
Step 9
Measure and control progress
Step 8
Implement a strategy

THE STRATEGIC PLANNING PROCESS
Source: Dunham and Pierce,"*Management*",P.288

Commitments made in previous plans must also be reviewed at this stage. Such earlier commitments might have created groups with vested interests, allocated resources, and exerted other influences on decisions about the future. Former organisational missions are most likely to cause managers to establish commitments and groups which exert considerable influence on future decisions. The goals, strategy, structure, and organisational performance accompanying the current mission must also be examined. The organisation's current goals, methods used to achieve them and the rate of success in achieving them - all have a major bearing on the decisions to be made for the next round of strategic planning. A last element of the planning awareness is the understanding that managers must have knowledge about the environment of the organisation.

Goals can be affected by the attitude and taste of individual managers.

Step-2: Formulating goals: The second step for management to develop a strategic plan is to clearly spell out what an organisation wants to achieve in the future. Formulating goals demands from managers necessary affirmation and verification of reasons or justification of the organisation's existence, the definition of its mission or purpose, and establish strategic objectives. The beliefs, values and expectations of the dominant coalition of stake-holders tend to shape any new mission statement and concomitant goals and strategies. Managers vary in their attitude and expectation. For example, some managers are found more concerned about delivering new goods and services and, hence, give more importance on research and development goals. Managers aspiring to dominate the market would like to design goals in terms of acquisitions of and merger with other companies. Managers with social orientation and responsibility tend to set goals likely to produce favourable social effects along with profits.

In case of large organisations in particular, the process of goal development is complex. "Individuals and groups, both internal and external to an organisation, engage in a process of bargaining and out of this exchange organisational goals emerge. The relative power of these various stake holders in the organisation determines the nature and character of the bargaining process and the goals that ultimately emerge."[17]

Step-3: Analysing the external environment: Once the formulation of organisational goals is over, the next step is to look at the factors in the environment which might affect the management's ability to accomplish them. Scanning or assessing the environment is the process of collecting information from the external environment about factors having the ability to exert influence on the organisation.

In analysing the external nvironment only such factors are taken into account which might affect the organisational activities.

The assessment of environment is done on economic, social, political, legal, demographic, and geographic counts. In addition, the environment is scanned for technological developments, for products and services in the market and for other factors required to determine the competitive situation of the firm. The main purpose of an environmental assessment is to identify opportunities and threats to the organisation so that managers can develop a strategy to face them. This step may be taken along with the next step i.e. step four, analysing the internal environment or the organisation's own resources.

Internal environment analysis involves assessment of the strengths and weaknesses of the organisation' s inner resources in comparison with its competitors.

Step-4: Analysing internal environment (or own organisational resources): The analysis of internal environment or the organisation's resources from within identifies its present strengths and weaknesses by examining its internal resources. Audit and evaluation should be undertaken in matters of research and development, production operation, procurement, marketing, and products and services. Such other important internal factors as human resources and financial resources, the image of the company, the organisation's culture and structure and relations with customers should also be assessed.

The critical factor in an organisational analysis is a statement of what the organisation does better or worse than its competitors. Managers, in other words, must answer the question about their strength or weakness compared with their competitors so far as internal resources are concerned.[18]

Step-5: Identifying strategic opportunities and threats: Having the facts provided by assessment of the external and internal environments in steps three and four respectively, managers proceed to the fifth step. There they identify their opportunities to achieve their goals, on the one hand, and the threats that could hamper and halt them. Both these factors must be considered for effective strategic planning. In short, managers should use all the information provided by their scanning of both sides of the environment in the course of strategic planning that are likely to affect their organisation in the future.

Both opportunities and threats are to be identified.

Step-6: Performing gap analysis: Gap analysis identifies the expected gaps between where managers want the organisation to go and where it will actually go if they maintain the current strategy. Gap analysis helps to point out areas in which an organisation is likely to succeed , but its real value lies in identifying the limitations of the present strategy and pointing out the areas requiring change. Thus gap analysis helps determine the causes of the gaps and, most importantly, makes managers concerned about the issues to be seriously addressed in designing a new strategy - the core issue of step seven.

Gap analysis finds out about the gap between the intended results and the achieved results under the current strategy.

Step-7: Developing alternative strategies: At this step of the strategic planning process, managers are faced with the question of whether a new strategy is required and, if so, what kind of strategy it will be. If no gap is found from the above analysis (step six), there is hardly any problem. But gap analysis quite often tends to show that some changes in strategy are required. Hence managers as a matter of course have to identify new alternatives, evaluate each of them, and choose a new or an alternative strategy.

Alternative strategies allow revision of current strategies for reducing gaps between expected and actual results.

The nature and extent of gaps exercise considerable influence on the complexity of the process. Sometimes only minor adjustments in existing goals and strategy are required. For example, an image problem of the company might be rectified by some simple measures such as a change in advertisement or modernisation of equipment to expedite delivery of products or services. At other times, important changes in matters of organisational strategy become necessary. For example, an organisation may require to enter into a new market, redesign a product, or even merge with or acquire another organisation to face new and changing competition.

Finally various alternatives have to be carefully considered and evaluated before the choice is made. Strategic choices must be examined in the light of the risks involved in a particular situation. Although some opportunities appear to be profitable, they might not be pursued for the risk of failure and consequent bankruptcy of the company. Time is another critical factor in selecting a strategy. For example, even a vary high quality product may fail if it is introduced to the market at a wrong time.

Every strategy should be in tune with the attitudes, values and goals of organisation inmates.

Step-8: Implementing strategy: However good a strategic plan may be, it can not fully utilise its potential unless it is implemented effectively at each level of the organisation. A corporate level strategy must generate appropriate strategic plans for each unit of business. Within each business unit, supportive functional strategies must be developed. Again, as the overall strategy filters downward, managers at each level must follow the full strategic planning process in a similar manner and must develop in their turn, strategies for the major organisational divisions, subdivisions and each major functional area. Managers must also remember that a strategy must have the support of the employees at every level for its success. It is therefore important for the managers to give due consideration to the attitudes, values and goals of organisation members at the time of implementing a new strategy.

Managers need to keep regular tabs on work progress under a given arrangement.

Step-9: Measuring and controlling progress: At the last step, managers must evaluate the effectiveness of the strategy being pursued. Necessary checking should be done by management to see whether it conforms to the strategy that they designed in step seven and is achieving the goals that they set forth in step two. The results of the evaluation and control measures during this last step of the process inform managers about the actions required to enforce a strategy, which is not being followed or to revise or improve a strategy that is not working.

At this final stage managers can employ several criteria to measure the success of a strategy. Some of them are:

- **External consistency:** How far is the strategy helping the organisation to cope with the demands of the external environment?
- **Internal consistency:** Is the strategy using organisational resources to achieve the objectives set by management?
- **Competitive advantage:** Does the strategy enable the organisation to do things better than its competitors?
- **Degree of risk:** Is the risk involved in the strategy consistent with the organisation's expectations?
- **Contribution to society:** Is the strategy socially responsible?
- **Motivation:** Is the strategy contributing to the morale, motivation and commitment of the people in the organisation?

If the plan fulfils these above criteria at the final stage of the strategic planning process, managers might feel assured that the strategy is working well and according to their expectation.[19]

Effective Implementation of Strategies

Effective implementation of strategic planning does not require only the allocation of resources to accomplish goals. It must also be backed up by strategic ideas, which include having an appropriate organisational structure, an effective management information system, a system of budget facilitating the achievement of strategic objectives, and a reward system that supports the strategy.

The following are some of the important factors supposed to cause the failure of strategic planning:

1. Inadequate preparation for strategic planning on the part of managers.
2. The information for preparing the plans is not enough to prepare subsequent plans for action.
3. The objectives of the organisation are too vague to be of any use.
4. The business units (divisions, sub-divisions etc.) are not clearly distinguished or identified.
5. Reviewing of the strategic plans of various business units is not done in an effective manner.
6. Linkage between strategic planning and control is inadequate.

Strategic planning is especially the job of those line managers who sit at the top of the organisation. To assist them, particularly in large firms, staff planners may be employed. But line managers must be trained, if they are to do their job effectively.

The overall strategic plan also requires specific action plans to support and supplement it. This usually needs contributions of line managers from various functional departments like research and development, engineering, production, marketing, financing and personnel to develop action or operational plans in their respective areas to implement the broad strategic plan. If organisations are very large, they are quite often broken down into strategic business units (SBUs). They are supposed to operate in relative independence.

The overall strategic plan overseen by top-ranking managers needs to be backed up by the action plans of line managers in various functional departments. Competition among these departments should be harmonised so that the general interest of the organisation is not ultimately subverted.

But it is important to see that these relative independence does not result in conflict and competition among different units. It is for the top executive to harmonise and integrate this unit level strategic plans into a single and positive whole serving the overall interest of the company.

Without a plan no control is possible. Plan provides the basis for control. Quite often it is found that strategic plans and budgets are in conflict. This happens because in most cases budgets are based on the previous budgets, ignoring requirements of the strategic plan. Budgets are also frequently prepared without a definite action plan to carry out the strategy. In this context, we might appropriately quote Weihrich and Koontz to conclude our discussion on strategic planning:

".................. it is clear that strategic planning needs to be integrated with the total managerial process, such as the organisation structure; the appraisal, reward and motivational system; and the controls used to measure performance against objectives. This is just another illustration that effective management requires a system approach that recognises the independence of managerial activities."[20]

Lesson-end assessment

Essay type questions

1. How would you define strategy and strategic planning?
2. What are the features of strategic planning?
3. What concepts are to be appreciated for a better understanding of strategic planning?
4. What is meant by strategic planning process? Can you discuss the steps involved in the process?
5. How can you ensure effective implementation of strategies?

Multiple choice questions

√ the most appropriate answer:

1. Strategy concerns the direction in which human and material resources will be applied with a view to:
   (a) ensure maximum profit
   (b) enhance productivity
   (c) increasing the chance of achieving selected objectives
   (d) improve labour-management relations
2. Tactics are the action plans through which:
   (a) managers fulfill their objective
   (b) workers are controlled effectively
   (c) profits can be enhanced
   (d) strategies are pursued and implemented
3. An organizational mission is a statement specifying the:
   (a) amount of profit it wants to earn
   (b) kinds of business it wants to undertake
   (c) quantity of sales it wants to ensure
   (d) quantity of goods it wants to prduce
4. Strategic planning is specially the job of:
   (a) the mid-level executives of the organization
   (b) those line managers who sit at the top of the organization
   (c) the chief executive
   (d) the managing directors

Exercise

1. Ask a manager you know of about the planning process.

CASE 3-1

EASTERN ELECTRIC CORPORATION

Margaret Quinn, the president of Eastern Electric Corporation, one of the large electric utilities operating in the eastern United States, had long been convinced that effective planning in the company was absolutely essential to success. For more than 10 years she had tried to get a company planning program installed without seeing much result. Over this time she had consecutively appointed three vice presidents in charge of planning and, although each had seemed to work hard at the job, she noticed that individual department heads kept going their own ways. They made decisions on problems as they came up, and they prided themselves on doing an effective job of "fighting fires."

But the company seemed to be drifting, and individual decisions of department heads did not always tally with each other. The executive in charge of regulatory matters was always pressing state commissions to allow higher electric rates without having very much luck, since the commissions felt that costs, although rising, were not justified. The head of public relations was constantly appealing to the public to understand the problems of electric utilities, but electric users in the various communities felt that the utility was making enough money and that the company should solve its problems without raising rates. The vice president in charge of operations, pressed by many communities to expand electric lines, to put all lines underground to get rid of unsightly poles and lines, and to give customers better services, felt that costs were secondary to keeping customers off his back.

When a consultant called in at the request of Ms. Quinn looked over the situation, he found that the company really was not planning very well. The vice president of planning and his staff were working hard, making studies and forecasts and submitting them to the president. There they stopped, since all the department heads looked on them as impractical paperwork that had no importance for their day-to-day operations.

Questions

1. If you were the consultant, what steps would you suggest to get the company to plan effectively?
2. What advice would you give the company as and how far in the future to plan?
3. How would you suggest to the president that your recommendations be put into effect?

Source: Heinz Weihrich and Harold Koontz, "*Management - A Global Perspective*", Tenth Edition, p.140.

For further study

1. Heinz Weihrich and Harold Koontz, "Management: A Global Perspective", McGraw-Hill International Editions, Tenth Edition, 1994.
2. Griffin, "Management", Boston: Houghton Mifflin Company, 1984.
3. George R. Terry, Stephen G. Franklin, "Principles of Management", Delhi: ALTBS. Publishers & Distributors, Eighth Edition, 1997.
4. James A.F., R. Edward and Daniel R. Gilbert, Jr., "Management", Prentice-Hall of India Private Limited, Sixth Edition, 1997.

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[1] Randall B. Dunham et. al., *Management*. Scott, Foresmen and Company, 1989.

[2] Ibid., p. 170.

[3] Ibid.,p. 183.

[4] Weihrich and Koontz, *Management: A Global Perspective*,McGraw-Hill International Editions,1994, p. 128.

[5] Randall B. Dunham, op.cit, p. 188.

[6] Weihrich and Koontz, op.cit, pp. 129-133.

[7] Ibid. , p.130.

[8] Ibid., p. 132

[9] Dunhan and Peirce, op. cit., p. 178

[10] Ibid., p. 178.

[11] Ibid., p.180.

[12] Weihrich and Koontz, op. cit, p. 133.

[13] Ibid., pp.168 - 169.

[14] Dunham and Pierce, op.cit, pp. 279-80.

[15] Ibid, pp. 279-80.

[16] Ibid.

[17] Ibid, p. 289.

[18] Ibid

[19] Ibid, pp. 288 - 296.

[20] Weihrich & Koontz, op.cit, p.182.

Objectives

4

Unit Highlights

- ☐ Objectives: Definition and Nature of Objectives,
- ☐ Management By Objectives (MBO)
- ☐ Network of Objective

Unit-4: Objectives

Lesson 1 : Objectives: Definition and Nature of Objectives

Lesson Objectives

Upon completion of this lesson you will be able to:

- define objectives
- understand the nature of objectives
- describe network of objective

Definition of Objective

Although some theorists try to draw a fine distinction between goals and objectives managers usually use the terms interchangeably. Goals or objectives are considered important ends towards which organisational and individual activities are directed. An objective may be defined as a specific commitment to achieve a measurable result within a given time-period. According to many experts, objectives are the single most important feature of the planning process. All managers must be able to write good objectives, to be aware of their importance, and to understand how objectives combine to form a means-ends chain. According to Anthony P. Raia, an authority on Managing By Objectives (MBO), "as far as possible, objectives should be expressed in quantitative, measurable, concrete terms, in the form of a written statement of expected results to be achieved within a given period of time." In other words, objectives should represent a firm commitment to attain something specific. So a well written objective should state what is to be accomplished and when.[1]

An objective is a specific commitment to achieve a measurable result within a preset deadline.

The Nature of Objectives

Objectives mean end results, and overall objectives require to be supported by sup-projects. Thus, objectives tend to constitute a **hierarchy** as well as **a network**. A **hierarchy** ranges from a broad aim to specific individual objectives. The highest peak of the hierarchy is to contribute to the welfare of the people by providing goods and services at a reasonable cost. The next purpose of business might be to supply convenient and cheaper transportation for common people. The stated purpose might be to produce market and service automobiles.

Objectives make up a network and a hierarchy. A hierarchy ranges from a general aim to achieving specific targets. A good network of objectives is created by co-ordinating all individual objectives of an organisation.

The next level of the hierarchy constitutes more specific objectives, such as those in the vitally important result areas. These are the **key result areas** in which performance is essential for the success of the organisation. The following are some of the examples of objectives for key result areas: (a) to get a 10 percent return on investment by the end of the financial year 1998-99 (profitability); (b) to increase production of x products by 7 percent without increasing cost or reducing the current standard of quality by June, 1999 (Productivity). The objectives are then divided and delegated into division, department and section objectives down to the lowest level of the organisation.

A Network of objectives

Objectives and planning programmes need to be so orchestrated as to help serve the interests of individual departments without hindering the achievement of the organisation's overall targets in the long run.

If objectives or goals are not interconnected and if they are not mutually supportive, people are quite often likely to pursue paths that may seem good for their own respective departments but may be detrimental to the organisation as a whole. That is why both objectives and planning programs normally form a network of expected results and events. Goals and programmes constitute an interlocking network. The following figure depicts the network of contributing programs (each having its own appropriate objectives) that constitute a typical new product programme. "Managers must ensure that the components of the network "fit" one another. Fitting is not only a matter of having programmes implemented but also a matter of timing their completion, since taking up one program often depends on completing another first."

Goals of each individual department must be so set that while serving its own goal, do not conflict with or hamper the goals of the other departments. For example, the manufacturing department may see that long production runs tend to serve its goals best. But this might hinder the marketing department's intention to have all relevant products readily available or the goal of the finance department to maintain investment in inventory at a certain low level.

Lesson-end assessment

Essay type questions

1. What do you mean by objective? Discuss the nature of objective.
2. Can you describe the hierarchy and network of objective? Give an idea about network of objectives.

Multiple choice questions

√ the most appropriate answer:

1. An objective may be defined as a specific commitment to:
   (a) achieve efficiency of management
   (b) earn more profit for the enterprise
   (c) ensure its attainment
   (d) achieve a measureable result within a given time period

Lesson 2 : Management by Objective (MBO)

Lesson Objectives

Upon completion of this lesson you will be able to:

- discuss management by objective (MBO)
- discuss the MBO cycle/process
- describe the principles of evaluating performance

Management by objectives (MBO)

Management by objectives (MBO) is a comprehensive management system based on measurable and participatively set objectives. MBO is now widely practised all over the world. But, despite its large-scale application, the meaning of MBO is not yet always clear. To some people, it is an appraisal tool; others consider it a motivational technique, while others look upon it as an instrument of planning and control.

MBO is variously understood as an appraisal tool, a motivational technique and an instrument of planning and control.

Management by objectives (MBO) has been defined by Weihrich and Koontz as "The comprehensive managerial system that integrates many key managerial activities in a systematic manner and that is consciously directed toward the effective and efficient achievement of organisational and individual objectives."

Emphasising management by objectives was not initiated or originated by any single person. Such management has been dictated by the prudence or common sense of innumerable people. However, certain individuals have long placed emphasis on management by end results.

MBO is a comprehensive management system based on measurable and participatively set objectives. It has come a long way since it was first suggested by Peter F. Drucker in 1954 as a way of promoting managerial self-control. The common factor that has made MBO programs so popular in both management theory and practice is the emphasis on objectives that are both measurable and participatively set. MBO is a management technique for increasing employee involvement in the planning and controlling activities. Through involvement, it is believed that employee commitment to a planned course of action will be enhanced and performance will be more efficient.

MBO is collaborative in nature, and stresses on measurable objectives that are set by participation of all concerned. This management technique strengthens employee commitment and increases trust and co-operation among the inmates of the organisation.

Many variations are found in the practice of MBO. But basically it is a process through which goals, plans, and control systems of an organisation are defined through collaboration between managers and their subordinates. Jointly they identify common goals, define the results expected from each individual, and use these measurements to direct the operation of their unit and to assess individual contributions. In this process, the knowledge and skills of many members of the organisation are pressed into service. Instead of telling subordinates about their goals, managers ask subordinates to participate and decide about what their goal should be.

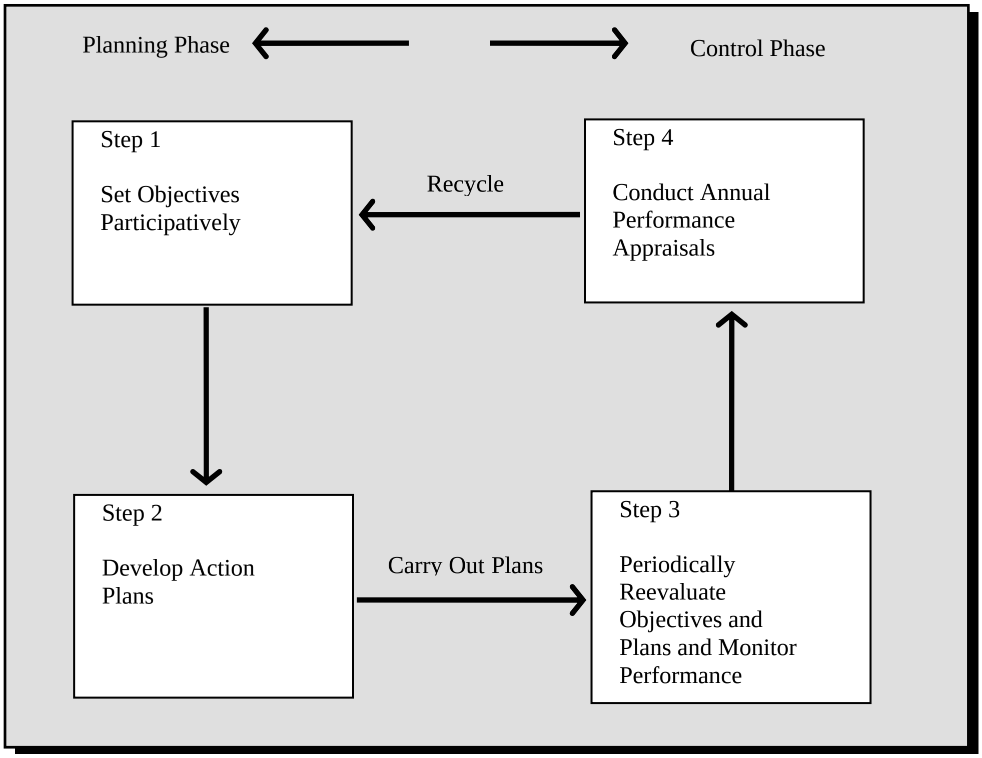
In MBO, the employee is asked of the ways by which the objectives set by his / her participation can be best achieved.

After setting up of an acceptable set of goals for each employee through a give-and-take collaborative process, the employee is asked to play a major role in devising an action plan for achieving these goals. In the final stage of the MBO process, employees are asked to develop control processes, to monitor their own performance and to suggest corrective measures if deviations from plans do occur. The entire process is a combination of planning and control.

The MBO Cycle

The four steps or stages of the MBO process are also called the MBO cycle. The four-step cycle illustrated below (Figure 4.5) lies at the very heart of MBO. Since MBO combines planning and control, the MBO cycle follows very closely the planning-control cycle.

FIGURE 4-1


Planning Phase
Control Phase
Step 1
Set Objectives Participatively
Recycle
Step 4
Conduct Annual Performance Appraisals
Step 2
Develop Action Plans
Carry Out Plans
Step 3
Periodically Reevaluate Objectives and Plans and Monitor Performance

THE MBO CYCLE

Source:Kreitner,,"*Management*",Third Edition, P.140

Steps 1 and 2 form the planning phase of MBO, and steps 3 and 4 are the control phase.

Step - 1: Setting objectives: A hierarchy of challenging, fair, and internally consistent objectives is the necessary starting point for the MBO cycle because it serves as the foundation for all that follows. All objectives, according to the principles of MBO, should be reduced to writing and kept aside for future reference during steps 3 and 4. Setting objectives under MBO starts at the top of the managerial pyramid and filters down, one layer at a time.

In contrast to an authoritarian manager or a passive one, the manager under the MBO system involves all the subordinates in setting objectives and achieving them.

The main contribution of MBO to the objective-setting process is its emphasis on participation and involvement of subordinates. There is no place in MBO for either a domineering manager ordering people or a passive manager leaving all at the discretion of the subordinates. Rather MBO calls for a negotiation of objectives between superiors and subordinates on a give-and-take basis.

Step - 2: Developing action plans: With the development of action plans and addition of these statements to the objectives participatively set, the planning phase of MBO comes to an end. Managers, at each level, tend to develop plans that incorporate the objectives established in step-1. It is the responsibility of higher managers to make sure that plans of their direct subordinates complement rather than conflict with one another.

Step - 3: Periodic review: Attention now turns to step-3 as plans go into action requiring the following-up and monitoring of performance. Face-to-face meetings between superior and subordinate at 3-, 6- and 9-month intervals should be held regularly. These periodic check-ups help to see whether a particular set of objectives is still valid or needs revision or updating under the changed circumstances. Periodic check-ups also provide managers with excellent opportunities to give subordinates required and well-considered feedback.

Step - 4: Performance appraisal: According to Kreitner, "at end of one complete cycle of MBO, typically one year after the original goals are set, the final performance is matched with the previously agreed upon objectives. The pairs of superior and subordinate managers who mutually set the objectives one year earlier meet face to face once again to discuss how things have turned out. MBO calls for emphasis on results, not on personalities or excuses." Kreitner further adds that the control side of the MBO cycle is completed when success is rewarded with promotion, incentive payments or other suitable benefits and failure is noted to take corrective action in the future. At the time of evaluating performance during steps 3 and 4, managers need to keep in mind the following behavioural principles:

Evaluation of performance and appropriate response to success and failure complete the control side of the MBO cycle.

Employee motivation increases when employees are allowed a role in decision-making and get recognition for their work, and when the organisation's interests fall in with their own.

Principle of participation: Motivation tends to increase with increased participation in decision making and objective setting.

Principle of feedback: Motivation tends to increase when employees know where they stand.

Principle of reciprocated interest: Motivation tends to increase when the pursuit of organisational objectives goes hand in hand with the achievement of personal objectives.

Principle of recognition: Motivation to achieve organisational goals or objectives tends to increase when employees are recognised for their contribution.

Layers of management should be gradually added to the MBO process.

The MBO cycle repeats itself, after every one round, each cycle contributing to the learning process. As a common practice, MBO starts at the top and introduces a new layer of management to the MBO process each year. Experience shows that adding several layers of management into MBO all at once frequently causes confusion, dissatisfaction and failure. Actually, five or more years are typically taken even for a moderate-sized organisation to evolve a full-blown MBO system that binds together such areas as planning, control, performance appraisal, and the reward system. Votaries of MBO believe that the natural by-products of a proper MBO system are higher productivity and greater motivation resulting from the use of realistic objectives, more effective control and self-control of the employees.[2]

Lesson-end assessment

Essay type questions

1. How would you describe Management by objective (MBO)?
2. Can you discuss the stages of the MBO process? Why MBO process is called MBO Cycle?

Multiple choice questions

√ the most appropriate answer:

1. MBO was first suggested by:
   (a) Harold Koontz in 1984
   (b) F. W. Taylor in 1912
   (c) Henry Fayol in 1915
   (d) P. F. Drucker in 1954
2. MBO is a management technique for increasing:
   (a) productivity and profitability of the enterprise
   (b) workers' involvement in work
   (c) employee involvement in the planning and controlling activities
   (d) efficiency of management

Exercise

1. Make a list of goals you wish to achieve in the next 5 years. Are they verifiable? Are they attainable?

Case 4-1

Developing Verifiable Goals

The division manager had recently heard a lecture on management by objectives. His enthusiasm, kindled at that time, tended to grow the more he thought about it. He finally decided to introduce the concept and see what headway he could make at his next staff meeting.

He recounted the theoretical developments in this technique, cited the advantages to the division of its application, and asked his subordinates to think about adopting it.

It was not as easy as everyone had thought. At the next meeting, several questions were raised. "Do you have division goals assigned by the president to you for next year?" the finance manager wanted to know.

"No, I do not", the division manager replied. "I have been waiting for the president's office to tell me what is expected, but they act as if they will do nothing about the matter."

"What is the division to do, then?" the manager of production asked, rather hoping that no action would be indicated.

"I intend to list my expectations for the division", the division manager said. "There is not much mystery about them. I expect $30 million in sales; a profit on sales before taxes of 8 percent; a return on investment of 15 percent; an ongoing program in effect by June 30, with specific characteristics I will list later, to develop our own future managers; the completion of development work on our XZ model by the end of the year; and stabilization of employee turnover at 5 percent."

The staff was somewhat stunned that their superior had thought through to these verifiable objectives and stated them with such clarity and assurance. They were also surprised about his sincerity in wanting to achieve them.

"During the next month I want each of you to translate these objectives into verifiable goals for your own functions. Naturally they will be different for finance, marketing, production, engineering and administration. However you state them, I will expect them to add up to the realization of the division goals."

Questions

1. Can a division manager develop verifiable goals, or objectives, when they have not been assigned to him or her by the president? How? What kind of information or help do you believe is important of the division manager to have from headquarters.
2. Was the division manager setting goals in the best way? What would you have done?

Source: Heinz Weihrich and Harold Koontz, "*Management - A Global Perspective*", Tenth Edition, pp.163-164.

For further study

1. Heinz Weihrich and Harold Koontz, "Management: A Global Perspective", McGraw-Hill International Editions, Tenth Edition, 1994.
2. Griffin, "Management", Houghton Mifflin Company, Boston, USA, 1984.
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4. James A.F., R. Edward and Daniel R. Gilbert, Jr., "Management", Prentice-Hall of India Private Limited, Sixth Edition, 1997.

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[1] Kreitner; *Management*, (Boston: Honghton Mifflin Company), pp. 133-34.

[2] Ibid, pp. 137-142.

Decision Making

5

Unit Highlights

- ☐ Decision Making: Nature and Significance of Decision Making, Rationality in Decision Making, Types of Decisions, Decision Making Conditions,
- ☐ Decision Making: The Process and Managerial Practices, Selecting Alternatives, The Systems Approach and Decision Making.

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Unit-5: Decision Making

Lesson 1: Decision Making: Nature and Significance of Decision Making, Rationality in Decision Making, Types of Decisions, Decision Making Conditions.

Lesson Objectives

Upon completion of this lesson you will be able to:

- understand the nature and significance of decision making
- discuss why decisions are taken?
- understand the significance of rationality in decision making
- discuss how decisions are made under conditions of uncertainty and risks

Nature and Significance of Decision Making

A manager faced with two or more feasible alternatives must decide which one to select. Decision-making is, therefore, the process of identifying a set of feasible alternatives and choosing a course of action from them. Weihrich and Koontz defined decision-making as the selection of a course of action from among alternatives. According to them, "it is the core of planning. A plan cannot be said to exist unless a decision - a commitment of resources, direction or reputation - has been made."

Decision-making is a step in planning but it occupies a major part and the core of planning. The process leading to a decision is completed in four phases: (1) planning, (2) identifying alternatives, (3) evaluating alternatives in terms of the goal sought, and (4) choosing an alternative, that is, making a decision.

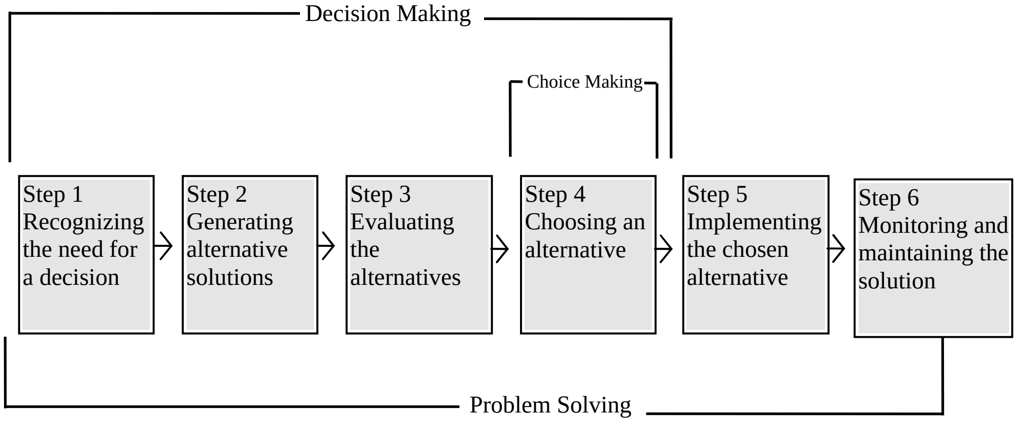
Decision-making is the core of planning.

Decisions are judgements which directly affect a course of action. An example will make the point clear. While still in the second year HSC (Science Group), Hasan had to decide what to do after passing the HSC examination — go to a general university to do a B.Sc. (Hons.) degree or seek admission in a Medical or an Engineering College or University? Hasan Mahbub collected information about a number of general and technical universities or institutes, reviewed the material, narrowed that list down to a number of alternatives, evaluated each alternative, applied to several such universities and institutes and then chose to attend Bangladesh University of Engineering and Technology or BUET. In other words, Hasan did not merely go to college. He made a decision to go to a particular institution. Many managers use the terms "choice-making," "decision-making" and problem-solving interchangingly. But in fact these are different. **Choice-making** refers to the narrow set of activities associated with choosing one option from a set of already identified alternatives. Choice making

Choice-making is the choosing of an option from a narrow set of already identified alternatives. On the other hand, decision-making begins by identifying a problem and ends with making a choice.

is involved when a manager selects one of five applicants to hire for a computer operator's job. **Decision making** is an intermediate-sized set of activities. It begins with problem identification and ends with choice making. Decision-making is necessary when a manager, faced with a large number of returned products due to defective production, (1) identifies three possible causes for the defective products, (2) concludes that the best way to deal with this problem is to have a quality-control inspector examine each product, and (3) selects an applicant to be appointed for the new quality-control job. Problem-solving refers to the broad set of activities that involves finding and implementing a course of action to correct an unsatisfactory situation. It includes not only decision-making but also the implementation, monitoring and maintenance of the decision.[1]

Figure 5-1


Decision Making
Choice Making
Step 1 Recognizing the need for a decision
Step 2 Generating alternative solutions
Step 3 Evaluating the alternatives
Step 4 Choosing an alternative
Step 5 Implementing the chosen alternative
Step 6 Monitoring and maintaining the solution
Problem Solving

Decision Making, Choice Making, and Problem Solving
Source: G.P. Huber (1980), *Managerial Decision Making*, Glenview, IL: Scott, Foresman, 8.

Rationality in Decision-Making

A very important issue in the subject of decision-making is rationality. What is rationality? When an effective decision is made rationally? Ideally people acting or deciding rationally must have a clear understanding of alternatives by which goals can be reached under existing circumstances and limitations. Also they must have the information and the ability to analyse and evaluate alternatives in the light of the objective set forth. Finally, they must have the willingness to come to the best solution by choosing the alternative that most effectively satisfies the accomplishment of the goal.

Rational behaviour in decision-making is possible if alternatives are clearly understood and analysed in the light of the objective and context, and information is adequate.

Rationality may be defined as an ability and willingness to follow a reasoned, unemotional and logical approach in perceiving the objectives and in evaluating the means through which objectives are to be achieved. In an objectively rational context, the decision-maker has a clear idea of the problem, opportunities and alternatives backed by complete knowledge about them. In the real world, it is very difficult to make decisions in a completely rational manner. Rationality is an ideal concept as rational decisions are very perfect and without any fault. But in real-life situations, several practical considerations are likely to interfere with the attainment of an ideal condition. In fact, rationality shows how the decisions should be made and not how decisions are actually made.

As has already been said, to assume rationality in its perfect sense is unrealistic and unrepresentative of actual human behaviour. March and Simon rightly say that people seldom achieve complete rationality, particularly in managing.[2] Nobel Laureate Herbert A. Simon coined the concept of "bounded rationalityy" or limited rationality taking into account the human and environmental realities. The principle of bounded rationality recognises the following realities of life:

A rational approach means an unemotional approach with the logical view of the given problem. But being idealistic in nature, it only provides a model for decision-making, but not necessarily a solution.

(a) As no one can make decisions affecting the past, decisions must operate for the future and the future almost in all cases involves uncertainties.

(b) The capacity of the human mind to perceive, retain and retrieve complete knowledge and information on past, present and future events is not unlimited. Again, information is neither readily available nor is it a free commodity. The cost of information collection vis-à-vis its reliability and relevance is an important consideration.

The concept of "bounded reality" takes practical situations in life into consideration, such as the limits and limitations of human intelligence and human emotionality before making decisions.

(c) It is difficult to recognise all the alternatives that might be followed to reach a goal, because of human cognitive constraints. It is neither necessary nor feasible to generate the entire set of alternatives. The computational capabilities of the decision maker are also limited. In most cases, not all alternatives can be analysed, even with latest analytical techniques and tools like computers.

(d) With all his knowledge and intelligence, the average decision maker has his own soft emotions. He can not completely shut off his subjective viewpoints from influencing the decision process.

Because of limitations mentioned above, a decision maker would rather be more interested in a choice which is satisfactory and sufficient. In other words, a manager must settle for limited rationality or "bounded" rationality. Since it is not possible for managers to be fully rational in practice, they sometimes compromise with their dislike of risks - their desire to "play it safe" - to interfere with the desire to reach the best solution under the circumstances. This has been termed "**Satisficing**", that is, choosing a course of action that is satisfactory or good enough under the circumstances.[3]

Types of Decisions

There are two basic types of decisions—programmed and non-programmed.

Programmed decisions are those that are traditionally made using standard operating procedures or other well-defined methods. These are routines that deal with frequently occurring situations, such as requests for vacations by employees. In routine situations, it is usually much more efficient for managers to use a programmed decision than to make a new decision for each similar situation. In programmed decisions managers make a real decision only once, when the programme is created. Subsequently, the program itself specifies procedures to follow when similar circumstances arise. The creation of these routines results in the formulation of rules, procedures and policies. Programmed decisions do not necessarily remain confined to simple issues, such as vacation policies or similar such things; they are also used to deal with very complex issues, such as the types of tests that a doctor needs to conduct before performing a major surgery on a patient with diabetes.

Programmed decisions usually deal with routine situations.

Non-programmed decisions deal with extraordinary situations.

Non-programmed decisions are unique. They are often ill-structured, one-shot decisions. Traditionally they have been handled by techniques such as judgement, intuition, and creativity. More recently decision makers have turned to heuristic problem-solving approaches in which logic, common sense and trial and error are used to deal with problems that are too large or too complex to be solved through quantitative or computerised approaches. In fact, many management training programmes on decision-making are designed to help managers think through problems using a logical, non programmed approach. In this way they learn how to deal with extraordinary, unexpected, and unique problems.

Decision-Making Conditions

Decisions are made under one of three conditions: **Certainty**, **Risk**, and **Uncertainty**. These conditions are based on the amount of knowledge the decision maker has regarding the final outcome of the decision.

Certainty

Under conditions of certainty, the manager can anticipate the outcome of decisions.

Under conditions of certainty the manager has enough information to know the outcome of the decision before it is made. For example, the managing director of a company has just put aside a fund of Tk. 10,00,000 to cover the renovation of all executive offices. This money is in a savings account at a local Sonali Bank that pays 7.50 percent interest. Half of the money will be drawn out next month and the rest when the job is completed in 90 days. Can the managing director determine today how much interest will be earned on the money over the next 90 days? Given the fact that the managing director knows how much is being invested, the length of investment time, and the interest rate, the answer is yes. Investment of the funds in a Sonali Bank branch is a decision made under conditions of certainty. The ultimate outcome in terms of interest is known today.

Risk

Decisions are made under conditions of risk when the manager has to make decisions without complete knowledge of the outcome of decisions.

Most managerial decisions are made under conditions of risk. Risks exist when the individual has some information regarding the outcome of the decision but does not know everything when making decisions under conditions of risk, the manager may find it helpful to use probabilities. To the degree that probability assignment is accurate, he or she can make a good decision.

Let us consider the case of a company that has four contract proposals it is interested in bidding on. If the firm obtains any one of these contracts, it will make a profit on the undertaking. However, because only a limited number of personnel can devote their time to putting bids together, the firm has decided to bid on one proposal only - one that offers the best combination of profit and probability that the bid will be successful. This combination is known as the *expected value*. The profit associated with each of these four contract proposals, as presented in Table 1, varies from Tk. 100,000 to Tk. 400,000. Notice that the contract offering Tk. 400,000 is the least likely to be awarded to the company, but it offers the smallest profit of the four. On which of the proposals should the firm bid? As the table shows, the answer is number three. It offers the greatest expected value.

TABLE 5. 1: Computation of Expected Values

Contract Proposal	Profit Tk.	Probability of Getting the Contract	Expected Value Tk.
1	100,000	.6	60,000
2	200,000	.5	100,000
3	300,000	.4	120,000
4	400,000	.2	80,000

This example illustrates the importance of probability assignment when decisions are made at a risk. If we reversed the probabilities so that proposal no.I had a 20 percent success factor and proposal no. 4 had a 60 percent success factor, the manager would opt for the latter proposal. The effective manager must investigate each alternative in order to be as accurate as possible in making probability assignments.

Uncertainty

Uncertainty exists when the probabilities of the various results are not known. The manager feels unable to assign estimates to any of the alternatives. While the situation may seem hopeless, mathematical techniques have been developed to help decision makers deal with uncertainty. Some of these are heavily quantitative in nature and are outside the scope of our present consideration. Some nonmathematical approaches have been developed to supplement these techniques, however, and they do warrant brief discussion. One is simply to avoid situations of uncertainty. A second is to assume that the future will be like the past and assign probabilities based on previous experiences. A third is to gather as much information as possible on each of the alternatives, assuming the fact that the decision-making condition is one of risk, and assign probabilities accordingly.

Uncertainty remains in decision-making when the manager does not know anything about outcome of the decision to be taken because of a lack of information. Under this condition, mathematical techniques are fallen back upon.

Using these approaches actually requires side-stepping the uncertainty factor. It is assumed not to exist; and this can be a wise philosophy. After all, by definition, uncertainty throws a monkey wrench into decision-making. The manager's best approach is to withdraw from this condition either by gathering data on the alternatives or by making assumptions that allow the decision to be made under the condition of risk.[4]

Although many managers are perfectly comfortable making decisions under conditions of risk or uncertainty, they should always try to reduce the uncertainty surrounding their decisions. They can do so by conducting comprehensive and systematic research. The research can tell them more about their alternatives, give them a firm basis for estimating possible outcome and help them look at the best and worst alternatives. Think of manager Mr. Fahim who is considering whether to finance a new building by taking a fixed interest rate loan of 10 percent or a variable rate of loan that begins at 9 percent but could increase by 4 percent. Fahim might consider that, for the variable rate loan the best case rate is 9 percent. The worst case rate is 13 percent. By taking this approach, he can at least reduce some uncertainty and get firmer support for his decision.

Lesson-end assessment

Essay type questions

1. What do you understand by decision making? Why it is important?
2. Discuss the significance of rationality in decision making
3. How decisions are made under uncertainty and risks?

Multiple choice questions

√ the most appropriate answer:

1. Rationality in decision making shows how the decisions:
   (a) should be made and not how decisions are actually made
   (b) are actually made, not how decisions should be made
   (c) can ensure expected results
   (d) help earn a lot
2. Satisfying indicates a course of action that:
   (a) ensures motivation
   (b) is satisfactory or good enough under the circumstances
   (c) involves the lowest possible costs
   (d) ensures the best possible profits

Lesson 2: Decision Making: The Process and Managerial Practices, The Systems Approach and Decision Making

Lesson Objectives

Upon completion of this lesson you will be able to:

- describe the decision making process in brief
- discuss the ways of selecting an alternative
- analyse the systems approach to decision making

Decision Making: The Process and Managerial Practices

In this section we shall examine the main four steps involved in the decision-making process in greater detail. These steps include:

(1) recognising the need for a decision i.e., problem awareness, definition and understanding;

(2) generating or searching for alternatives;

(3) evaluating each alternative; and

(4) choosing form among the alternative solutions (choice-making)

Step one: recognising the need for a decision**:** The first step in the decision-making process consists of recognising that a decision is needed. (Much of the following discussion on the decision-making process will assume the existence of a problem. It is important, however, to remember that a number of occasions including opportunities as well as problems can give rise to the need for managerial decision-making.) Problem recognition begins when a decision maker is alerted by signal that a decision is needed. A tardy employee, slipping sales, an unusual noise in a computer console, or an angry supervisor may be signs that a problem exists. A manager may sense that something is wrong but cannot describe the problem yet. Sometimes people identify problems automatically. Suppose that Tanya goes back to her dorm after a difficult examination to listen to music only to discover that her old stereo is not working. This sends her an obvious signal that she has a problem and that she needs to decide whether to have the old system fixed or to buy a new but expensive system.

Decision -making is necessary when problems exist in the organisation.

One way of looking at this first step of the decision-making process is in terms of the ***detection of symptoms***. On the detection of a decision occasion, a decision maker needs to identify the problem exactly. For example, it would have been helpful for Fahim to specify that Rahim's poor sales performance is due to a lack of motivation, to the unattractiveness of the rewards that are associated with good sales performance, and to distractions caused by problems that he is currently having at home.

Identifying and understanding a problem can be extremely difficult. Problems and crisis frequently introduce uncertainty and discomfort. For these reasons, people sometimes avoid or take problem definitions for granted. They tend to gloss over the first step in the decision-making process and rush to Step Two.

The detection of problems is followed by a generation of alternative solutions.

***Step two: generating or searching for alternatives*:** After a problem has been identified, diagnosed, and understood, a manager is ready to move into the second stage of the decision-making process — the generation of a set of alternative solutions. In developing these solutions, decision makers first must specify the goals that they hope to achieve through their decision. Are they trying to reduce costs? improve product quality? increase sales? Once they have determined their goals, they can search for alternative means of reaching them.

Managers should try to increase the number of alternatives by ingenuity, research and common sense, and then choose the best one.

The ability to develop alternatives is often as important as being able to select correctly from among them. Ingenuity, research and common sense, on the other hand, will often unearth so many choices that all of them can not be adequately evaluated under such circumstances, a manager needs help. This help and assistance in choosing the best alternative, is found in the concept of the limiting or strategic factor.

Strategic factors of problems actively hinder solution. So they need to be identified, analysed and overcome.

A limiting factor, according to Weihrich and Koontz, "is something that stands in the way of accomplishing a desired objective. Recognising the limiting factor in a given situation makes it possible to narrow down the search for alternatives to those that will overcome the limiting factors."[5] They defined the principle of the limiting factor as: "By recognising and overcoming those factors that stand critically in the way of a goal, the best alternative course of action can be selected."[6] Just as a physician's primary concern should be to diagnose the disease and direct his treatment against the root cause of it, a businessman's foremost task is to ascertain and analyse those factors, which are strategic to the problem, and which limit or restrict the chances of solution.

The analysis required for decision is in effect a search for the "strategic factor." The theory of the strategic factor is necessary to an appreciation of the process of decision and therefore, to the understanding of the organisation and executive functions as well. Thus, if a machine in operation ceases to work due to a broken lever, the lever is the limiting factor. The limiting factors may be internal or external. Externally limiting factors may arise from the economic conditions of a country, government restrictions, political instability, and so on and so forth.

Step three: evaluation of alternatives: Appropriate alternatives having been found, the next step in planning is to evaluate them and choose the right one which will best contribute to goal achievement. This is the ultimate decision making although decisions must as well be made in the other steps of planning - in selecting goals, in choosing critical premises, and even in selecting alternatives. The process of evaluation is being aided by:

In sifting through alternatives, no less weightage should be given to their qualitative aspects.

(a) **Quantitative and qualitative measurements:** In comparing alternatives for achieving an objective, people are likely to think exclusively of quantitative factors. These are factors that can be measured in numerical terms, such as time or various fixed and operating costs. No one would underestimate the value of such quantitative measurements or analysis. But the success of a venture would be endangered if intangible or qualitative factors were ignored. Qualitative or intangible factors are those that are difficult to measure numerically such as the quality of labour relations, the risk of technical change, or potential war situation in a region of the world. An excellent quantitative plan may be destroyed by the adverse situation in any of the above factors. These serve to illustrate the importance of attending to both quantitative and qualitative factors while alternatives are being weighed against one another.

(b) **Marginal analysis:** This is done by utilising the techniques of marginal analysis to compare additional revenues resulting from additional costs. Where the objective is to maximise profits, this goal will be reached, as elementary economics teaches, when the additional revenues and additional costs are equal. In other words, if the additional revenues of a larger quantity are greater than its additional costs, more profits can be made by producing more. However, if the additional revenues of the larger quantity are less than its additional costs, a larger profit can be made by producing less.

(c) **Cost effectiveness analysis:** It seeks the best ratio of benefits and costs; this means for example, finding the least costly way of reaching an objective or getting the greatest value for given expenditures. The best features of cost effectiveness analysis are that it focuses on the outcome of a program, helps measure the potential benefits of each alternative against its potential cost and involves a comparison of the alternatives in terms of the overall advantages.

Step four : choosing an alternative: After all the possible alternatives have been evaluated, managers are left with only one remaining viable alternative, which becomes their ultimate decision. Normally, however, several alternatives remain under consideration after the evaluation process. Thus the final stage in the decision-making process involves making judgements and choices.

There are several quantitative and qualitative tools to help managers in selecting an alternative. It is for the managers to decide ultimately what they want to accomplish in making a decision. A manager has the following three decision criteria: **Optimising, maximising** and **satisficing**.

To **optimise** a manager would like to find the best possible decision.

To **maximise**, managers must make a decision that meets the maximum number of criteria.

To **satisfice**, managers try only to find the first satisfactory solution.

Different approaches to decision-making promote the selection of one of these decision criteria. Each is unique and dependent on the manner of choosing an approach by a manager. The nature of the decision-making process can change quite considerably. Usually more time is taken to maximise than to satisfice - and still more time to optimise, even if this is possible.[7]

Selecting an alternative : three approaches

Experience, experimentation, and research and analysis are the three common tools or approaches employed in selecting from among alternatives.

Experience could be a good guide for decision-making if it is taken with a pinch of salt.

Experience: Experience is a great guide. Reliance on past experience therefore plays a comparatively large role in decision-making. Experienced managers usually believe, often without realising it, that the things they have successfully accomplished and the mistakes they have made provide almost a foolproof guide to the future. This attitude is likely to grow with their increasing experience and ascendancy to the higher levels of the organisation. Experience helps a great deal to develop the ability of exercising good judgement

However, one should be wary of using past experience merely out of blind reverence for the old. As a guide for future action, it can be dangerous too. Firstly most people fail to recognise the underlying reasons for their mistakes or failures. Secondly, past experience may not at all be applicable to new problems which need new solutions. However, if a person carefully analyses experience instead of blindly following it and find out the actual reasons for or causes of success or failure, experience can be useful as a basis of decision-making.

Experimentation: Trying one of the alternatives and see how it goes is a usual way of choosing an alternative. This kind of experimentation is often used in scientific inquiry. It is frequently suggested that this method should be used quite often in management. Because only by trying various alternatives a manager can be sure about the best way, especially in view of the intangible factors involved in the decision process.

The experimental method is good but often expensive.

The experimental method is likely to be the most expensive of all methods, particularly where it involves a substantial amount of money and manpower. Moreover, even after carrying out an experiment, doubts may remain about its certainty and real nature. Therefore, this should be used only after considering other alternatives.

Research and Analysis: One of the best techniques for selecting from among alternatives when major decisions are involved is research and analysis. This approach means solving a problem by comprehending it at first. It therefore involves a search for relationships among the more crucial variables, constraints and premises that bear upon the goal sought. It is the pen-and-paper approach to decision-making.

Research and studying mock-ups are a lot cheaper way of finding an appropriate alternative.

The solution of a planning problem and making a decision about it involves dissecting the problem into its component parts and studying their various quantitative and qualitative aspects. Compared with experimentation, study and analysis are likely to be far cheaper. Study and analysis may require time and volumes of paper. But usually they cost much less than trying various alternatives. For example, in manufacturing aeroplanes, if careful research were not done before manufacturing and testing the prototype aeroplane and its components, the resulting costs could be enormous.

The most important step in the research-and-analysis technique is to develop a model for stimulating the problem. Architects therefore frequently make models of buildings in the form of extensive blue-prints. Conceptualising a problem is a major step toward its solution. Operations research is employed as one of the most comprehensive research-and-analysis tools of decision-making in modern management.[8]

The Systems Approach and Decision Making

The subsystems of an enterprise must be mutually supportive in order that the overall objectives and plan can come to fruition.

Normally decisions cannot be made in an environment of closed system. As it has already been said, many factors of the environment of planning exist outside the enterprise. Besides, each department or section of an enterprise is a subsystem of the total enterprise; the managers of these organisational units must be responsive to the policies and programmes of other organisational units and of the entire enterprise. Moreover people working in the enterprise are a part of the social system. Their thoughts and attitudes must be given due consideration by a manager as and when he takes a decision.

Even when managers work with a closed-system model like the operations research decision models, they do so simply to have a workable program to solve. But in that case, too, they work with certain assumptions about environmental forces, which very significantly influence their decision. They tend to change the construction of their model according to the exigencies and circumstances beyond its boundaries.

When it is said that managers take into account the various factors or elements in the system environment of their problem, it does not mean that they abdicate their role as decision-makers. Decisions are to be made and someone must decide upon a course of action from among alternatives, taking into account events and forces prevailing in the environment of a decision. In brief, decisions must be made recognising the fact that organisations are open systems, interacting with the environment.[9]

Lesson-end assessment

Essay type questions

1. Describe the steps of the decision making process in brief.
2. Analyse the systems approach to decision making.

Multiple choice questions

√ the most appropriate answer:

1. The first step in the decision-making process consists of:
   - (a) finding an alternative
   - (b) selecting the courses of actions
   - (c) identifying risks in decision making
   - (d) recognising that a decision is needed

2. Trying one of the alternatives and seeing how it goes is a usual way of:
   (a) selecting employees
   (b) making a plan
   (c) choosing an alternative
   (d) improving efficiency

Exercise

1. Your boss offers you a promotion to a position in a location your family does not like. Make the necessary assumptions, and then state how and what you would decide.

CASE 5-1

OLYMPIC TOY COMPANY

"I expect all the managers in my department to act completely rationally in every decision they make", declared Eleanor Johnson, Vice President for marketing for the Olympic Toy Company. "Every one of us, no matter what his or her position, is hired to be a professional rationalist, and I expect all of us not only to know what they are doing and why but to be right in their decisions. I know that someone has said that a good manager needs only to be right in more than half of his or her decisions. But that is not good enough for me. I would agree that you may be excused for occasionally making a mistake, especially if it is a matter beyond your control, but I can never excuse you for not acting rationally."

"I agree with your idea, Eleanor", said Jill Goldberg, her advertising manager, "and I always try to be rational and logical in my decisions. But would you mind helping me be sure of this by explaining just what 'acting rationally' is?"

Questions

1. Explain how the Vice President for marketing might describe what is involved in making rational decisions.
2. If Jill Goldberg then declares that there is no way she can be completely rational, what would you suggest as a reply?

Source: Heinz Weihrich and Harold Koontz, "*Management - A Global Perspective*", Tenth Edition, p.221.

For further study

1. Heinz Weihrich and Harold Koontz, "Management: A Global Perspective", McGraw-Hill International Editions, Tenth Edition, 1994.
2. Griffin, "Management", , Boston: Houghton Mifflin Company,1984.
3. George R. Terry, Stephen G. Franklin, "Principles of Management", Delhi: A.L.T.B.S. Publishers & Distributors, Eighth Edition, 1997.
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[1] Dunham et. al., *Management*.(Scott: Foresmen and Company, 1989).

[2] Heinz Weihrich and Harold Koontz, *Management: A Global Perspective*, (McGraw-Hill International Editions, 1994), p. 200.

[3] Ibid., p. 200.

[4] Richard M. Hodgets & Donald F. Kuratko, *Management*, (Harcourt Brace Johanovich Publishers, 1986).

[5] Weihrich & Koontz, op.cit, p.201.

[6] Ibid., p. 201.

[7] Ibid.

[8] Ibid., pp. 204-05.

[9] Ibid., pp. 217-220.

Organising

6

Unit Highlights

- ❑ Nature, Purpose, Structure, Process and Logic of Organising, Organisational Level and the Span of Management
- ❑ Departmentation
- ❑ Line, Staff and Functional Authority
- ❑ Delegation of Authority, Centralization and Decentralization

এই পৃষ্ঠা খালি থাকবে

Unit-6: Organising

Lesson 1: Nature, Purpose, Structure, Process and Logic of Organising, Organisational Level and the Span of Management

Lesson Objectives

Upon completing this lesson, you will be able to:

- understand the nature and purpose of organising
- describe formal and informal organisation
- understand the structure, process and logic of organising
- discuss the relationship between organisation levels and span of management
- understand what is meant by effective span
- explain the factors determining an effective span

The Nature and Purpose of Organising

Organisations are systems created to achieve a set of goals through people-to-people and people-to-work relationships. Each system has its own external and internal environments that define the nature of those relationships according to its specific needs. A hospital, for example, has organisational needs that are different from those of a university, which are different from those of a museum. Organising is what managers do when they design, structure, and arrange the components of an organisation's internal environment to facilitate attainment of organisational goals. For example, to meet its goal of delivering high-quality health care, a hospital may organise both in-and out-patient facilities, locate its emergency room and trauma centre on the first floor of the building to prevent delays in treating critical patients, prepare meal schedules, provide room cleaning services, and so forth.

Organising is what managers do when they design structure and arrange the components of an organisation's internal environment to facilitate attainment of organisational goals.

Organising creates the vehicle needed to reach a company's goals. Playing meaningful organisational role involves having (1) verifiable objectives, (2) a clear idea of the major duties or activities involved, and (3) an understood area of discretion or authority so that the person filling the role knows what he or she can do to accomplish goals.

Organising therefore means (1) identification and classification of required activities, (2) grouping activities necessary to attain objectives, (3) the assignment of each grouping to a manager with the appropriate authority to supervise it; and (4) the provision for co-ordination horizontally (on the same or similar organisational level) and vertically (for example, corporate headquarters, division, and department) in the organisation structure.

An organisation structure should be designed to clarify who is to do what tasks and who is responsible for what results, to remove obstacles to performance caused by confusion and uncertainty of assignment, and to furnish decision-making and communication networks reflecting and supporting enterprise objectives.

An organisation structure clarifies who is to do what tasks.

"Organisation" is a word people use somewhat loosely. Chester I. Barnard has put forward a good general definition. According to him, organisation is "a system of consciously co-ordinated activities or forces of two or more persons." To make it more comprehensive, an organisation may be defined as the rational co-ordination of the activities of a number of people for the achievement of some common explicit purpose or goal through division of labour and function, and through a hierarchy of authority and responsibility.

Organisation is a system of consciously co-ordinated activities or forces of two or more persons.

Formal and Informal Organisation

Within any organisation, there are both formal and informal components. A formal organisation exists as a result of the official structures and systems designed by managers through organising activities. A formal organisation normally contains a structured communication and command system that helps people pool their time, energy, and talents to reach common objectives.

A formal organisation exists on the strength of the official structures and systems designed by managers.

By contrast, an informal organisation exists when two or more people interact for a purpose or in a manner beyond that specified by the manager. Often informal organisations evolve in a natural, unplanned manner, but they may also be formed intentionally, such as when nurses in the burn ward of a hospital meet to discuss problems they have with the doctors and patients. Experience shows that each member of an informal organisation has personal reasons for joining it, for he/she exchanges information with others, satisfy individual his or her needs, and influences or is influenced by, others. The informal organisation may have direct and significant implications for the managers of the formal organisation. Sometimes informal groups become formal groups, as would occur if the burn ward nurses just described organised a union.

An informal organisation exists when two or more people interact for a purpose or in a manner not specified by management.

In the formal organisation, managers prescribe expected behaviour through job descriptions, rules and policies, and operating procedures. By contrast, informal behaviour arises from the needs, norms, values and standards of the organisation members. The formal organisation in a company that assembles , for example, exhaust fans might specify the time to show up for work, the type of clothing permissible, the method to be used in assembling bathroom exhaust fans, and the minimum number of fans that must be produced per hour. The informal organisation, however, may define a social norm which states that employees should not produce more than a certain number of fans per hour.

In the formal organisation, expected behaviour is prescribed by managers but informal behaviour arises from the needs, norms, values, and standards of organisation members.

The Structure and Process of Organising

If one takes the task of organising as a process, then several fundamentals need to be considered. First of all, the structure must reflect objectives and plans, because activities arise from them. Secondly, it must reflect the authority available to an enterprise's management. Authority in a particular organisation is a socially determined right to exercise discretion. Hence, it is subject to change.

In the third place, an organisation structure, like any plan, must reflect its environment. Just as the premises of a plan may be economic, technological, political, social or ethical, an organisation structure may be designed to work, to permit contributions by members of a group, and to help people gain objectives efficiently in a changing future. There is no single organisation structure that universally works best in all kinds of situation. An effective organisation structure is the one that depends on situations.

Fourthly, since the organisation is staffed with people, the groupings of activities and the authority relationships of an organisation structure must take into account people's limitations and customs. This does not mean that the structure must be designed around individuals instead of around goals and accompanying activities. But an important consideration is the kind of people that are going to staff the structure to be made.

The Logic of Organising

There is a fundamental logic of organising. The organising process consists of the following six logical steps:

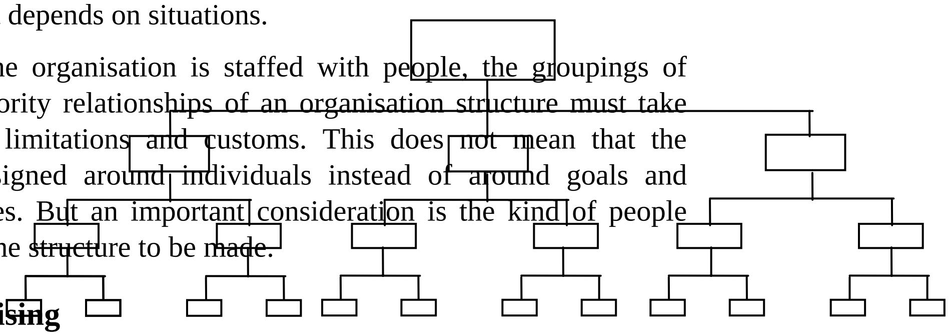
1. Establishing enterprise objectives.
2. Formulating supporting objectives, policies and plans.
3. Identifying and classifying the activities necessary to accomplish them.
4. Grouping these activities in the light of the human and material resources available and the best way, under the circumstances, of using them.
5. Delegating to the head of each group the authority necessary to perform the activities.
6. Tying the groups together horizontally and vertically, through authority relationships and information flows.

Organisation Levels and The Span of Management

While the purpose of organising is to make human co-operation effective, the reason for levels of organisation is the limitation of span of management. In other words, organisation levels exist because there is a limit to the number of persons a manager can supervise effectively even though this limit varies, depending on situations. The relationships between the span of management is associated with a few organisational levels: a narrow span, with many levels.

FIGURE 6-1

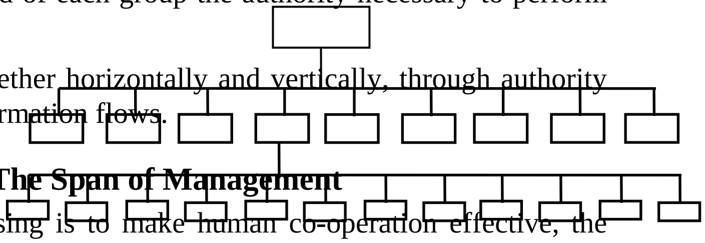
Organization with Narrow Spans



ADVANTAGES
- Close supervision
- Close control
- Fast communication between subordinates and superiors

DISADVANTAGES
- Superiors tend to get too involved in subordinates' work
- Many levels of management
- High costs due to many levels
- Excessive distance between lowest level and top level

Organization with Wide Spans



ADVANTAGES
- Superiors are forced to delegate
- Clear policies must be made
- Subordinates must be carefully selected

DISADVANTAGES
- Tendency of overloaded superiors to become decision bottlenecks
- Danger of superior's loss of control
- Requires exceptional quality of managers

ORGANISATION STRUCTURE WITH NARROW AND WIDE SPANS

Source: Heinz Weihrich and Harold Koontz , *Management: A Global Perspective*" Tenth Edition, P.247.

Choosing the Span

In every organisation, it must be decided how many subordinates a superior can manage. Students of management have found that this number is usually four to eight subordinates at the upper levels of the organisation and eight to fifteen or more at the lower levels. For example, the prominent British consultants Lyndall and Urwick found "the ideal number of subordinates for all superior authorities .... to be four, while at the lowest level of organisation, where what is delegated is responsibility for the performance of specific tasks and not for the supervision of others, the number may be eight or twelve." Others find that a manager may be able to supervise as many as twenty to thirty subordinates.

The usual span at the top level is four to eight but, at the lower level, eight to fifteen subordinates.

Operational-Management Position of Effective Span

Too many variables tend to specify the number of subordinates that a manager can effectively supervise.

More and more recent operational-management theorists have taken the position that there are too many underlying variables in a management situation to specify any particular number of subordinates that a manager can effectively supervise. The exact number will depend on the impact of underlying factors. In other words, the dominant current guideline is to look for the cause of limited span in individual situations rather than to assume that there is a widely applicable numerical limit. Examining what takes up the manager's time in his/her handling of superior-subordinate relationships and ascertaining devices that can be used to reduce this time pressure will not only be a helpful approach in determining the best span in individual cases but also a powerful tool of finding out what can be done to extend the span without screwing up the effectiveness of supervision. But the fact remains that costs of levels of supervision make it highly desirable for every individual manager to have as many subordinates as can be effectively supervised.

Effective supervision is the guiding principle in determining the size of span in each case.

In practice, managers have found a wide variety of ways to approach the span of control problem. Just as there is no one best way to design jobs, there is no universally ideal span of control. One healthcare provider might use managers in its occupational therapy department simply to assign patient case loads, leaving therapy strategies up to the therapist. In this case, one manager could supervise perhaps twenty or thirty occupational therapists, but if another healthcare provider had managers assign case loads, consult on therapy decisions, and provide training, they might need to limit the span of control to four or five people.

There is no single universally ideal span of control.

If a span is too limited, a manager's talents may be under-utilised. Having an experienced, highly skilled manager supervise only a handful of employees performing routine work would not take advantage of the manager's capabilities. If the span is too large, a manager may have too much work to perform any of it effectively. Asking one manager to directly supervise the work of fifty staff accountants would be a mistake. It would be virtually impossible to effectively manage so many individuals and all of their projects at the same time.

The span of control should be neither too large nor too small.

From the perspective of subordinates, a span that is too large may prevent them from getting needed supervisory support. None of the fifty accountants mentioned earlier would be likely to get the training and support needed to perform effectively and to grow if one manager supervised them all. On the other hand, too small a span might result in too much supervision. In such cases, managers often baby-sit subordinates, not allowing them enough freedom to be effective.

Factors Determining an Effective Span

In fact, the number of subordinates a manager can effectively manage depends on the impact of underlying factors. Besides such personal capacities as comprehending quickly, getting along with people, and commanding loyalty and respect, the most important determinant is a manager's ability to reduce the time he or she spends with subordinates. This ability naturally varies with managers and their jobs, but several factors materially influence the number and frequency of such contacts and therefore the span of management (see table 6-1).

Besides the personal capacities of the manager, several other factors influence the span of management.

Table 6-1

Factors Influencing the Span of Management	
Narrow spans (a great deal of time spent with subordinates) related to :	**Wide spans** (very little time spent with subordinates) related to:
Little or no training	Thorough training of subordinates
Inadequate or unclear authority delegation	Clear delegation to undertake well-defined tasks
Unclear plans for non-repetitive operations	Well-defined plans for repetitive operations
Non-verifiable objectives and standards	Verifiable objectives used as standards
Fast changes in external and internal environments	Slow changes in external and internal environments

Factors Influencing the Span of Management	
Use of poor or inappropriate communication techniques, including vague instructions	Use of appropriate techniques such as proper organisation structure, written and oral communication
Ineffective interaction of superior and subordinate	Effective interaction between superior and subordinate
Ineffective meetings	Effective meetings
Greater number of specialities at lower and middle levels	Number of specialities at upper levels (top managers concerned with external environment)
Incompetent and untrained manager	Competent and trained manager
Complex task	Simple task
Subordinates' unwillingness to assume responsibility and reasonable risks	Subordinates' willingness to assume responsibility and reasonable risks
Immature subordinates	Mature subordinates

Source: Heinz Weihrich and Harold Koontz; *Management: A Global Perspective*, Tenth Edition, p.250.

Training of subordinates: The better the training of subordinates, the fewer the number of necessary superior-subordinate relationships. Well-trained subordinates require not only less of their managers' time but also less contact with their managers.

Well-trained subordinates require less contact with their managers.

Training programs increase in new and more complex industries. Managers in the railroad industry, for example, would – because the technology does not change much – tend to be more completely trained than those in the aerospace industry. The rapid changes in policy and procedures in the complex electronics and missile industries would increase training problems.

Clarity of delegation of authority: Although training enables managers to reduce the frequency and extensiveness of time-consuming contacts, the principal cause of the heavy time burdens of superior-subordinate relationships is to be found in a poorly conceived and confused organisation. The most serious symptom of poor organisation affecting the span of management is inadequate or unclear authority delegation. If a manager clearly delegates authority to undertake a well-defined task, a well-rained subordinate can get it done with a minimum of the manager's time and attention. But if the subordinate's task is not one that can be done, if it is not clearly defined, or if the subordinate does not have the authority to undertake it effectively, either the task will not be performed or the manager will have to spend a disproportionate amount of time supervising and guiding the subordinate's efforts.

A well-trained subordinate will take up less of his/her manager’s time if the delegation of authority is clearly spelt out.

Clarity of plans: Much of the character of a subordinate's job is defined by the plans to be put into effect. If these plans are well defined, if they are workable, if the authority to undertake them has been delegated, and if the subordinate understands what is expected, little of a supervisor's time will be required. Such is often the case with a production supervisor responsible for largely repetitive operations. Thus, in one large-volume work-clothing manufacturer's plant, production supervisors operated satisfactorily with as many as thirty subordinates.

Little of the supervisor’s time is taken up if plans to be executed are well-defined.

On the other hand, if plans cannot be drawn accurately and subordinates must do much of their own planning, they may require considerable guidance. However, if the superior has set up clear policies to guide decisions and has made sure that they are consistent with the operations and goals of the department, and if the subordinate understands them, there will certainly be fewer demands on the superior's time than there would be if these policies were imprecise, incomplete, or totally incomprehensible.

Use of objective standards: A manager must find out, either by personal observation or by use of objective standards, whether subordinates are following the plans. Obviously, good objective standards enable managers to avoid many time-consuming contacts by efficiently exposing deviations from plans and to direct their attention at exceptions at points critical to the successful execution of plans.

Use of good objective standards enables managers to avoid unimportant time-consuming contacts.

Rate of change: Certain enterprises change much more rapidly than others. The rate of change is an important determinant of the degree to which policies can be formulated and the stability of policies maintained. The effect of slow change on policy formulation and on the training of subordinates is dramatically shown in the organisation of the Roman Catholic Church. This organisation, in terms of durability and stability, can probably be regarded as the most successful in the history of Western civilisation. Yet the organisation levels are few. In most cases bishops report directly to the Pope and parish pastors to bishops, although in some instances bishops report to the archbishop. Thus, there are generally very few levels in this world-wide organisation and, consequently, a wide span of management at each level. Even though it is probably too broad, this extraordinarily wide span is apparently tolerable, partly because the bishops possess a high degree of training and, even more, because the rate of change in the Church has been slow.

The rate of change in an organisation determines the time to be spent in supervision.

Communication techniques: The effectiveness with which communication techniques are used also influences the span of management. Objective standards of control are a kind of communications device, but many other techniques reduce the time spent with subordinates. If every plan, instruction, order, or direction has to be communicated by personal contact and every organisation change or staffing problem has to be handled orally, a manager's time will obviously be heavily burdened. Some executives use "assistant-to" positions or administrative staff personnel as a communications device to help them solve their problems with key subordinates. Written recommendations by subordinates, summarising important considerations, frequently speed up decision-making. Some busy top executives widen their span of management by insisting on a summary presentation of written recommendations, even when these involved enormously important decisions.

The effectiveness of communication techniques and the ability to communicate clearly tend to influence the span of management.

An ability to communicate plans and instructions clearly and concisely also tends to increase a manager's span. The subordinate who, after leaving a superior's office or receiving instructions, is still in doubt about what is wanted or what has been said is sure to request further meetings sooner or later. The subordinate's job is greatly facilitated by superiors who can express themselves well.

Amount of personal contact needed: In many instances, face-to-face meetings are necessary. Many situations cannot be completely handled with written reports, memorandums, policy statements, planning documents, or other

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d, the smaller
n will be.

communications that do not involve personal contact. An executive may find it valuable and stimulating to meet subordinates and discuss problems in the give-and-take of a conference. Some problems are of such political delicacy that they can be handled only in face-to-face meetings. This is also true when it comes to appraising people's performance and discussing it with them.

Many companies seem somewhat unaware of how newer personnel techniques affect first-line supervisors, many of whom appear to have spans of management far beyond their abilities to handle them. Merit ratings, insurance programs, grievance procedures, and other personnel matters now requiring supervisors' time in face-to-face relationships have reduced their traditionally wide spans. This is not to say that these innovations are not worth their cost, but span-of-management limitations must be evaluated in the light of these factors.

The size of the most effective span differs by organisation level.

Variation by organisation level: Several research projects have found that the size of the most effective span differs by organisation level. In one major study, the researchers developed and tested a model to take this variable into account and found that the degree of specialisation by individuals ("person specialisation") was the most important variable affecting span, although technology and size were also tested, since previous research had concentrated on these variables. The study revealed that (1) when a greater number of specialities were supervised, effective spans were narrower at lower and middle levels of the organisation but were increased at upper levels, primarily because top-level managers were most concerned with the interface of the enterprise with its external environment, strategic planning, and major policy matters; (2) routineness (lack of variety of work) of an operation appeared to have little effect at any level; and (3) size (in terms of personnel) had little effect at lower levels but a positive effect at middle levels.

The span may also be bigger if the manager is well-trained, if the tasks are simple and if the subordinates are mature and have a positive attitude towards assumption of responsibility.

Other factors: Besides the factors discussed above, there are others that affect the span of management. For example, a manager who is competent and well trained can effectively supervise more people than one who is not. Furthermore, simple tasks may allow for a wider span than tasks that are complex and include a great variety of activities. Still other factors favour a wider span of management, such as the positive attitudes of subordinates towards the assumption of responsibility, as well as their willingness to take reasonable risks. Similarly, with more mature subordinates, the superior may delegate more authority, thus widening the span.

The precise balancing of all pertinent factors may either widen or reduce the span of control.

Need for balance: There can be no doubt that, despite the desirability of a flat organisation structure, the span of management is limited by real and important restrictions. Managers may have more subordinates than they can manage effectively, even though they delegate authority, carry on training, formulate plans and policies clearly, and adopt efficient control and communication techniques. It is equally true that as an enterprise grows the span-of-management limitations force an increase in the number of levels simply because there are more people to supervise.

What is required is more precise balancing, in a given situation, of all pertinent factors. Widening spans and reducing the number of levels may be the answer in some cases; the reverse may be true in others. One must balance all the costs of adopting one course or the other, not only the financial costs but also costs in morale, personal development, and attainment of enterprise objectives.

Lesson-end assessment

Essay type questions

1. Briefly discuss the nature and purpose of organising.
2. How would you distinguish between formal and informal organisation?
3. What do you mean by structure and process of organising? Can you explain the logic of organising?
4. Do you think there is any relationship between organisational levels and span of management?
5. What do you mean by effective span? Briefly discuss the factors determining an effective span.

Multiple choice questions

√ the most appropriate answer:

1. Formal organisation exists:
   (a) when two or more people interact for a purpose or in a manner not specified by management.
   (b) as a result of the official structures and systems designed by managers through the organising activity.
   (c) beyond the organisation structure.
   (d) in any type of group activity.
2. According to Lyndall and Urwick the ideal number of subordinates for all supervisory authorities is:
   (a) eight.
   (b) six.
   (c) four.
   (d) twelve.
3. From the perspective of subordinates, a span that is too large may:
   (a) prevent them from getting needed supervisory support.
   (b) allow them wide latitude of autonomy at work.
   (c) make them feel free and work more.
   (d) help them earn more in the long run.
4. As an enterprise grows the span of management limitations force:
   (a) a decrease in the number of levels simply because there are few people to supervise.
   (b) an increase in the number of levels simply because there are more people to supervise.
   (c) it to employ limited number of employees.
   (d) the level of employment to remain optimum.

Lesson 2 : Departmentation

Lesson Objectives

Upon completing this lesson you will be able to:

- understand the nature of departmentation.
- discuss basic organisation units.
- identify the basic patterns of traditional departmentation.
- analyze matrix organisations and outline the problem that can affect a matrix organisation.

Organisational Structure: Departmentation

Departmentation is the efficient and effective grouping of jobs into meaningful work units.

Departmentation means grouping activities and people into departments, making it possible to expand organisations, at least in theory, to an indefinite degree.

Departmentation refers to the formal structure of the organisation, composed of various departments and managerial positions and their relationships to each other. As an organisation grows, its departments grow and more subunits are created, which in turn add more levels of management. This often creates less flexibility, adaptability, and unit of action within the firm. Departmentation is the efficient and effective grouping of jobs into meaningful work units to co-ordinate numerous jobs - all for the expeditious accomplishment of the organisation's objectives.

The basic organisation units are production, marketing and finance, but there may be additional organisation units like advertising, sales promotion, and the like.

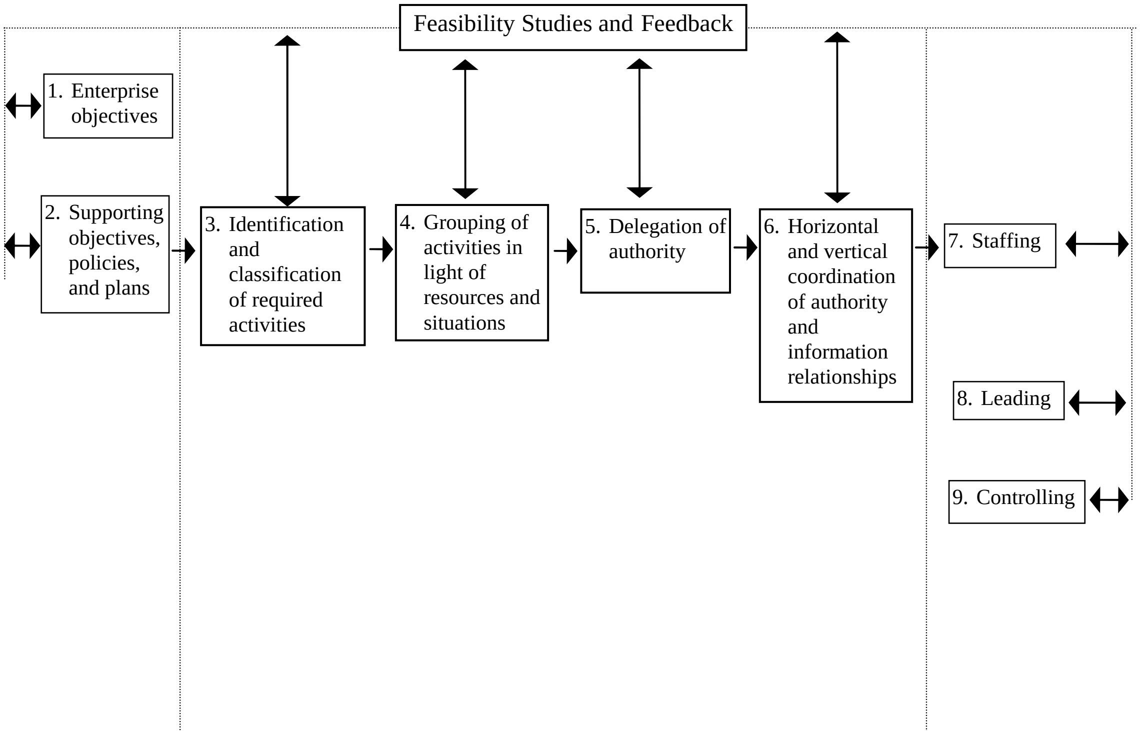
Basic organisation units: The basic pattern of many organisation structures revolves around three fundamental activities: production, marketing, and finance. Terminology may vary from firm to firm, and in nonbusiness organisations the functions may be more obscure (i.e., in churches, "marketing" may be called "evangelism"), but essentially all the three activities must be implemented for the organisation to survive.

Why are these three activities fundamental? Because most companies are concerned with producing a product or service for use by others. Since it is produced for use by others, it must be distributed or marketed; that is, people must be found who want the product or service and are willing to accept it at terms mutually agreeable to the seller (enterprise) and the buyer. Also to produce and to distribute the product or service necessitate raising and maintaining sufficient capital; that is, the financing activities must be performed by some members of the enterprise.

The scope of the three fundamental organisation units and the complexity of the enterprise give rise to additional organisation units. These types result mainly from such things as the nature and amount of the work to be done, the degree of specialisation practised, and the people and the workplaces available for the work.

To illustrate, under the fundamental unit of marketing, the scope of the work may be so broad that it is believed advantageous to divide the work into advertising, sales promoting, and selling. Hence, the manager in charge of sales splits advertising and sales promoting activities, and for each, places a subordinate in charge. A sales manager is appointed to manage the selling work in the field. These three additional units appear in the organisation structure at the level immediately below that of the fundamental unit of sales. In like manner, assume that the manager in charge of production has established units of engineering and research, factory work, and also purchasing. These concepts are illustrated graphically with the chart in Figure 6-2.

FIGURE 6-2

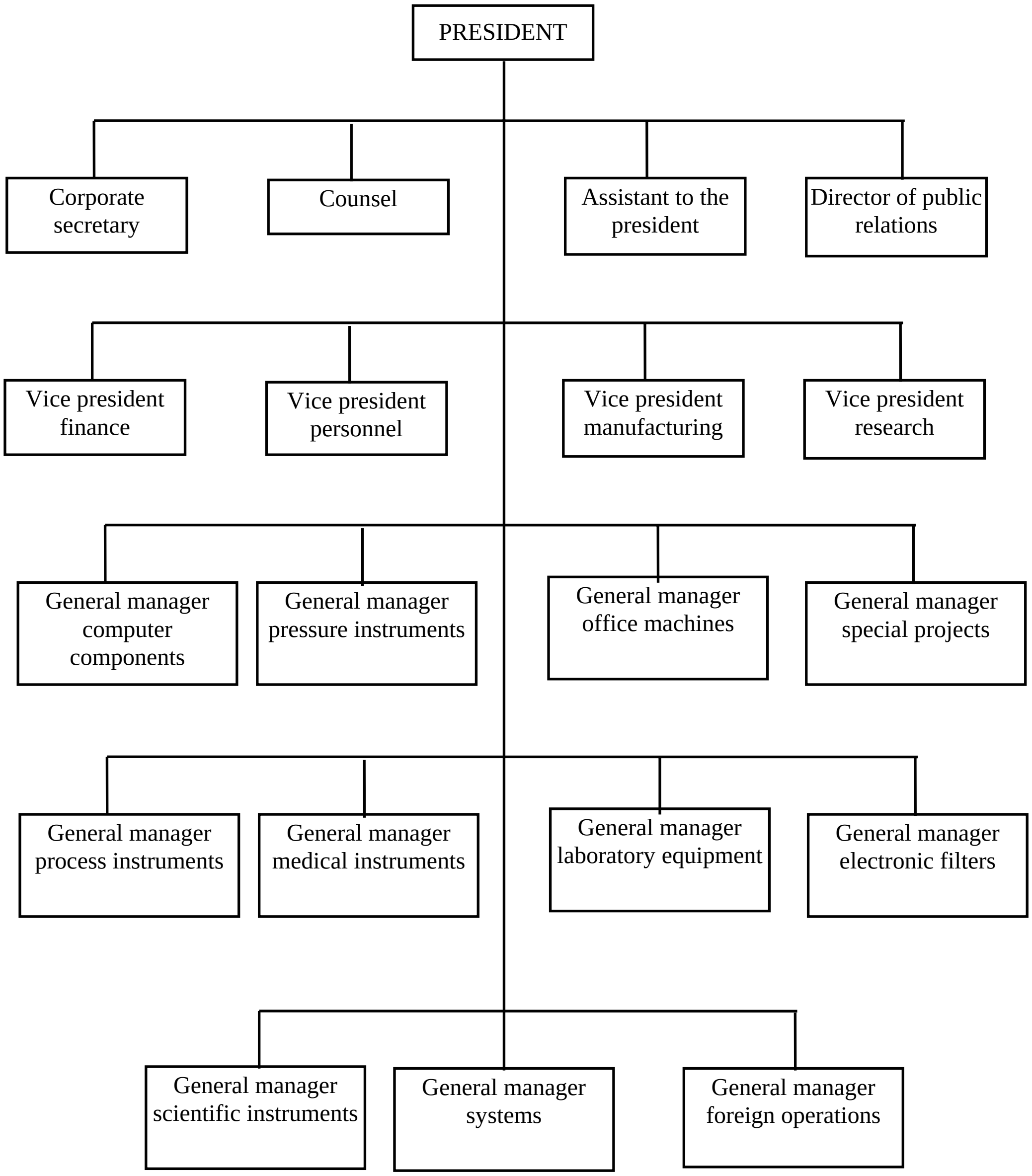

Feasibility Studies and Feedback
1. Enterprise objectives
2. Supporting objectives, policies, and plans
3. Identification and classification of required activities
4. Grouping of activities in light of resources and situations
5. Delegation of authority
6. Horizontal and vertical coordination of authority and information relationships
7. Staffing
8. Leading
9. Controlling

ORGANIZING PROCESS

Source: Heinz Weihrich and Harold Koontz ,"*Management: A Global Perspective*" Tenth Edition, P.258

Now assume that the products and services of the enterprise continue to grow and conditions become such that further units are deemed necessary for efficient operation. Accordingly, from the advertising unit are spun the two subordinate units of (1) television and radio and (2) magazines and newspapers, both of which are placed in the organisation level below that of advertising. This is illustrated in Figure 4-3. In addition, other units are established, as indicated by the figure. They include two sales units - one for the eastern and one for the western territory. Under the eastern sales unit are four units added to handle sales to (1) institutions, including hotels, hospitals, and schools; (2) wholesalers; (3) government; and (4) manufacturers. Likewise under production, two units have been created. One is designated to include metal products, the other products are made of plastics. Under the former, five units for punching, heat treating, welding, assembling, and finishing have been added as subordinate units. It can be readily seen that as the enterprise continues to expand, more units will probably be required.

FIGURE 6-3


PRESIDENT
Corporate secretary
Counsel
Assistant to the president
Director of public relations
Vice president finance
Vice president personnel
Vice president manufacturing
Vice president research
General manager computer components
General manager pressure instruments
General manager office machines
General manager special projects
General manager process instruments
General manager medical instruments
General manager laboratory equipment
General manager electronic filters
General manager scientific instruments
General manager systems
General manager foreign operations

ORGANIZATION CHART

MEASUREMENT INSTRUMENTS CORPORATION

Source: Heinz Weihrich and Harold Koontz ,"*Management: A Global Perspective*" Tenth Edition, P.261

An organisation has to be viewed as a cohesive whole and not as comprising independent functional units.

Co-ordinating structure: As was stressed in the discussion of division of labour, an organisation must be viewed by all managers at all levels as a cohesive whole, never as separate, independent functional units. The organisation is a system of integrated parts, and to give undue emphasis to any functional part at the expense of the entire organisation creates organisational islands, thus resulting in inefficiency and significant behavioural problems.

Astute managers must recognise the potential for these gaps to exist (and their actual existence) and develop programs to integrate supportive functions to accomplish overall organisational objectives. Interdepartmental committees composed of employees from finance, accounting, marketing, production, and other departments; management development programs for all management and supervisory personnel that teach basic management principles from an overall organisational perspective; job rotation, in which employees perform different jobs; and task forces composed of personnel to work on specific projects within time parameters are all methods that can aid in achieving this desired integration.

Means of Departmentation

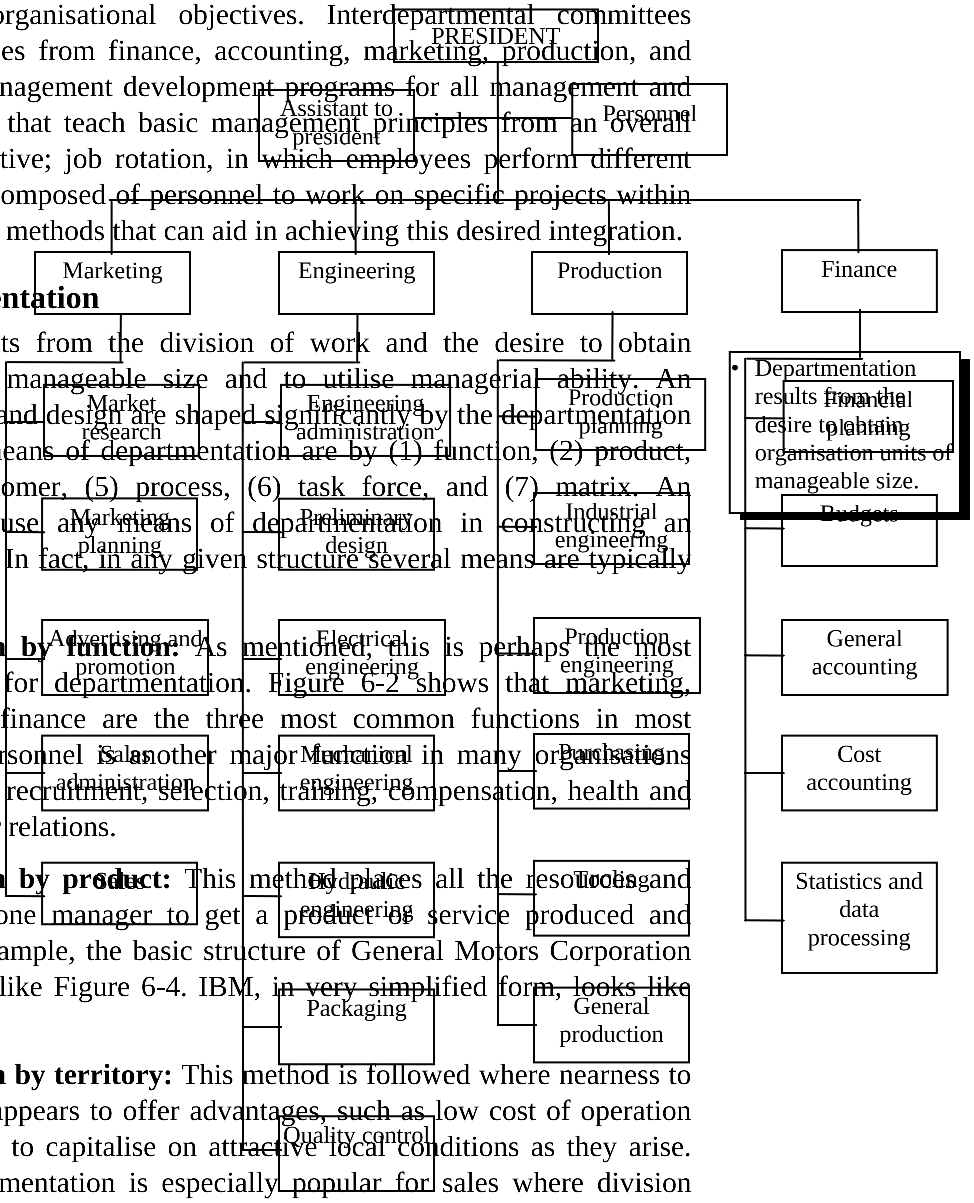
Departmentation results from the division of work and the desire to obtain organisation units of manageable size and to utilise managerial ability. An organisation structure and design are shaped significantly by the departmentation followed. The chief means of departmentation are by (1) function, (2) product, (3) territory, (4) customer, (5) process, (6) task force, and (7) matrix. An organiser is free to use any means of departmentation in constructing an organisation structure. In fact, in any given structure several means are typically used.

1. **Departmentation by function:** As mentioned, this is perhaps the most common format for departmentation. Figure 6-2 shows that marketing, production, and finance are the three most common functions in most organisations. Personnel is another major function in many organisations and encompasses recruitment, selection, training, compensation, health and safety, and labour relations.

2. **Departmentation by product:** This method places all the resources and authority under one manager to get a product or service produced and marketed. For example, the basic structure of General Motors Corporation looks something like Figure 6-4. IBM, in very simplified form, looks like Figure 6-5.

3. **Departmentation by territory:** This method is followed where nearness to local conditions appears to offer advantages, such as low cost of operation and opportunities to capitalise on attractive local conditions as they arise. Territorial departmentation is especially popular for sales where division appears feasible according to some geographic market segregation. It also provides a good arrangement for training and developing, because the executive can demonstrate his/her ability in a certain territory and thus merit promotion to a more important area.

FIGURE 6-4


PRESIDENT
Assistant to president
Personnel
Marketing
Engineering
Production
Finance
Market research
Marketing planning
Advertising and promotion
Sales administration
Sales
Engineering administration
Preliminary design
Electrical engineering
Mechanical engineering
Hydraulic engineering
Packaging
Quality control
Production planning
Industrial engineering
Production engineering
Purchasing
Tooling
General production
Financial planning
Budgets
General accounting
Cost accounting
Statistics and data processing
• Departmentation results from the desire to obtain organisation units of manageable size.

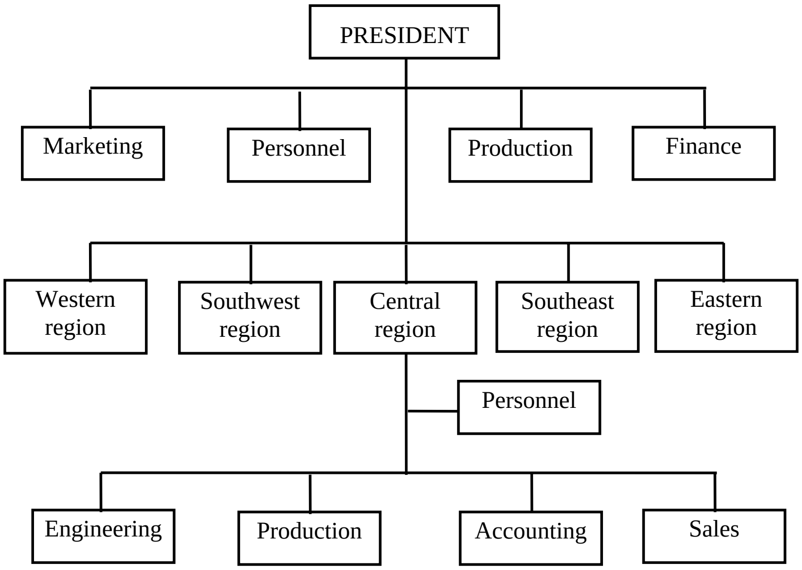
ADVANTAGES
- Is logical reflection of functions
- Maintains power and prestige of major functions
- Follows principle of occupational specialization
- Simplifies training
- Furnishes means of tight control at top

DISADVANTAGES
- Deemphasis of overall company objectives
- Overspecializes and narrows viewpoints of key personnel
- Reduces coordination between functions
- Responsibility for profits is at the top only
- Slow adaptation to changes in environment
- Limits development of general managers

A FUNCTIONAL ORGANISATION GROUPING (MANUFACTURING COMPANY)

Source: Heinz Weihrich and Harold Koontz ,"*Management: A Global Perspective*" Tenth Edition, P.269.

FIGURE 6-5


PRESIDENT
Marketing
Personnel
Production
Finance
Western region
Southwest region
Central region
Southeast region
Eastern region
Personnel
Engineering
Production
Accounting
Sales

ADVANTAGES

- Places responsibility at a lower level
- Places emphasis on local markets and problems
- Improves coordination in a region
- Takes advantage of economics of local operations
- Better face-to-face communication with local interests
- Furnishes measurable training ground for general managers

DISADVANTAGES

- Requires more persons with general manager abilities
- Tends to make maintenance of economical central services difficult and may require services such as personnel or purchasing at the regional level
- Increases problem of top management control

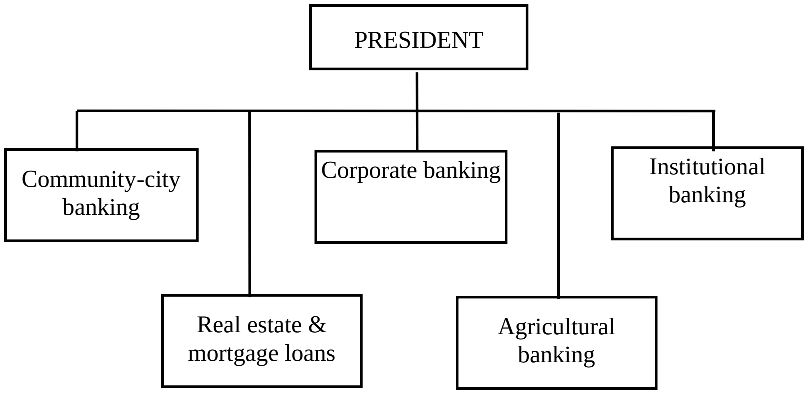
A TERRITORIAL ,OR GEOGRAPHIC, ORGANISATION GROUPING
(WITH MINOR MODIFICATION)

Source: Heinz Weihrich and Harold Koontz ,"*Management: A Global Perspective*" Tenth Edition,P.271

Figure 6-5 is the organisation chart for an international restaurant franchise organisation. Each area vice-president is totally responsible for the development, construction, operations and marketing activities of that territory, and oversees the general managers of finance, marketing, personnel and production.

4. **Departmentation by customer:** This organisational form is used when great emphasis is placed on effectively serving different customer types. For instance, full-time day students and part-time night students of graduate business programs in universities usually are different in demographic profile and personal needs. Wholesale and retail publics are very different in many industries, as are government and private sector customers. For instance, banks may be departmentalised according to the markets illustrated in Figure 6-6.

FIGURE 6-6



ADVANTAGES

- Encourages concentration on customer needs
- Gives customers feeling that they have an understanding supplier (Banker)
- Develops expertness in customer area

DISADVANTAGES

- May be difficult to coordinate operations between competing customer demands
- Requires managers and staff expert in customers' problems
- Customer groups may not always be clearly defined (for example, large corporate firms vs. other corporate businesses)

CUSTOMER DEPRTMENTATION IN A LARGE BANK

Source: Heinz Weihrich and Harold Koontz ,"*Management: A Global Perspective*" Tenth Edition,P.273.

5. **Departmentation by process:** This means is logical when the machinery or equipment used requires special skill for operating, or is of a large capacity, which eliminates organisational dividing, or have technical facilities which strongly suggest a concentrated location. Economic and technologic considerations are the foremost reasons for the adoption of process departmentation. It is most commonly found in production and frequently at operative levels.

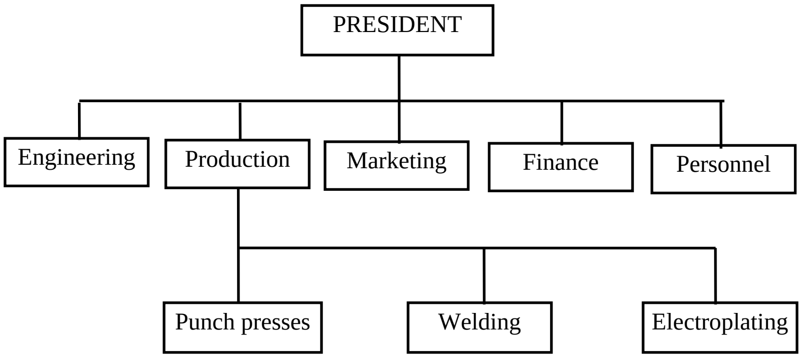
Departmentation by process is based on stages of a process of production.

Using a process as a guide, there are three basic patterns available: (i) serial, (ii) parallel, and (iii) unit assembly. The pattern followed will determine, in part, the organisational units adopted. In few instances are any of these patterns used in pure form. More commonly, part of the work is processed under one pattern, part under another, and so forth.

Under the serial pattern work moves through a single channel or assembly line.

Under the serial pattern, work moves through a single channel or assembly line and progresses step by step to completion as it passes the various work stations. This arrangement permits an employee to be highly specialised by an individual work process and usually requires a brief breaking-in time for the attainment of satisfactory output. However, the "cycle time", or total elapsed time from the beginning to the ending of a unit of work, may be short, and there is also the possibility of reduced employee work interest under the serial arrangement.

FIGURE 6-7



ADVANTAGES
- Achieves economic advantage
- Uses specialized technology
- Utilizes special skills
- Simplifies training

DISADVANTAGES
- Coordination of departments is difficult
- Responsibility for profit is at the top
- Is unsuitable for developing general managers

PROCESS OF EQUIPMENT DEPARTMENTATION

Source: Heinz Weihrich and Harold Koontz ,"*Management: A Global Perspective*" Tenth Edition, P.275.

Simultaneous handling is one way of expressing the unit assembly arrangement. Different employees perform different work steps on given amount of work at the same time. To illustrate, the work to be done is divided among employees A, B and C. Simultaneously, employee A performs one particular operation on a batch of work, B operates on his batch, and likewise C on her batch of work. At appropriate times the different batches of work are shifted among the employees for completion of the total job.

Different employees perform different work steps on a given amount of work.

6. **Departmentation by task force:** This arrangement involves assigning a team or task force to a definite project or block of work, which extends from the beginning to the completion of a wanted and definite type and quantity of work. A task force is usually relatively small, perhaps not over a dozen members. It exists for the life of the project, and is then disbanded. It has a leader, is self-contained, and includes all the necessary knowledge and skill for performing the work.

This involves assigning a definite project to a team or a task force.

This has gained favour for many research projects, particularly missile or weapons systems and outer space projects. It is widely used in public accounting firms, advertising agencies, and management consultant organisations, and it has proved effective for special projects concerning the factory or office.

Task force departmentation does have shortcomings. However, some members feel frustrated, have a sense of insecurity, and complain of unstable organisations. These are brought about by the dismantling of the project organisation at the completion of its mission and assigning the members to other project organisations. The determination of promotions and the building of identifiable careers are also knotty problems.

Matrix departmentation attempts to combine functional and task force departmentation.

7. **Matrix departmentation:** Matrix management was introduced in the early 1960s in response to the growing complexity and size of technically oriented enterprises, which needed more flexibility. Initially the aerospace industry and later Dow Corning, General Electric, Shell Oil, and other industry giants adopted this concept of a project management structure superimposed on a traditional functional organisation.[1]

Matrix departmentation attempts to combine functional and task force (project) departmentation designs to improve the synchronisation of multiple components for a single activity (i.e., a moon launch), to improve economics of scale, and to better serve the customer and company. Supervision is dual, encompassing technical and administrative managers, and incorporates several reporting systems and interweaves communication lines for transmitting decisions. Figure 6-8 illustrates a matrix form of organisation structure. In the figure, five managerial groups, A, B, C, D and E, represent five different technical areas within a firm (i.e., production, materials procurement, personnel, accounting, engineering). Each unit chief reports to the manager of technical services, usually a division or area manager. Simultaneously and cutting across these technical services are administrative groups made up of technicians from the different technical groups. Administrative group 1, for example, consists of one technician from each of the five technical groups, while administrative group 2 has none from technical group A, two from group B, and one each from C, D and E.

Matrix organisation achieves a balanced form of organisation structure.

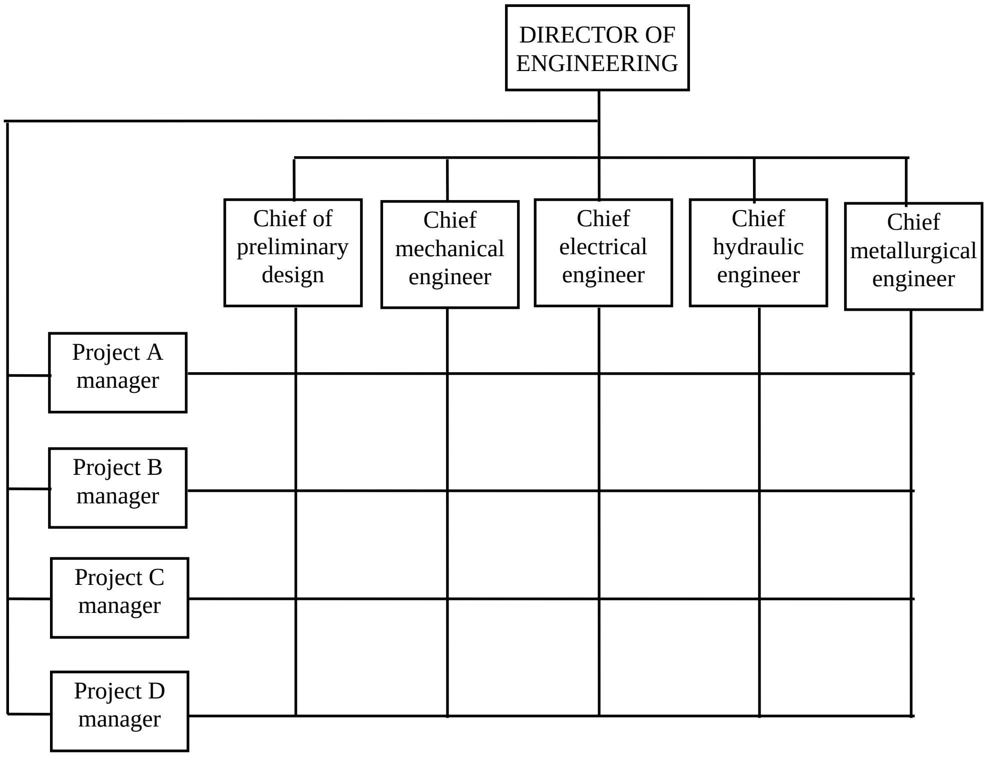
Many argue that this form of departmentation achieves a more balanced form of organisation structure and expedites complex and specialised decision-making challenges. However, care should be exercised in adopting matrix departmentation. The traditional "one worker, one boss" management practice is severely modified. The matrix arrangement requires extensive communication, and it should meet internal company needs and not simply be grafted onto the existing organisation in the hope of demonstrating progressive management thinking. Matrix departmentation may slow down decision-making and thus all managers must understand the rules of the game. Usually this necessitates an educational effort so that none feel that their decision-making is threatened, and non-management members learn how to function with two managers.

Davis and Lawrence point out at least nine problems that can affect a matrix organisation.

1. **Tendencies towards anarchy:** Dual and multiple reporting can create "a formless state of confusion where people do not recognise a boss to whom they feel responsible."
2. **Power struggles:** A matrix organisation encourages jockeying for power and upward mobility because an individual's career path can appear "fuzzy".
3. **Severe grouping:** Matrix behaviour is often confused with group decision-making, which often wastes time and hampers managers from being quick and decisive.

4. **Collapse during economic crunch:** Often when business declines for any number of internal or external reasons, the matrix form becomes the scapegoat for poor management and is discarded, even after tremendous investment in its creation.
5. **Excessive overhead:** In initial phases a matrix organisation has high overhead costs. It appears that costs will double because of double management and a dual chain of command. In the long run; however, extra costs should disappear and be offset by productivity gains.
6. **Sinking to lower levels:** A matrix organisation has difficulty existing at higher levels of a corporation and has a corresponding tendency to sink to group and division levels, where it thrives and flourishes.

FIGURE 6-8


DIRECTOR OF ENGINEERING
Chief of preliminary design
Chief mechanical engineer
Chief electrical engineer
Chief hydraulic engineer
Chief metallurgical engineer
Project A manager
Project B manager
Project C manager
Project D manager

ADVANTAGES

- Is oriented toward end results
- Professional identification is maintained
- Pinpoints product-profit responsibility

DISADVANTAGES

- Conflict in organization authority exists
- Possibility of disunity of command exists
- Requires manager effective in human relations

MATRIX ORGANISATION IN ENGINEERING

Source: Heinz Weihrich and Harold Koontz , "*Management: A Global Perspective*" Tenth Edition, P.278.

7. **Uncontrolled layering:** "Matrices, which lie within matrices result frequently from the dynamics of power rather than from the logic of

design."

8. **Navel gazing:** Matrix managers can succumb to an excessive internal preoccupation with the interdependence of people and tasks and decisions, and lose touch with the external marketplace.
9. **Decision strangulation:** A matrix can create too much democracy and foster an environment of too little action via endless delays for debate.

Lesson-end assessment

Essay type questions

1. What is departmentation? Identify the basic organisation units.
2. Discuss the chief means of departmentation.
3. What is your idea about departmentation by process? How does it work?
4. What do you understand by matrix departmentation? Elaborate on the problems that can affect matrix departmentation.

Multiple choice questions

√ the most appropriate answer:

1. The basic pattern of many organisation structures revolves around:
   (a) finance.
   (b) production activities.
   (c) two important activities: personnel and production.
   (d) three fundamental activities: production, marketing and finance.
2. An organisation must be viewed by all managers at all levels as:
   (a) a source of living.
   (b) a cohesive whole.
   (c) independent functional units.
   (d) an important national wealth.
3. A matrix can create too much democracy and foster an environment of:
   (a) peaceful co-existence.
   (b) harmonious relations.
   (c) too little action via endless delays for debate.
   (d) lawlessness.

Lesson 3 : Line, Staff and Functional Authority

Lesson Objectives

Upon completing this lesson you will be able to:

- understand the nature of authority and power.
- discuss the sources of power.
- understand the distinction between line and staff, realising their nature as relationships rather than positions or people.
- explain the nature and use of functional authority as a mixture of line and staff.

Authority and Power

Organisations must somehow drive and galvanise their workers into action, and in order to do so, managers must be properly vested with authority. Before concentrating on the authority in organisation, it is necessary to distinguish between authority and power. Power is the ability of individuals to induce groups. Authority in organisation is the right in a position (and, through it, the right of the person occupying the position) to exercise discretion in making decisions affecting others. It is, of course, one type of power, but power in an organisation setting.

Power is the ability of individuals to induce groups while authority is power in an organisation setting.

As we shall see later on, there are many different bases of power. The power of primary concern – the subject of our present discussion – is legitimate power. It normally arises from organisational position, and this position validates it as authority. Also this authority owes its origin to the prevailing cultural system of rights, obligations and duties of industrial society, whereby a "position" is accepted by people as "legitimate."

Legitimate power comes from holding a formal position.

Power may also come from the expert knowledge of a person or a group. This is the power of expertise or knowledge. Physicians, lawyers and university professors may have considerable influence on others because they are respected for their special knowledge. Power may further exist as referent power, which people or groups may exercise because people believe in them and their ideas. Thus Mahatma Gandhi had very little legitimate power, but by dint of his personality and ideas of non-violence, he strongly influenced the behaviour of many people.

Expertise and charismatic personality can also wield great power.

In addition, power arises from the ability of some people to grant rewards. Purchasing agents, with a little position power, might be able to exercise considerable influence through their ability to expedite or delay the supply of a much-needed spare part. Likewise, university professors have considerable reward power; they can grant or withhold high grades.

Power may also arise from the ability to grant rewards.

Coercive power is still another type of power. Although closely related to reward power and normally arising from legitimate power, it is the power to punish, whether by firing a subordinate or withholding a pay increase.

Power to punish is coercive power.

While organisation authority is the power to exercise discretion in decision-

In managerial settings, authority refers to the power of position.

making, it almost invariably arises from the power of position, or legitimate power. When people speak of authority in managerial settings, they usually refer to the power of positions. At the same time, other factors, such as personality and style of dealing with people, are involved in leadership.

Line and Staff Concepts

Much confusion has arisen among both scholars and managers as to what "line" and "staff" mean. As a result, there is probably no area of management that causes more difficulties, more friction, and more loss of time and effectiveness. Yet the line-and-staff relationships of the members of an organisation must necessarily affect the operation of the enterprise.

Line functions help accomplish enterprise objectives while staff functions help line persons work effectively.

One widely held view of line and staff is that line functions are those that have direct impact on the accomplishment of the objectives of the enterprise. On the other hand, staff functions are those that help the line persons work most effectively in accomplishing the objectives. The people who adhere to this view almost invariably classify production and sales (and sometimes finance) as line functions and accounting, personnel plant maintenance, and quality control as staff functions.

The Nature of Line and Staff Relationships

Line authority gives a manager a line of authority over a subordinate.

A more precise and logically valid concept of line and staff is that they are simply a matter of relationships. Line authority gives a superior a line of authority over a subordinate. It exists in all organisations as an uninterrupted scale or series of steps. Hence, the scalar principle in organisation: the clearer the line of authority from the ultimate management position in an enterprise to every subordinate position is, the clearer will be the responsibility for decision-making and the more effective will be organisation communication. In many large enterprises, the steps are long and complex; but even in the smallest, the very fact of organisation introduces the scalar principle.

It therefore becomes apparent from the scalar principle that line authority is that relationship in which a superior exercises direct supervision over a subordinate-authority relationship in direct line or steps.

The nature of the staff relationship is advisory. The function of people in a pure staff capacity is to investigate, research, and give advice to line managers.

Functional Authority

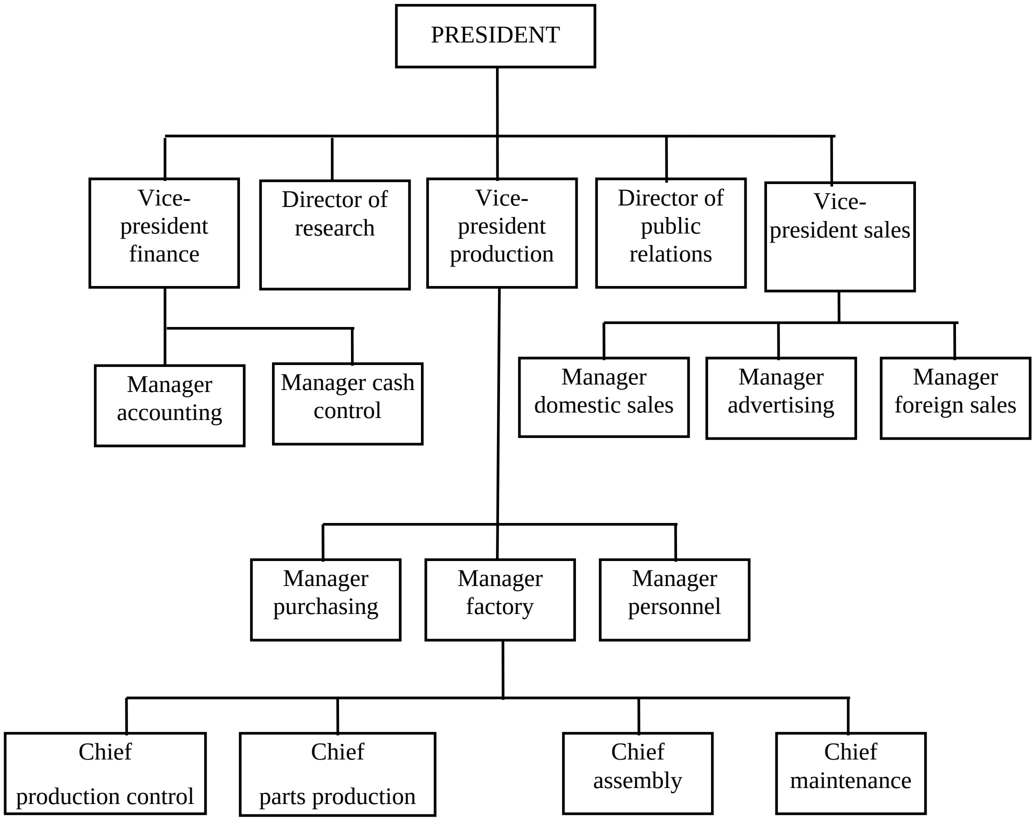
Functional authority is the right that is delegated by the common superior of line managers to a staff specialist.

Functional authority is the right that is delegated to an individual or a department to control specified processes, practices, policies, or other matters relating to activities undertaken by persons in other departments. If the principle of unity of command were followed without exception, authority over these activities would be exercised only by their line superiors. But numerous reasons - including a lack of special knowledge, a lack of ability to supervise processes, and the danger of diverse interpretations of policies - explain why these managers are occasionally not allowed to exercise this authority. In such cases, line managers are deprived of some authority. It is delegated by their common superior to a staff specialist or to a manager in another department. For example, a company controller is ordinarily given functional authority to prescribe the system of accounting throughout the company, but this specialised authority is really a delegation from the chief executive.

Functional authority is not restricted to managers of a particular type of department. It may be exercised by line, service, or staff department heads, but more often by the latter two because service and staff departments are usually composed of specialists whose knowledge becomes the basis for functional controls.

Knowledge of specialists is the basis of functional control.

FIGURE 6-9


PRESIDENT
Vice-president finance
Director of research
Vice-president production
Director of public relations
Vice-president sales
Manager accounting
Manager cash control
Manager domestic sales
Manager advertising
Manager foreign sales
Manager purchasing
Manager factory
Manager personnel
Chief production control
Chief parts production
Chief assembly
Chief maintenance

LINE AND STAFF ORGANISATION OF A TYPICAL MANUFACTURING COMPANY

Source: Heinz Weihrich and Harold Koontz, "*Management: A Global Perspective*" Tenth Edition, P.296.

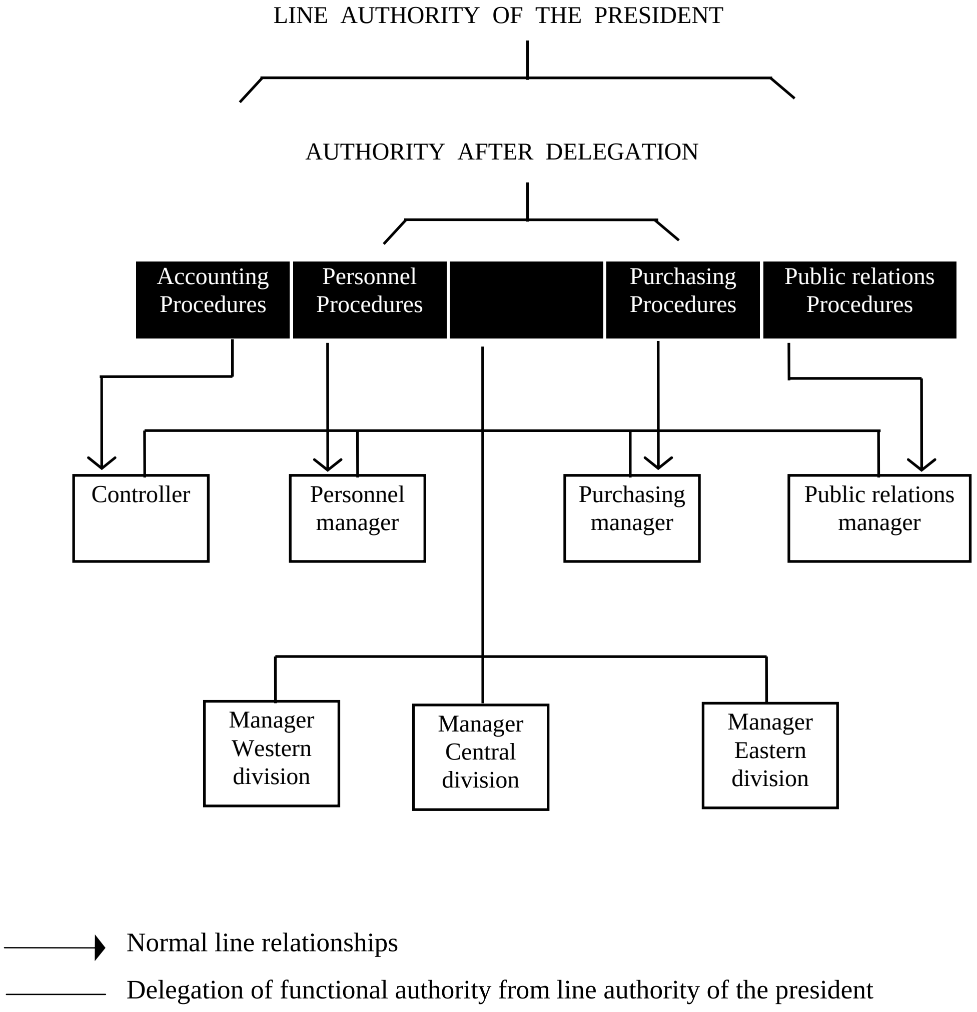
Delegation of Functional Authority

One can better understand functional authority by thinking of it as a small slice of the authority of a line superior. A corporation president, for example, has complete authority to manage a corporation, subject only to limitations placed by such superior authority as the board of directors, the corporate charter and by laws, and government regulation. In the pure staff situation, the advisers on personnel, accounting, purchasing, or public relations have no part in this line authority, their duty being merely to offer counsel. But when the president delegates to these advisers the right to issue instructions directly to the line organisations, as shown in Figure 6-10, that right is called "functional authority."

Functional authority is said to be delegated when specialists get the right from the chief executive to issue instructions directly to line managers.

The four staff and service executives have functional authority over the line organisations with respect to procedures in the field of accounting, personnel, purchasing and public relations. What has happened is that the president, feeling it unnecessary to clear such specialised matters personally, has delegated line authority to staff assistants (or managers) to issue their own instructions to the operating department.

FIGURE 6-10


LINE AUTHORITY OF THE PRESIDENT
AUTHORITY AFTER DELEGATION
Accounting Procedures
Personnel Procedures
Purchasing Procedures
Public relations Procedures
Controller
Personnel manager
Purchasing manager
Public relations manager
Manager Western division
Manager Central division
Manager Eastern division
Normal line relationships
Delegation of functional authority from line authority of the president

FUNCTIONAL AUTHORITY DELEGATION

Source: Heinz Weihrich and Harold Koontz ,"*Management: A Global Perspective*" Tenth Edition, P.297.

Lesson-end assessment

Essay type questions

1. How would you distinguish between authority and power?
2. Discuss the various sources of power with examples.
3. What do you understand by line and staff concepts? Discuss the nature of line and staff relationship.
4. What is functional authority? How can it be delegated?

Multiple choice questions

√ the most appropriate answer:

1. Legitimate power normally arises from:
    (a) expert knowledge of a person or a group.
    (b) the ability of some people to grant rewards.
    (c) the power to punish.
    (d) organisational position.
2. Line authority is that relationship in which
    (a) superiors play advisory roles over subordinates.
    (b) staff specialists act as superiors.
    (c) a superior exercises direct supervision over subordinates.
    (d) staff specialists are employed to advise line managers.

Lesson 4 : Delegation of Authority, Centralization and Decentralization

Lesson Objectives

Upon completing of this lesson you will be able to:

- discuss the nature of centralisation, decentralisation and delegation of authority.
- describe the principles of delegation.
- explain the factors that generally determine the degree of decentralisation.
- learn guidelines for overcoming weak delegation.
- find out the relationship between decentralisation and participative management.
- understand the ways of obtaining the desired degree of decentralisation.
- recognise the importance of obtaining balance in the centralisation and decentralisation of authority.

Delegation of Authority

Delegation of authority is necessary as there is a limit to the number of persons a manager can effectively supervise.

simple as delegation of authority might appear to be, studies show that managers fail more often because of poor delegation than of any other cause. For anyone going into any kind of organisation, it is worthwhile to study the science and art of delegation.

The primary purpose of delegation is to make organisation possible. Just as no one person in an enterprise can do all the tasks necessary for accomplishing group purpose, it is impossible, as an enterprise grows, for one person to exercise all the authority for making decisions. As was discussed under the subject of span of supervision, there is a limit to the number of persons managers can effectively supervise and for whom they can make decisions. Once this limit is passed, authority must be delegated to subordinates, who will make decisions within the area of their assigned duties.

How Authority is Delegated?

Authority is delegated when discretion is vested in a subordinate by a superior. Clearly, superiors cannot delegate authority they do not have, whether they are board members, presidents, vice-presidents, or supervisors. Equally clear, superiors cannot delegate all their authority without, in effect, passing on their position to their subordinates.

Nobody can accomplish goals without the authority to achieve them.

The entire process of delegation involves determination of results expected, assignment of tasks, delegation of authority for accomplishing these tasks, and exaction of responsibility for their accomplishment. In practice, it is impossible to split this process, since expecting a person to accomplish goals without the authority to achieve them is meaningless, as is the delegation of authority without knowing what end results it is to be used for. Moreover, since responsibility cannot be delegated, a boss has no practical alternative but to exact responsibility from subordinates for completing the assignment.

Clarity of Delegation

Delegation of authority may be specific or general, written or unwritten. If the delegation is unclear, a manager may not understand the nature of the duties or the results expected. The job assignment of a company controller, for example, may specify such functions as accounting, credit control, cash control, financing, export-license handling, and preparation of financial statistics, and these broad functions may even be broken down into more definite duties. Or a controller may be told merely that he or she is expected to do what controllers generally do.

When authority is delegated, it must be clear, specific, and written.

Specific written delegations of authority are extremely helpful both to the manager who receives them and to the person who delegates them. The latter will more easily see conflicts or overlaps with other positions and will also be better able to identify those things for which a subordinate can and should be held responsible.

The fear that specific delegations will result in inflexibility is best met by developing a tradition of flexibility. It is true that if authority delegations are specific, a manager may regard his or her job as a staked claim with a high fence around it. But this attitude can be eliminated by making necessary changes in the organisation structure. Much of the resistance to change through definite delegations comes from managerial laziness and the failure to reorganise things often enough for the smooth accomplishment of objectives.

A rigid situation caused by a specific delegation can be eliminated by making necessary changes in the organisation structure.

Principles of Delegation

The following principles are guides to delegation of authority. Unless carefully recognised in practice, delegation may be ineffective, organisation may fail, and poor managing may result.

Principle of delegation by results expected: Since authority is intended to furnish managers with a tool for so managing as to assure that objectives are achieved, authority delegated to individual managers should be adequate to assure their ability to accomplish expected results. Too many managers try to partition and define authority on the basis of the rights to be delegated or withheld, rather than to look first at the goals to be achieved and then to determine how much discretion is necessary to achieve them. In no other way can a manager delegate authority than in accordance with the responsibility exacted. Often a superior has some idea, vague or fixed, as to what is to be accomplished, but does not trouble to determine whether the subordinate has the authority to do it. Sometimes superiors do not want to admit how much discretion it takes to do a job, and are reluctant to define the results expected.

The authority delegated to individual managers should be adequate to ensure their ability to achieve the expected results.

Principle of functional definition: To make delegation possible, activities must be grouped to facilitate accomplishment of goals, and managers of each subdivision must have authority to co-ordinate its activities with the organisation as a whole. These requirements give rise to the principle of functional definition: the more a position or a department has clear definitions of results expected, activities to be undertaken, organisation authority delegated, and authority and informational relationships with other positions understood, the more adequately the individuals responsible can contribute towards accomplishing enterprise

A managerial position or a department should have clear definitions of results expected.

objectives. To do otherwise is to risk confusion as to what is expected of whom. Although simple as a concept, this principle – which is a principle of both delegation and departmentation – is often difficult to apply. To define a job and delegate authority to do it requires, in most cases, patience, intelligence, and clarity of objectives and plans. It is obviously difficult to define a job if the superior does not know what results are desired.

Scalar principle: The scalar principle refers to the chain of direct authority relationships from superior to subordinate throughout the organisation. The clearer the line of authority from the top manager in an enterprise is to the subordinate position, the more effective the responsible decision-making and organisation communication will be.

Subordinates must know where the delegation of authority is coming from.

A clear understanding of the scalar principle is necessary for proper organisation functioning. Subordinates must know who delegates authority to them and to whom matters beyond their own authority must be referred. Although the chain of command may be safely departed from for purposes of information, departures for purposes of decision-making tend to destroy the decision-making system and undermine managership itself.

Decisions within the authority of individuals be made by them and not be referred upwards.

Authority-level principle: Functional definition plus the scalar principle gives rise to the authority level principle. Clearly, at some organisation level, authority exists for making a decision within the power of an enterprise. Therefore, the authority-level principle derived would be as follows: maintenance of intended delegation requires that decisions within the authority of individuals be made by them and not be referred upwards in the organisation structure. In other words, managers at each level should make whatever decisions they can in the light of their delegated authority, and only matters that authority limitations keep them from deciding should be referred to superiors.

An employee should have a single supervisor to report to.

Principle of unity of command: A basic management principle, often disregarded for what are believed to be compelling circumstances, is that of unity of command: the more completely an individual has a reporting relationship to a single superior, the less the problem of conflict in instructions and the greater the feeling of personal responsibility for results. In discussing delegation of authority, it has been assumed that the right of discretion over a particular activity will flow from a single superior to a subordinate. Although it is possible for a subordinate to receive authority from two or more superiors and logically possible to be held responsible by them, the practical difficulties of serving two or more masters are obvious. An obligation is essentially personal, and authority delegation by more than one person to an individual is likely to result in conflicts in both authority and responsibility.

The accountability of subordinates to their supervisors for their performance is absolute.

Principle of absoluteness of responsibility: Since responsibility, being an obligation owed, cannot be delegated, no superior can escape, through delegation, responsibility for the activities of subordinates, for it is the superior who has delegated authority and assigned duties. Likewise, the responsibility of subordinates to their superiors for performance is absolute, once they have accepted an assignment and the right to carry it out, and superiors cannot escape responsibility for the organisation activities of their subordinates.

Authority should be commensurate with responsibility.

Principle of parity of authority and responsibility: Since authority is the discretionary right to carry out assignments and responsibility is the obligation to accomplish them, it logically follows that authority should correspond to responsibility. From this rather obvious logic is derived the principle that responsibility for action cannot be greater than that implied by authority delegated, nor should it be less. The president of a firm may, for example, assign duties to the manufacturing vice-president, such as buying raw materials and machine tools and hiring subordinates in order to achieve certain goals. The vice-president will be unable to perform these duties unless given enough discretion to meet this responsibility.

Managers often try to hold subordinates responsible for duties for which they do not have the necessary authority to perform. This is, of course, unfair. Sometimes sufficient authority is delegated, but the delegatee is not held responsible for its proper use. This is, obviously, a case of poor managerial direction and control, and has no bearing upon the principle of parity.

Guides For Overcoming Weak Delegation

In most cases, top managers are responsible for weak delegation.

Unclear delegations, partial delegations, delegations inconsistent with the results expected, and the hovering of superiors who refuse to allow subordinates to use their authority are among the many widely found weaknesses of delegation of authority.

Combine with these weaknesses untrained, inept, or weak subordinates, who go to their bosses for decisions and the shirking subordinates, who will not accept responsibility. Add to these, the lack of plans, planning information, and incentives, and then all these together will partly explain the failure of delegation. It shows, as is so generally the case in managing, that delegation does not stand alone, but is related to other things in the whole system of managing. But most of the responsibility for weak delegation lies with superiors and, primarily, with top managers. In overcoming these errors - and emphasising the principles outlined above - the five following guides are practical in making delegation tangible:

1. Define assignments and delegate authority in the light of results expected.
2. Select the person in the light of the job to be done. This is the purpose of the managerial function of staffing. It is important to remember that qualifications influence the nature of the authority delegated.
3. Maintain open lines of communication. This means that there should be a free flow of information between the superior and the subordinate, and subordinates should be furnished with information with which to make decisions and properly interpret the authority delegated.
4. Establish proper controls. But if controls are not to interfere with delegation, they must be relatively broad and designed to show deviations from plans rather than interfere with detailed actions of subordinates.
5. Reward effective delegation and successful assumption of authority. It is seldom sufficient to suggest that authority be delegated, or even to order that this be done. Managers should be ever watchful for means of rewarding

both effective delegation and effective assumption of authority. Although many of these rewards will be in terms of money, the granting of greater discretion and prestige - both in a given position and in promotion to a higher position - often works as a stronger incentive.

Decentralisation Vs. Centralisation

Some amount of decentralisation characterises all organisations.

Decentralisation is a fundamental aspect of delegation: to the extent that authority is not delegated, it is centralised. Absolute centralisation in one person is conceivable. But it implies no subordinate managers and therefore no structured organisation. Consequently, it can be said that some decentralisation characterises all organisations. On the other hand, there cannot be absolute decentralisation, for if managers should delegate all their authority, their status as managers would cease, their position would be eliminated, and there would, again, be no organisation. Centralisation and decentralisation are therefore tendencies; they are qualities like "hot" and "cold."

Centralisation refers to withholding or delegating authority for decision-making.

"Centralisation" has been used to describe tendencies other than the dispersal of authority, as in centralisation of performances. This is a problem of geography: a business characterised by centralised performance operates in a single location or under a single roof. Furthermore, centralisation often refers to departmental activities. Service divisions centralise similar or specialised activities in a single department. But when centralisation is discussed as an aspect of management, it refers to withholding or delegating authority for decision-making.

Decentralisation reflects a philosophy of organisation and management.

Although closely related to delegation of authority, decentralisation is something more: it reflects a philosophy of organisation and management. It requires careful selection of what decisions to push down into the organisation structure and what to hold at or near the top, specific policy-making to guide the decision-making, selection and training of people, and adequate controls. A policy of decentralisation affects all areas of management and can be looked upon as an essential element of a managerial system. It is a fact that , without decentralisation, managers cannot use their discretion to handle the ever-present and ever-changing situations they continually face.

Factors Determining the Degree of Decentralisation of Authority

Each and every manager has to delegate authority.

Managers cannot be ordinarily for or against decentralisation of authority. They may prefer to delegate authority, or they may like to make all decisions. A well-known despot in a certain large enterprise, who would like to make all the decisions, finds that he cannot. Even the autocrat in a smaller enterprise is often forced to delegate some authority.

Although the temperament of individual managers influences the extent of authority delegation, other factors also affect it. Most of these are beyond the control of individual managers. They may resist their influence, but no successful manager can ignore them.

Costliness of the Decision: Perhaps the overriding factor determining the extent of decentralisation is, as in other aspects of policy, the criterion of costliness. As a general rule, the more costly the action to be decided is, the more probable it is that the decision will be made at the upper levels of management.

Decisions involving more costs are to be made at the upper levels.

The fact that the cost of a mistake affects decentralisation is not necessarily based on the assumption that top managers make fewer mistakes than subordinates. They may make fewer mistakes, since they are probably better trained and in possession of more facts, but the controlling reason is the weight of responsibility. As already discussed, delegating authority is not delegating responsibility. Therefore, managers typically prefer not to delegate authority for crucial decisions.

Uniformity of policy: Another, and somewhat related factor favouring the centralisation of authority, is the desire to obtain uniform policy. Those who value consistency above all are invariably in favour of centralised authority, since this is the easiest road to such a goal. They may wish to ensure that customers will be treated alike with respect to quality, price, credit, delivery, and service; that the same policies will be followed in dealing with suppliers; or that public relations policies will be standardised.

The desire to obtain uniform policy favours centralisation of authority.

Uniform policy also has certain internal advantages. For example, standardised accounting, statistics, and financial records make it easier to compare relative efficiencies of departments and keep down costs. The administration of a union contract is facilitated through uniform policy with respect to wages, promotions, vacations, dismissals, and similar matters. Taxes and government regulation entail fewer worries and chances for mistakes with uniform policies.

Size: The larger the organisation, the more decisions to be made and the more places in which they must be made, the more difficult it is to co-ordinate them. These complexities of organisation may require policy questions to be passed up the line and discussed not only with many managers in the chain of command but also with many managers at each level, since horizontal agreement may be as necessary as vertical clearance.

The larger the organisation is, the more is the need for decentralisation.

Slow decisions - slow because of the number of specialists and managers who must be consulted - are costly. To minimise this cost, authority should be decentralised wherever feasible. Indeed, the large enterprise that prides itself on the right kind of decentralisation recognises the inevitable, although the extent and effectiveness of decentralisation may differ widely among companies, depending largely upon the quality of their management.

The costs of a large size may be reduced by organising an enterprise into a number of units. Considerable increases in efficiency are likely to result from making the unit small enough for its top executives to be near the point where decisions are made. This makes possible speedy decisions, keeps executives from spending time co-ordinating their decisions with many others, reduces the amount of paper work, and improves the quality of decisions by reducing their magnitude to manageable proportions.

The distance from top to bottom may impair the quality and speed of decision-making.

Exactly what this size is cannot be arbitrarily stated. Some managers believe it to be 1000 persons, others believe it to be closer to 100 or 250, and some would hold that 2500 employees can be grouped into manageable divisions, each with considerable decentralised authority. In any case, there is evidence that where the unit exceeds a certain size, the distance from top to bottom may impair the quality and speed of decision-making.

Lack of policy uniformity and co-ordination may follow decentralisation.

In the zeal to overcome the disadvantages of size by reducing the decision-making unit, certain shortcomings of decentralisation should not be overlooked. When authority is decentralised, a lack of policy uniformity and co-ordination may follow. The branch, product division, or other self-sufficient unit may be so preoccupied with its objectives as to lose sight of those of the enterprise as a whole. What headquarters executive is there that has not had the feeling that a division or a branch is at times "running away with the company?"

The way the business has been built determines whether or not authority will be delegated.

History of the enterprise: Whether or not authority will be frequently decentralised depends upon the way the business has been built. The enterprises that expand from within in the main – such as Marshall Field and Company and International Harvester Company – show a marked tendency to keep authority centralised, as do those which expand under the direction of their owner-founders. The Ford Motor Company was, under its founder, an extraordinary case of centralised authority; Henry Ford, Sr., prided himself on having no organisational titles in the top management except that of president and general manager, insisting, to the extent he could, that every major decision in that vast company be made by himself.

On the other hand, enterprises that represent mergers and consolidations are likely to show, at least at first, a definite tendency to retain decentralised authority, especially if the unit acquired is operating profitably. To be sure, this tendency not to rock the boat may be politically inspired rather than based on pure managerial considerations. Certainly, the claim of independence of the once-independent units is especially strong, and a full managerial generation may have to pass before the chief executive of the consolidated company dares materially to reduce the degree of decentralisation.

The character and philosophy of top executives exert an important influence upon the extent of delegation.

Management philosophy: The character of top executives and their philosophy have an important influence on the extent to which authority is decentralised. Sometimes top managers are despotic, brooking no interference with the authority and information they jealously hoard. At other times, top managers keep authority not merely to gratify a desire for status or power but because they simply cannot give up the activities and authorities they enjoyed before they reached the top or before the business expanded from an owner-manager shop. Conversely, some people find decentralisation a means to make big business work. In those cases, top managers may see decentralisation as a way of organisational life that takes advantage of the innate desire of people to create, to be free, and to have status.

Desire for independence: It is a characteristic of individuals and of groups to desire a degree of independence. Individuals may become frustrated by delay in getting decisions, by long lines of communication, and by the great game of passing the buck.

The extent of decentralisation of authority depends upon the availability of trained managers.

Availability of managers: A real shortage of managerial manpower would limit the extent of decentralisation of authority, as delegation of decision-making assumes the availability of trained managers. But too often the lamentable scarcity of good managers is used as an excuse for centralising authority; executives who complain that they have no one to whom they can delegate authority often try to magnify their own value to the firm or confess to a failure to develop subordinates. There are managers, also, who believe that a firm should centralise authority because it will then need very few good managers. One difficulty is that the firm that so centralises its authority may not be able to train managers to take over the duties of top executives, and external sources must be relied upon to furnish necessary replacements. Thus the key to safe decentralisation is adequate training of managers. By the same token, decentralisation is perhaps the most important key to training.

Control techniques: Another factor affecting the degree of decentralisation is the state of development of control techniques. One cannot expect a good manager at any level of the organisation to delegate authority without having some way of knowing whether it will be used properly.

The state of development of control techniques also affects the degree of decentralisation.

Coupled with a manager's need to understand and use appropriate control techniques is the state of their development. Improvements in statistical devices, accounting controls, and other techniques have helped make possible the current trend towards considerable managerial decentralisation. To decentralise is not to lose control, and to push decision-making down into the organisation is not to walk away from responsibility.

Decentralised performance: This is basically a technical matter depending upon such factors as the economics of division of labour, the opportunities for using machines and the nature of the work to be performed.

The pace of change: The fast-moving character of an enterprise also affects the degree to which authority may be decentralised. If a business is growing fast and facing the complex problems of expansion, its managers, particularly those responsible for top policy, may be forced to make a large share of the decision. But, strangely enough, this very dynamic condition may force these managers to delegate authority and take a calculated risk on the costs of error. Generally this dilemma is resolved in the direction of delegation, and, in order to avoid delegation to untrained subordinates, close attention is given to rapid formation of policies and the acceleration of training in management.

The degree of decentralisation depends upon the pace of change in the enterprise.

Environmental influences: The factors determining the extent of decentralisation discussed above have been largely internal to the enterprise, although the economics of decentralisation of performance and the character of change include elements well beyond the control of an enterprise's manager. In addition, there are definite external forces affecting the extent of decentralisation. Among the most important of these are governmental controls, national unionism, and tax policies.

External factors can affect the extent of decentralisation.

Decentralisation And Participative Management

Some people get the idea that the more decentralised an organisation is, the more democratic or participative it is in terms of managers sharing decision-making with subordinate employees. This is not necessarily true. Decentralisation, however, involves pushing some decision-making down the line to subordinate managers, and, in this sense, it develops more participation in decision-making. However, this does not mean that all subordinates will participate in all decision-making. In the first place, as has been noted, decisions on some matters are

Decentralisation helps participation in decision-making.

reserved by upper-level managers and others may be made only by the top managers and, in some cases, even by the board of directors.

Decentralisation and participative management are different matters.

In the second place, delegation to subordinate managers of authority to make decisions does not mean that these managers will allow their subordinates to share in decision-making. Some managers may be highly participative or democratic in the way they make decisions, and others may not be. Essentially, decentralisation and participative management are different matters.

Obtaining the Desired Degree of Decentralisation

Underlying the discussion to this point has been the assumption that managers can obtain the degree of decentralisation upon which they have decided. In others words, the emphasis has been upon how much decentralisation to have, rather than on whether the desired degree can be realised and maintained.

Many managers who believe that authority should be pushed down in an organisation as far as it will go are faced with the practical problem of how to push it down there. It is a rare top manager who does not find somewhere in the organisation an authority hoarder, who simply will not delegate.

Decentralisation does not imply independence: it must be accompanied by controls.

In obtaining the degree of decentralisation desired, an understanding of decentralisation is essential. This concept is based upon the knowledge that decentralisation cannot mean independence, that it requires establishing policies to guide decision-making along the desired course, that it needs careful delegation of authority by managers, who know how and who want to delegate, and that, not being a surrender of responsibility, it must be accompanied by controls designed to ensure that delegated authority is used properly. Although the art of authority delegation lies at the base of proper decentralisation, it is apparent that the mere act of delegation is not enough to ensure decentralisation.

Everybody has to be held responsible for achieving certain goals, and the person concerned must be backed by necessary authority to do so.

No manual can indicate how to ensure authority being properly decentralised or appropriately withheld, but several techniques may be used with some chance of success. One of the most forceful of these is to ensure that a system of verifiable objectives is established, that each person is held responsible for achieving certain goals, and that each is given the necessary authority for doing so. Another is merely a technique of organisation- the provision of statement of each manager's duties and of the responsibility and the degree of authority delegated to that position. Besides being clear and, preferably, written, the statement should be issued in such a way that all employees may know what it contains.

Decentralisation is also affected at subordinate levels by the examples and teachings of superiors starting right from the top of the hierarchy.

Another important technique is the example and teaching of a superior, starting at the top of the organisation. The character of top leadership in an enterprise affects everyone in an organisation. There are in every firm of any size those who will reach out for power, intrude upon activities assigned to others, and bully the timid. Rules and job descriptions are often subject to differences in interpretation, which can be conveniently stretched or limited depending upon the politics in an organisation. Their unreliability, despite their obvious usefulness, stands as a warning to executives that the most dependable foundation for achieving a desired degree of decentralisation is the education of subordinate managers in the rights of others - teaching them restraint as well as aggressiveness.

One of the means of forcing delegation of authority, particularly in the middle and lower levels of organisation, is to require managers to have a large number of subordinates and at the same time, hold them to a high standard of performance. When the span of management is stretched, there is no alternative but to delegate authority.

When the span of management is big, decentralisation is essential.

Another technique used to force decentralisation has been the policy of promoting managers only when they have subordinates able to take their places. To accomplish this end, managers are forced to delegate authority. Moreover, this policy removes a major cause of hoarding authority, the desire of managers to become indispensable by making sure that their duties cannot be handled by any of their subordinates.

The policy of promoting managers from within only forces decentralisation.

Occasionally the problem concerns how to retain a predetermined degree of authority. Division and branch managers – because they are far away from the home office, often wish to build empires, or want to do a complete job – may assume too much authority and resent the outside auditor, sabotage centralised controls and oppose central management. The answer, of course, to this problem is primarily one of leadership, clear policy determination and authority delegation, and proper training of subordinate managers.

Division or branch managers, far away from the head office, may oppose central management.

Balance : The Key to Decentralisation

Any program for decentralising authority must reflect principles of delegation if practical pitfalls are to be avoided. There are, in addition, several other matters to be considered. The widespread practice of decentralisation in recent years has taught important lessons.

Strong forces favour the practice of decentralisation. The nature of organised effort requires the co-ordination of people at every level, and most of the managers responsible for co-ordination are employed at middle and lower organisation levels; they cannot function without the authority to manage. The growing size of the average organised activity requires an increasing number of managers. And while enterprises do not decentralise in order to develop managers, it is nevertheless quite true that these will not be developed internally unless they have an opportunity to exercise authority. Moreover, the presence of large numbers of well-educated and ambitions young people in an enterprise is a steady pressure on top managers to decentralise.

Decentralisation of authority helps train up managers.

At the same time, extensive decentralisation is not to be blindly applied. In many organisations, the size and complexity of operations do not require it. Decentralisation is not without costs, even in larger companies. In addition to the dangers from non-uniform policy and the problems of control, there are often real financial costs. As authority is decentralised, managers become more and more like independent operators of small business. They may acquire their own accounting force, statisticians, and engineering staff. These people may soon be duplicating specialised services of the top company organisation.

Decentralisation has to be enforced after a careful analysis of costs and benefits involved.

Perhaps the principal problem of decentralisation is loss of control. No enterprise can decentralise to the extent that its existence is threatened and the achievement of its goals is frustrated. If organisational disintegration is to be avoided, decentralisation must be tempered with selective centralisation of certain areas of vital major policy.

Decentralisation must not lead to a loss of control.

Lesson-end assessment

Essay type questions

1. What is your idea about delegation? How is authority delegated?
2. How can clarity of delegation of authority be ensured?
3. In short, discuss the principles of delegation of authority.
4. What are the guides for overcoming weak delegation?
5. What factors are to be considered in determining the degree of decentralisation of authority?
6. Differentiate between decentralisation and participative management. How can the desired degree of decentralisation be obtained?
8. Do you think that a proper balance in decentralisation can be maintained? Explain.

Multiple choice questions

√ the most appropriate answer:

1. Superiors cannot delegate authority:
   (a) to subordinates.
   (b) unless subordinates are trained.
   (c) if managers are unwilling.
   (d) if they do not have it.
2. If authority delegations are specific, a manager may regard his or her job as a:
   (a) staked claim with a high fence around it.
   (b) rewarding one.
   (c) democratic one.
   (d) distinct one.
3. Absolute centralisation in one person is conceivable, but it:
   (a) acts against democratic management.
   (b) implies no subordinate managers and therefore no structured organisation.
   (c) does not ensure efficiency in management.
   (d) is discouraged by modern managers.
4. Even the autocrat in a smaller enterprise is:
   (a) found to behave democratically.
   (b) sometimes participative.
   (c) forced to delegate some authority.
   (d) professionally dedicated.
5. When authority is decentralised:
   (a) industrial democracy prevails.
   (b) productivity improves.
   (c) workers are motivated.
   (d) a lack of policy uniformity and co-ordination may follow.

6. The character of top executives and their philosophy have an important influence on the:
   (a) profitability of the enterprise.
   (b) extent to which authority is decentralised.
   (c) training of employees.
   (d) distribution of profit.

7. Decentralisation is perhaps the:
   (a) best way to improve efficiency.
   (b) most important key to training.
   (c) safest means to enhance profitability.
   (d) most important way to ensure participation.

Exercise

1. Interview the chief executive of a firm, ask him to mention the strengths and weakness as well as the opportunities and threats faced by the firm.
2. Identify the departmentation pattern of a company you know of. Draw an organisation chart for the firm. Would you recommend a different departmentation arrangement? Justify.

CASE 6-1

RESTRUCTURING AT KOREA'S DAEWOO

Daewoo was founded in 1967 by its hardworking, sentlessly driven chairman, Kim (surname) Woo-Chong. After its initial success in exporting textiles, be company expanded into trade, autos, machinery, consumer electronics, construction, heavy shipping, computers, telephones, and financial services, becoming Korea's fourth largest business group. The company became, for example, a textile supplier for Sears, Cristian Dior, Calvin Klein, and London Fog. Daewoo also engaged in a joint venture with General Motors to build the Le Mans car. However, labor and their problems limited the car shipments.

Chairman Kim's philosophy of hard work and to value placed in people were important factors in firm's success. However, in the late 1980s and early 1990s, the company faced several problems. for the, Kim was concerned that with the increasing prosperity of Koreans, the work force might lose the spirit of hard work. Moreover, there was a growing discontent among the younger workers and a lessening of convention.

Through Kim's hands-off approach to manage some of the companies in the Daewoo business went out of control. For example, in the unfitable heavy shipping industry, he noticed many necessary expenses. The elimination of company sponsored barbershops saved the company $8 million year.

In general, Daewoo's work force is young and educated. In contrast to similar positions in many Korean companies, top positions at Daewoo are supplied by managers with no family ties.

Although Daewoo is a manor company with its 91,000 employees, it is not dominant in any one industry. The strategy of being a supplier for major foreign companies, such as Caterpillar, General Motors, and Boeing, may have led to bypassing opportunities for becoming a major marketer of its own brands. Now, in the 1990s, Kim is also looking at opportunities in Europe; for example, he formed a joint venture with a distribution company in France.

The massive restructuring has already had some positive effects. Kim sold some steel, financial, and real estate units. The hands-off managerial style has been replaced by a hands-on style, resulting in recentralization. Managers were "retired" or otherwise let go. Thousands of positions were also eliminated.

Things were looking better in 1991. The company lost money in 1988 and 1989 but made some profit in 1990 partly because of the sale of some major assets. The joint venture with GM registered a healthy growth. The company was also optimistic about the future of the new compact car Espero. Still, in the early 1990s, Daewoo has had to cope with the strong Korean currency, its labor costs, Japanese competition, and recessions in various countries in which it operates.

Questions

1. What are the advantages and disadvantages of a hands-off, decentralized management approach?
2. How can Daewoo stay competitive with the Japanese?
3. What are some of the controllable and uncontrollable factors in this case? How should Mr. Kim respond to those factors?

Source-Heinz Weihrich and Harold Koontz, *Management: A Global Perspective*", McGraw-Hill International Editions, Tenth Edition, 1994, P.341.

For further study

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Staffing

7

Unit Highlights

- ☐ Nature of Staffing Function, Human Resource Planning, Systems Approach to Staffing
- ☐ Recruitment and Selection, Promopte or Hire, Manager Selection
- ☐ Training , Training Programs, Management Development Programs
- ☐ Performance Appraisal: Meaning and Importance, Types, Appropriate Method of Appraising Manager
- ☐ Job Change: Promotion, Transfer and Demotion.

Unit-7 : Staffing

Lesson 1: Nature of Staffing Function, Human Resource Planning, Systems Approach to Staffing

Lesson Objectives

Upon completion of this lesson you will be able to:

- understand the nature of staffing function.
- discuss Human Resource Planning.
- describe Systems Approach to Staffing with the help of a diagram.

Progressive employers and senior managers all over the word often say that people are their most important resource or asset. Yet this is never found to appear as a distinct item in the balance sheet of their business . It is for this reason that late Renesis Likert and his associates suggested the necessity for "human resource accounting". Instead of going into the complexities of accounting, we would like to emphasise here that staffing is a crucial function of managers which can decide the success or failure of an enterprise.

People are the most important asset of an enterprise.

Nature of Staffing Function

Staffing has long been an integral part of the management process. Like other traditional management functions such as planning and organising, the domain of staffing has expanded over years. This growth reflects increasing environmental complicity and greater organisational awareness about the importance of human resource management. The early definitions of staffing narrowly focused on hiring people for vacant positions. Today staffing is defined more broadly as human resource planning, selection, development and appraisal aimed at providing the talent necessary for organisational success.

Staffing may be understood as human resource planning, selection, development and evaluation for providing necessary talent with a view to organisational success.

Human Resource Planning (HRP)

Planning enables managers to better cope with an uncertain environment and allocate scarce resources more efficiently. The importance of Human Resource Planning has been emphasised by some management scholars as follows :

HRP may be defined as the development of comprehensive staffing strategy for meeting the organisation’s future human resource needs.

"There continues to be in organisations a failure, particularly on the part of line managers and functional managers in areas other than personnel, to recognise the true importance of planning for and managing human resources."[1]

Human resource planning is sometimes referred to as manpower planning when applied to all employees, or management succession planning when strictly applied to managerial employees. It helps management find the right people for the right jobs at the right time. Human resource planning may be rightly defined as the development of a comprehensive staffing strategy for meeting the organisation’s future human resource needs.

A Systems Perspective

Human resource planning requires foresight and a systematic approach to staffing.

A systematic approach to staffing is the essential requirement of human resource planning. Staffing as a managerial function, traditionally has suffered from a lack of continuity. People are often hired and trained on an " as needed" basis, which proves ultimately short-sighted and inadequate in the context of a rapidly changing modern world. What is needed is a farsighted, systematic approach that can provide specific answers to the following questions :

1. Are the right numbers and kinds of people doing the things we need to have done?
2. Are we properly utilising our people?
3. Do we have the people we need to satisfy our future needs?

Answers to these questions can be obtained through a systematic approach. First, current staffing needs are assessed. Next, future needs of human resource are forecasted. Third , a comprehensive staffing strategy is formulated. Finally an evaluation and updating of the system is achieved by continually recycling through the process.

The Systems Approach to Staffing:
An Overview by Weihrich and Koontz

Staffing relates to the total management system.

The following diagram shows how the managerial function of staffing relates to the total management system. To be specific, enterprise plans become the basis for organisation plans, which are necessary to achieve enterprise objectives. The present and projected organisation structure decides the number and type of managers and other employees required. These demands for managers are compared with available talent through the management stock-list of inventory. On the basis of the information obtained through above analysis, external and internal avenues or sources are tapped in matters of recruitment, promotion and redundancy. Other essential functions of staffing such as appraisal, career strategy and training, and development are also dealt with.

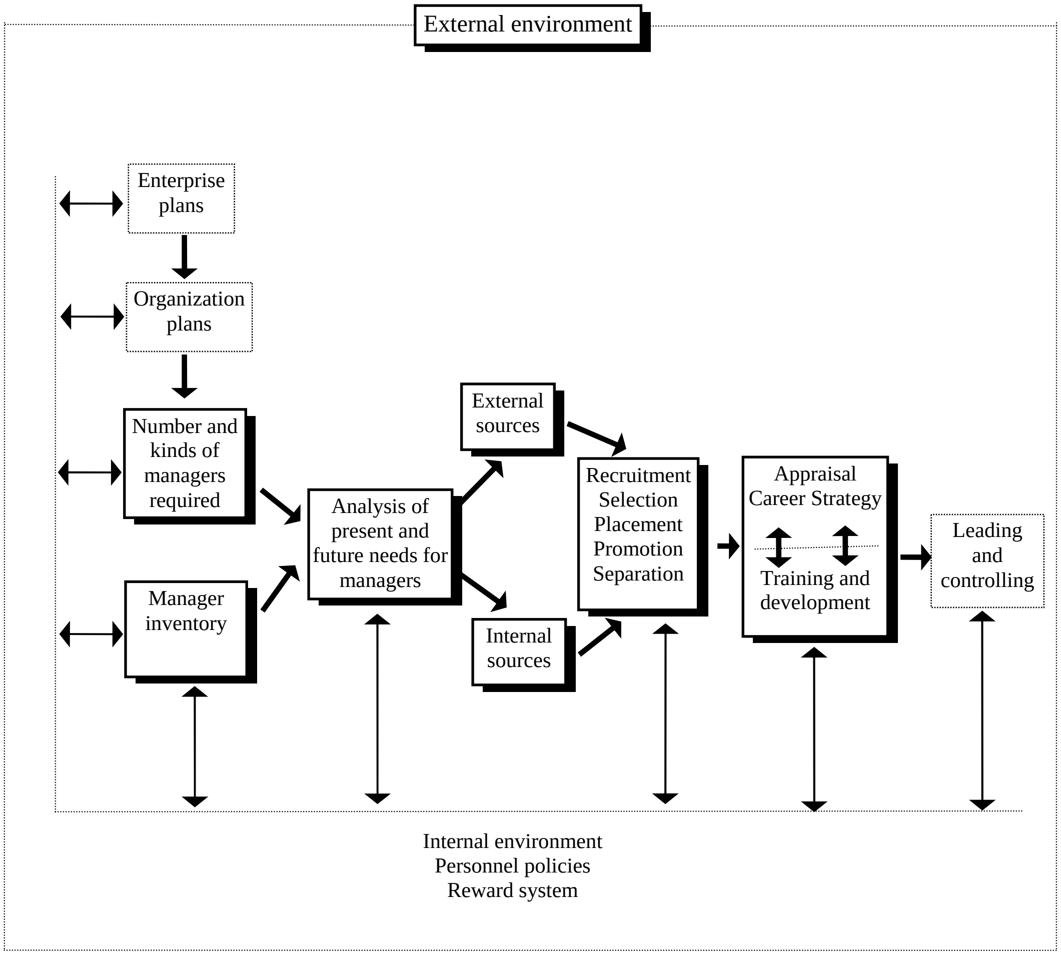
Staffing, as shown in figure 7-1, affects leading and controlling. For example, well-trained managers and employees create an environment in which people, working in groups, can accomplish personal as well as enterprise objectives. In other words, proper staffing facilitates leading. Similarly, selecting quality managers serves the purpose of controlling by preventing many undesirable deviations giving rise to major problems.

Assessing Current Needs

Job analysis and job description are essential for assessing staffing needs.

As long as management does not have a clear picture of the organisation’s staffing position, there cannot be any meaningful forecast and formulation of a staffing plan. A first step in this direction is a time-consuming procedure called job analysis. Job analysis is the process of determining the fundamentals of a job through systematic observation and analysis. Usually a team of trained specialists isolate specific jobs by analysing work flows, tracking procedures for accomplishing subunit objectives, and interviewing individuals about what their jobs entail. If job descriptions exist, they are updated. If not, they are written. A job description is a clear and concise summary of the duties of a specific job and the qualifications for holding it. It is useful for staffing in order to achieve gainful individual-organisation matches.

FIGURE 7-1


External environment
Enterprise plans
Organization plans
Number and kinds of managers required
Manager inventory
Analysis of present and future needs for managers
External sources
Internal sources
Recruitment
Selection
Placement
Promotion
Separation
Appraisal
Career Strategy
Training and development
Leading and controlling
Internal environment
Personnel policies
Reward system

SYSTEMS APPROACH TO STAFFING

Source: Heinz Weihrich and Harold Koontz ,"*Management: A Global Perspective*" Tenth Edition, P.358.

An organisation needs to be properly staffed.

By comparing updated job descriptions with the qualifications and duties of the individuals currently holding those jobs, management can determine whether the organisation is appropriately staffed. Overstuffing can run to wasteful expenses, but understaffing can block the achievement of organisational objectives. An appropriately staffed organisation has the right number of people working in jobs best suited to their talents.

Factors to Consider in Forecasting the Demand and Supply of Human Resources

Forecast Demand	• Expected growth of the organisation • Budget constraints • Turnover due to resignations, termination, transfers, retirement, and death • Introduction of new technology • Minority-hiring goals
Forecast Supply	• Number of employees willing and able to be trained • Promotable employees • Availability of required talent in local, regional, and national labor markets. • Competition for talent within the industry and in general • Demographic trends (such as movement of families from one part of the country to another) • Enrolment trends in government training programs, trade schools, colleges and universities.

Forecasting Future Needs

Projected demand and projected supply have to be compared for forecasting the organisation's future staffing.

The next step involved in human resource planning cycle is to compare projected demand and projected supply. It is often helpful for managers to visualise human resources as flowing into, through and out of the organisation. Employees tend to leave the organisation for a variety of reasons, and they must be replaced. Both internal and external sources of supply should be explored. One important element is prevailing trends in education. For instance, if enough people are studying computer programming in schools and colleges, data-processing firms may not need to train so many of their own computer programmers in the future.

A detailed list of future staffing requirements is the net result of human resource demand and supply forecasting. This list will tell management how many people and of what kind will be needed at specific future points in time.

Formulation of a Staffing Strategy

In adopting a staffing strategy management can either rely on the existing employees or hire new ones.

To satisfy future requirements, two sets of options are open to management. First, management can rely on current employees or hire new ones. Second, employees can be trained or not trained. When these two sets of options are combined, four staffing strategies emerge: (1) do not train current employees, (2) train current employees, (3) hire but do not train outsiders, and (4) hire and train outsiders. Most often in today's larger organisations, all four staffing strategies are used simultaneously according to circumstances.

Evaluation and Update

HRP requires feedback and controlling.

As it is the case with many other systems, human resource planning requires a feedback mechanism or a means of monitoring the system. By comparing the actual performance of the system on previously formulated plans, necessary corrective measures can be undertaken. Unexpected shortages and excesses of qualified people signal a defect in the planning system. Management sometimes discovers that they have overlooked critical demand or supply factors. Whatever may be the case, prompt corrective action will help the human resource planning cycle work more smoothly and effectively each time such action is repeated.

Lesson-end assessment

Essay type questions

1. What do you understand by staffing? Discuss in brief the nature of staffing function.
2. What is Human Resource Planning? Discuss the Systems Approach to Planning with the help of a diagram.
3. How would you (a) assess the current needs and (b) forecast future needs of employees

Multiple choice questions

√ the most appropriate answer:

1. The present and projected organisation structure decides :
    - (a) the type of management of the enterprise.
    - (b) the number and type of managers and other employees required.
    - (c) the units to be sold.
    - (d) the amount of profit to be earned.
2. A job description is a clear and concise summary of the:
    - (a) activities of an enterprise.
    - (b) duties of a specific job and the qualification for performing them.
    - (c) jobs of the organisation.
    - (d) responsibilities of an employee
3. Unexpected shortages or excesses of qualified people:
    - (a) ensures high profitability of the organisation.
    - (b) signal a defect in the planning system.
    - (c) helps enhance productivity.
    - (d) brings about a quick downfall.

Lesson 2 : Recruitment and Selection, Promopte or Hire, Manager Selection

Lesson Objectives

Upon completing this lesson, you will be able to:

- understand the meanings of, and distinguish between recruitment and selection.
- describe the devices/procedures of selection.
- explain the situations in which a managerial position can be better filled by promoting someone from within.
- conceptualise when managerial positions should be filled up by hiring people from outside.
- understand the intricacies of manager selection.
- define job design.

Recruitment

Job analysis, job description and hiring specification are the steps in the recruitment process.

The objective of recruitment is to provide a group of candidates which is large enough to let managers select the qualified employees from that they require. Before employees can be recruited, recruiters must have some clear ideas regarding the activities and responsibilities required in the job being filled. It has already been said, **job analysis** is the first step in the recruitment process. The next step is the preparation of a statement called either a **job description** or **position description** containing the contents and location of the job. Once the job or position description has been determined, an accompanying hiring or job specification is developed. A **hiring specification** is a written description of the education, experience, and skills needed to perform a job or fill a position.

Selection

Selection means choosing a candidate for a job.

As already said, the purpose of recruitment is to identify a pool of qualified candidates for a job or a position. Managers use a **selection** process to evaluate each of these candidates, to make predictions of the probable levels of job performance by each, and to choose a candidate for the job. Any technique or procedure for choosing from among candidates is referred to as a **selection device**. A wide range of selection devices are available to give human resource managers information on which to base their decisions. These selection devices include:

***Application blanks*:** These are forms that ask for personal information as well as information about previous training and work experiences.

***References and recommendations*:** By this device, information is sought and obtained from sources other than the candidate about his or her past performance record. The employer may contact the current employer of each of the three leading candidates for the job of an accounts officer. Two are rated "perfectly acceptable employees." The third is rated "almost irreplaceable." Sometimes references and recommendations are honest, helpful and reliable. They quite often genuinely help managers identify good potential employees and screen out others in the industrially developed countries of the west. However references and recommendations can be sometimes unreliable, if the sources or referees allow personal opinions and feelings – positive or negative – to override objective evaluation of the candidate.

Information about the candidate is sought from reliable persons other than the candidate.

Interviews**:** Question-and-answer sessions are held between candidate and prospective employer. It has been observed by some authorities that "the interview is probably the most widely used personnel technique, particularly in the selection procedure. Surveys show that almost all personnel managers use this method at some stage in the selection procedure."[2] Additionally, it is common for line managers at all levels to be asked to interview candidates for job openings and promotions. Nearly all managers should be aware of the shortcomings of the traditional method of unstructured interview, the one with no fixed question format or systematic scoring procedure. The traditional unstructured or informal format of interview has been criticised because:

Candidates are called for question-and-answer sessions between them and their prospective employers.

- it is highly susceptible to distortion and bias.
- it is highly susceptible to legal attack.
- it is usually indefensible if legally contested.
- it may have apparent validity, but no real validity.
- it is rarely totally job-related and may incorporate personal items that infringe on privacy.
- it is the most flexible selection technique, thereby being highly inconsistent.
- there is a tendency in the interviewer to look for qualities that he or she prefers, and then justify the hiring decision based on these qualities.
- often, the interviewer does not hear about the selection mistakes.
- there is unsubstantiated confidence in traditional interview.

Structured interviews are the recommended alternative to traditional unstructured or informal interviews. A **structured interview** may be defined as a series of job-related questions with predetermined answers that are consistently applied across all interviews for a particular job. Structured interviews are constructed, conducted, and scored by a committee of three to six members to try to eliminate individual bias. Because of their structured format and scoring, structured interviews remove each of the weaknesses of unstructured interview listed above.[3]

Structured interviews can eliminate the personal prejudices and biases of an individual interviewer.

Tests**:** A wide variety of instruments are used to verify candidates' abilities, skills, behaviour, and attitudes. The best tests assess these factors that the job analysis identifies as necessary for the candidate to perform well on the job and to do so in a standardised manner. The three top candidates for an accounting job are given an accounting test to work through.

Tests help verify the candidate’s abilities, skills, behaviour and attitude.

Promote or Hire

Employee selection serves as the organisation's main conduit for human resource. Present-day managers are challenged to find the best available talent for the organisation.

Except at the lowest level of entry, the manager's first step in the selection process involves choosing between inside and outside talent.

The manager's first step in the selection process involves, except for job openings at the lowest entry level, choosing between inside and outside talent.

Usually outsiders are hired for bottom-rung positions in the organisational hierarchy. But what about the many positions above the lowest entry level whether recently created or vacated? Management can promote a current employee from the same geographic location, transfer in a current position from another place or hire an outsider. The following are the advantages of promoting an insider or hiring an outsider:

Advantages of promoting an insider: Three advantages of promoting an insider are: (1) promotion from within is less expensive than transferring or hiring; (2) promotable insiders are proven performers; and (3) promotion from within can have a positive motivational effect.

Hiring one from outside is much more expensive than promoting an insider.

In recent years, both inflationary pressure and more complicated hiring practices have caused hiring and transfer costs to skyrocket. Employment agency fees, recruitment, advertising, testing, interviewing, reference checks, medical examinations, reimbursement or relocation expenses, and orientation run up expenses quickly. Avoiding these hiring and transferring costs has become a powerful incentive to find and promote qualified insiders.

It is much easier to judge the ability of an insider than an outsider candidate.

Management runs the risk that one who looks good on paper may not prove good at actual work which is placed in a new and unfamiliar environment. To a certain extent, promotable insiders can demonstrate their worth. Evidence of an insider's worth comes from direct observation, whereas management can use only second-hand information in evaluating an outsider.

A fair policy of promotion from within can be a potent motivational tool.

Experience tells that people tend to work harder when they believe they have a good chance of being promoted. Moreover, a competitive and emulating spirit tends to grow when employees see that deserving co-workers are promoted to better paying higher status jobs. Dead-end jobs, on the other hand, tend to stifle motivation and commitment. Promotion from within, when regularly and fairly used, can be a potent motivational tool.

Bringing someone new who possesses the necessary qualifications can stimulate a healthy working environment and save expenditure.

Advantages of bringing in an outsider: Over the policy of promoting from inside, there are three advantages of transferring in or hiring an outsider: (1) bringing in outsiders helps prevent social inbreeding; (2) training costs are reduced when a qualified outsider is hired; and (3) new people tend to introduce new perspectives.

Undesirable social inbreeding occurs when people are promoted on the basis of who they know rather than what they know. Bringing in someone new can cut out any automatic cycle of favouritism that may exist.

Resorting to transferring or hiring also tends to keep down training costs. An insider who lacks the skills necessary for a higher position must be trained before promotion is possible. Consequently, there is a strong economic argument for bringing in someone who already possesses the necessary skills.

Newcomers bring along new ideas and perspectives.

New people can be an infusion of new blood into an organisation. They bring new perspectives, new ideas, and probing questions that can stimulate thinking among the present employees. Newcomers can introduce a healthy questioning attitude about an organisation's assumptions and can motivate the present employees to develop their own abilities.

Management should think on balance before hiring someone from outside, and then go on to screen recruits systematically.[4]

Manager Selection

Of all selections, by far the most important task is the selection of managers because the quality of managers is the most important single determining factor for the continuing success of any enterprise. As a business is not made by plant, equipment, materials and people, so is the case with an effective military force which is not made by tanks, planes ships and people. What is most vital and indispensable is effective managers.

Effective managers are vital and indispensable.

Organisations may take recourse to both the methods of outside-hiring or inside-promotion mentioned above. Organisations may seek to hire experienced managers for a variety of reasons. A newly created post may require a manager with experience not available within the organisation; a manager with requisite talent to fill up an established post may not be available within the organisation; a key position may suddenly open up before there is time to train a replacement; or a highly successful manager in a competing organisation may be sought to improve the organisation's own competitive position.

Both the methods of outside-hiring and inside-promotion may be necessary.

Generally an experienced manager who is considered for selection to fill up upper level position goes through several interviews before being hired. People taking an interview are invariably themselves higher-level managers who try to assess the candidate's suitability and past record. Interviewers attempt to determine how well the candidate fits into their idea of what a good manager should be like and how compatible the candidate's personality, past experience, personal values and style of work are with the organisation and its culture.

Interviews attempt to determine the suitability of a candidate for given job.

New and inexperienced managers or probationary officers with management potential usually enter an organisation after graduation from colleges or universities. Their performance at entry-level positions strongly influences the scope of management opportunities that will be available to them.

Performance of executives at the entry level strongly influences their career.

In case of prospective young managers who are fresh from colleges or universities, assessment in most cases starts with a review of their college or university grades. College or university records can also provide some information about non-academic abilities such as interpersonal skills, leadership qualities, and ability to assume responsibility. Like experienced managers, prospective managers too may finally be interviewed in a comprehensive manner to determine the appropriate ability and expertise being demanded from the new manager.[5]

Review of academic records and a comprehensive interview are required to assess the potentiality of new managers.

Lesson-end assessment

Essay type questions

1. What do you understand by recruitment? How would you distinguish it from selection? Describe the procedure of selection.
2. What are the devices of selection? Can you tell us when an upper-level managerial position should be filled up by promoting someone from within?
3. When should managers be hired from outside the organisation? Why is manager selection considered important?
4. What do you understand by job design? Discuss in brief the procedure of manager selection used in our country.

Multiple choice questions

√ the most appropriate answer:

1. The hiring specification is a written description of the:

   (a) job to be done.
   (b) candidates to be hired.
   (c) tasks to be performed.
   (d) education, experience, and skills needed to perform a job or fill a postion.

2. Any technique or procedure for choosing from among candidates is referred to as:

   (a) recruitment.
   (b) personnel management.
   (c) a selection device.
   (d) employment test.

3. Experience tells that people tend to work harder when:

   (a) they have a good chance of being promoted.
   (b) the opportunity to earn more is ensured.
   (c) they are closely supervised.
   (d) they are punished for negligence.

Lesson 3 : Training, Training Programs, Management Development Programs

Lesson Objectives

Upon completing this lesson, you will be able to:

- understand the nature and significance of training.
- identify the methods that can be used by managers to determine the training needs of employees.
- discuss on-the-job and off-the-job training methods.
- discuss the importance and the types of off-the-job methods of management development.

Training

To put it very simply, training is the act of increasing the knowledge and skill of an employee for doing a particular job. There is often a gap between what employees actually know and what they should know. Filling this gap of knowledge in doing the job by means of training is an important task of management. Training is, therefore, a learning experience in that it seeks a relatively permanent change in an individual that will improve his or her ability to perform on-the-job. Training typically involves changing skills, knowledge, attitudes or social behaviour.

Training increases the knowledge and skill of an employee for doing a particular job.

Training programmes are aimed at maintaining and improving current job performance, while development programs seek to develop skills for future jobs. Both managers and non-managers may receive help from training and development programmes, but the mix of experiences is likely to vary. Non-managers are much more likely to be trained in the technical skills required for their current jobs, whereas managers frequently receive assistance in developing the skills required in their future jobs - particularly conceptual and human relations skills.

Non-managers are to be trained in technical skills while managers require to develop their human relations and conceptual skills.

Training Programmes

Fresh employees have to be trained to help them learn new skills. Since they are likely to be more motivated, new skills and knowledge can be imparted to them easily. On the other hand, training the experienced employees can be problematic. Their training needs are not always easy to determine, and even if that can be done, they may resent being asked to change their established ways of doing their jobs.

Training fresh employees is much easier than training the experienced ones.

The following four methods can be used by managers to determine the training needs of the employees in their organisation or department:

1. ***Performance appraisal*:** Performance of each employee is measured against the performance standards or objectives established for his or her job.
2. ***Analysis of job requirements*:** The skills or knowledge specified in the job description are examined and the employees lacking necessary skills or knowledge specified therein are selected for a training programme.

3. ***Organisational analysis*****:** The effectiveness of the organisation and its success in meeting its goals are analysed for determining and identifying the area and kind of training required. For example, members of a department with a high turnover rate or low performance record might require additional training.
4. ***Employee survey*****:** Opinions of managers and non-managers are sought about the problems they experience in their work and what actions they deem necessary for solving the problem.

Job rotation, internship and apprenticeship are some important on-the-job approaches.

Once the training needs of the organisation have been identified, the human resources manager shall have to take the initiative for appropriate training effort. Managers may resort to a variety of training approaches. The most common of these are on-the-job training methods, including job rotation, in which the employees work on a series of jobs over a period of time, thereby learning a wide variety of skills. Internship in which job training is combined with related classroom instruction, and apprenticeship, in which the employee is trained under the guidance of a highly skilled senior co-worker, are the two other approaches to meet the training needs of the employees.

Vestibule training, simulation exercises, business games, role-playing, classroom seminars, and videos are important off-the-job means of training workers.

Off-the-job training is given outside the work place but efforts are made to stimulate actual working conditions. This type of training includes vestibule training, in which employees train on the actual equipment and in a realistic job setting but in a building different from their own. The aim is to avoid the on-the-job pressures that might interfere with the learning process. In behaviourally experienced training, activities such as simulation exercises, business games, and problem-centred cases, are employed so that the trainee can learn the behaviour appropriate for the job through role-playing. Class-room seminars, lectures and films are some of the off-the-job training methods used in employee training.

Management Development Programs

Management development aims at improving the overall effectiveness of managers at their existing positions as well as preparing them for greater responsibility when they are promoted. These programs have become more prevalent in recent years because of increasingly complex demands on managers. Another reason is the problem of training managers through experience alone which is a time-consuming and unreliable process.

On-the-Job Methods

Training a new recruit by his/her supervising officer.

In management development programs, on-the-job methods are usually preferred. This type of training is far more likely than the off-the-job type to be tailored to the requirements of an individual.

Four major formal on-the-job development methods are as follows:

1. ***Coaching*****:** The training of an employee of a managerial cadre by his or her immediate supervising officer is by far the most effective management development technique. Unfortunately, many managers are either unable or unwilling to coach those they supervise. In order to be effective, on-the-job coaching must be tempered with considerable restraint. Employees can not develop unless they are allowed to work out problems in their own way.

Managers quite frequently feel compelled to tell their employees exactly what to do there by negating the effectiveness of coaching. Again, some managers sometimes feel threatened when asked to coach an employee, fearing they are asked to create a rival. In fact, the manager has much to gain from coaching, since a manager quite often is not likely to be promoted unless a successor is available to replace him/her.

Many organisations give much emphasis to coaching their managers. Conscientious managers often maintain a development file for each of their employees, indicating the training he/she is receiving, the skills he/she is acquiring, and the rate of his or her progress in performance. A record of critical incidents - situations in which an employee displays desirable or undesirable behaviour - may be included.

2. ***Job rotation*****:** This involves shifting managers from position to position so that they can broaden their experience and familiarise themselves with various aspects of the firm's operations.

Shifting managers from one position to another.

3. ***Training positions*****:** This is the third method of developing managers. Trainees are given staff posts immediately under a manager, often with the title of "assistant to." Such assignments give trainees a chance to work with and model themselves after outstanding managers who might otherwise have little contact with them.

Trainees are posted as “assistant to” senior managers.

4. ***Planned work*****:** It involves giving trainees important work assignments to develop their experience and ability. Trainees may be asked to head a task force or participate in an important committee meeting. Such experiences help them gain insight into how organisations operate and also improve their human relations skills.

Trainees are given important work assignments.

Off-the-Job Methods

Off-the-job development techniques remove individuals from the stresses and ongoing demands of the workplace, enabling them to focus fully on the learning experience. In addition, they provide opportunities for meeting people from other departments or organisations. Thus, employees are exposed to useful new ideas and experiences while they make potentially useful contacts. The most common off-the-job development methods are in-house classroom instruction and management development programs sponsored by universities and organisations such as the American Management Association.

Trainees are taken out of their work environment and exposed to new ideas and experiences.

Management development programs almost invariably include some form of classroom instruction in which specialists from inside or outside the organisation teach trainees a particular subject. Classroom teaching is often supplemented with case studies, role-playing and business games, or simulations. For instance, managers may be asked to play roles on both sides in a simulated labour management dispute.

Classroom teaching is often supplemented with other methods.

A number of organisations in the developed countries send selected employees to university-sponsored management development programmes. Many major universities have such programmes, which vary from a week to three months or more. Some universities also have one-year full-time study

Universities sponsor management development programmes.

programmes for mid-level managers. Usually these managers are selected for promotion. They are sent to university programmes to broaden their perspectives and groom them for movement into general (as opposed to functional) management. Such university programmes often combine classroom instruction with case studies, role-playing, and simulation.

Large corporations also offer off-the-job training programmes.

In the USA, increasingly large corporations are assuming many of the functions of universities with regard to advanced off-the-job training of employees. Many business firms and industrial associations offer accredited academic degrees. Rank Xerox, Arthur Anderson, G.E. and Holiday Inns have each acquired educational facilities that almost resemble university campuses.[6]

Lesson-end assessment

Essay type questions

1. What do you understand by training? How can a manager identify the training needs of employees?
2. Briefly discuss the methods of training usually followed by managers to enhance the efficiency of their employees.
3. Elaborate on the major formal management development methods – both on-the-job and off-the-job.

Multiple choice questions

√ the most appropriate answer:

1. Training:
   - (a) increases the adaptability of an employee.
   - (b) decreases waste of resources.
   - (c) increases the knowledge and skill of an employee for doing a particular job.
   - (d) enhances productivity.
2. Off-the-job training is given outside the workplace but:
   - (a) it is more effective than on-the-job training.
   - (b) efforts are made to make them appropriate.
   - (c) efforts are made to stimulate actual working conditions.
   - (d) it consumes time.
3. The training of an employee of the managerial cadre by his or her immediate supervising officer is called:
   - (a) understudy.
   - (b) coaching.
   - (c) simulation.
   - (d) apprenticeship.
4. Classroom teaching is often supplemented with:
   - (a) job rotation.
   - (b) job design.
   - (c) case studies, role-playing, business games or simulation.
   - (d) practical work.

Lesson 4 : Performance Appraisal (PA): Meaning and Importance, Types, Appropriate Method of Appraising Manager

Lesson Objectives

Upon completing this lesson, you will be able to:

- understand the meaning and importance of performance appraisal.
- distinguish between formal and informal performance appraisal.
- discuss the most frequently used approaches to formal systematic performance appraisal of employees used by modern managers.
- explain the importance of appraising performance of managers and also identify the appropriate method of appraising managers.

Meaning and Importance of Performance Appraisal

Performance appraisal is the process of evaluating how effectively employees are fulfilling their job responsibilities and contributing to the accomplishment of organisational goals. To appraise performance effectively, a manager must be aware of the specific expectations for a job, monitor the employee's behaviour and results, compare the observed behaviour and results to expectations, and measure the match between them. In most cases, a manager should also provide feedback to employees, a process that can produce strong reactions.

PA is the process of evaluating how effectively employees are fulfilling their job responsibilities.

Performance appraisals are extremely important to an organisation, although they may be difficult to conduct. They tell organisations whether their selection methods are right. They demonstrate where training, development, and motivational programmes are needed and later help to assess whether these have been effective. As a matter of fact, many organisational policies and practices are evaluated, in large part, through their impact on performance. Performance appraisals, after all, are the basis on which managers make decisions about compensation, promotion, and dismissal. They also use feedback about people's performance to recognise them for a job well done and motivate them. In short, without a good judgement of the employee's performance, managers find it very difficult to identify and encourage organisational effectiveness. It is because formal performance appraisals are so important that most organisations systematically carry them out.[7]

PA provides the basis on which managers make decisions about compensation, promotion and dismissal.

Appraisals may be done in two ways - informally and formally:

Informal appraisal can be conducted on a daily basis, and is an excellent method of encouraging desirable performance.

Informal Performance Appraisal means the continual process of having feedback about workers' or employees' performance. This kind of appraisal can be conducted on a day-to-day basis. The manager spontaneously mentions that a particular piece of work was performed well or badly. On the other hand, the employee may himself/herself follow the steps taken by the manager's office in order to find out how a particular piece of work was received. Because of the close connection between the behaviour and the feedback on it, informal appraisal is an excellent method of encouraging desirable performance and discouraging undesirable work. In order to be effective, an organisation's employees must come to see informal appraisal not as a mere casual matter but as an important activity and an integral part of the culture of the organisation.[8]

Formal Systematic Appraisals

Formal systematic appraisal is usually done on a half-yearly or an annual basis. This kind of appraisal serves mainly four major purposes:

(1) to keep employees informed formally as to how their current performance is being rated; (2) to identify employees who deserve merit raises; (3) to identify employees requiring further training, and (4) to locate employees deserving promotion.

It is important for managers to differentiate between the current performance and the promotability (potential performance) of employees. Managers in many organisations fail to make this distinction because they assume that a person with the skills and ability to perform well in one job will automatically perform well in a different or more responsible position. This is why people are often promoted to positions in which they cannot perform adequately.

The first approach of PA is a manager's rating of an employee.

Who is responsible for formal performance appraisals? In answer to this question, four basic appraisal approaches have evolved in organisations. The first approach, a manager's rating of an employee, is by far the most common. However, other approaches are becoming more popular, and can be a valuable supplement to appraisal by a single person.

The second approach of PA is a group of managers rating an employee.

The second most frequently used appraisal approach is a group of managers rating an employee. Employees are rated by a committee of managers or by a series of managers who fill out separate rating forms. Since it is based on a number of views, this approach is often more reliable and effective than appraisal by a single manager. It is, however, time-consuming and often dilutes the employee's sense of accountability to his immediate supervisor.

The third method of PA is a peer group rating a colleague.

The third method of appraisal is a peer group rating a colleague. An individual colleague is rated separately and on paper by fellow workers on the same organisational level.

Rating bosses by the employees is the fourth approach. This approach is used in some colleges or universities mainly in the USA, where faculty are asked to evaluate their dean by using a number of performance criteria. But this is now being increasingly used in businesses in the states responding to the furore of dynamic challenges.[9]

Importance of Appraising Managers

Appraising managers is really the only way of ensuring that managers are managing efficiently.

Managerial appraisal is a major key to the success of management itself. It should be the basis of determining who is promotable to a higher position. It is, of course, important to management development because if a manager's strengths and weaknesses are not known, it would be difficult to know whether development effort is being made in the right direction. Appraisal is, or should be, an integral part of a system of managing. Knowing how well a manager plans, organises, staffs, leads and controls is really the only way to ensure that those occupying managerial positions are actually managing effectively. In order that any organisation, business, government, agency, a charitable organisation or even educational institution, can reach its goals effectively and efficiently, ways of accurately measuring management performance must be found out and implemented.

Appropriate Method of Appraising Managers

The most appropriate standards to be used for appraising managers as managers are the basic principles of management. Appraising a manager broadly is done by using only the basic functions of the manager. These are important no doubt, but these are too broad to be used as standards of appraisal.

The best approach to appraising managers is to use the basic techniques and principles of management as standards.

According to Koontz and O'Donnel, the best approach is to use the basic techniques and principles of management as standards. Since they are considered to be basic, definitely they are more specific and more applicable than evaluations based on such broad standards as work habits, integrity, co-operation, intelligence, judgement or loyalty. At least they shed more light on evaluating a manager as manager.

An appraisal programme is designed by Koontz and O'Donnel involving classifying the common managerial functions of the manager and then attaching a series of questions with each function to reflect the most important fundamentals of managing in each area. For instance, in respect of planning, the following check questions were designed to rate a manager:

The check questions for rating managers.

Does he set for his departmental unit both short-term and long-term goals in verifiable terms that are related in a positive way to those of his superior and his company?

Does he understand the role of company policies in his decision-making and ensure that subordinates do likewise?

Does he check his plans periodically to see whether they are consistent with current expectations?

In choosing from among alternatives, does he recognise and give primary attention to those factors which are limiting or critical to the solution of a problem?

Also, in the area of organising, such questions are asked as the following:

Does the manager delegate authority to his subordinates on the basis of results expected of them?

When he delegates authority to subordinates, does he refrain from making decisions in that area?

Does he regularly teach his subordinates, or otherwise make sure that they understand, the nature of line and staff relationships?

Does he distinguish in his operations between lines of authority and lines of information?

The other areas of managing are dealt with similarly for a total of seventy-three checkpoints over the five areas of planning, organising, staffing, directing and leading, and controlling."[10]

Lesson-end assessment

Essay type questions

1. What do you mean by performance appraisal? How is it important in management?
2. How would you distinguish between formal and informal performance appraisal? Discuss the frequently used approaches to formal systematic performance appraisal of employees.
3. How can the appropriate method of appraising managers be identified? Explain the importance of appraising performance of managers.

Multiple choice questions

√ the most appropriate answer:

1. Performance appraisal is the process of evaluating:
   (a) a manager only.
   (b) how effectively employees are fulfilling their job responsibilities.
   (c) productivity of an employee.
   (d) an enterprise effectiveness.
2. Informal performance appraisal can be conducted:
   (a) on a monthly basis.
   (b) by a top-level manager only.
   (c) on a day-to-day basis.
   (d) by anyone.
3. Managerial appraisal should be the basis of:
   (a) determining who is promotable to a higher position.
   (b) salary fixation.
   (c) employee assessment.
   (d) determining training needs.

Lesson 5 : Job change: Promotion, Transfer, Demotion

Lesson Objectives

Upon completing this lesson, you will be able to:

- define job change.
- understand the nature, significance and types of promotion.
- discuss the bases of promotion with relative merits and demerits of "seniority" and "merit" as bases of promotion.
- understand the meaning and goals of transfer.
- identify the circumstances in which demotion becomes necessary.

Job Change

One major aspect of human resource management is the movement of personnel within an organisation i.e., their promotion, transfer, demotion and separation. This movement is also sometimes termed job change which may be either informal or formal. Under the informal plan which is more common because of its simplicity, decisions as to who should be transferred, promoted, or separated, usually vary from person to person and from time to time. In other words, whims and prejudices take the place of written rules. The result is that no one knows what his or her status is likely to be in the future. This produces a highly demoralising influence on all workers. A formal job change plan is, therefore, a 'must' in all large organisations.

Movement of personnel within an organisation, i.e. their promotions, transfers, demotions and separations is also termed job change.

Promotion

Job change usually involves filling vacancies by the internal movement of the existing employees. These movements are usually of two types: promotions and transfers. Promotion means a change involving an employee moving to a position higher than the one formerly occupied. His responsibility, status and pay also increase. The possibility of advancement often serves as a major incentive for superior managerial performance, and promotions are the most significant ways to recognise superior performance.

Promotion involves moving an employee to a higher position.

However, there are promotions which do not give rise to any increase in the employee’s pay. Such a promotion is called 'dry' promotion which is usually made decorative by giving a new and longer title to the employee. Employers generally get rid of their incompetent employees by giving them such decorative promotions.

Dry promotion brings no pay benefits.

In many companies only vertical promotions are made under which the employees are promoted from one rank to the next higher rank in the same department. Such a promotion method suffers from two shortcomings: first it limits the horizon of experience of an employee; second, it deprives the employee of the opportunity to secure promotion in other departments at the right time. Consequently horizontal promotions are also allowed in some companies under which employees may be promoted to higher ranks in other departments as well.

Vertical promotion moves the employee from one rank to the next higher rank.

Since promotion or advancement serves as a major incentive for superior managerial performance and promotions are the most significant methods of recognising a manager's merit, it is extremely important that promotions be fair, objective, and untainted by favouritism. However, one important problem might arise quite often owing to the organisation's members, who are bypassed for promotion: they are likely to feel resentful which may affect their morale and productivity.

Promotions need to be fair and objective.

Needs for a Sound Promotion Policy

There should be a uniform distribution of promotional opportunities throughout the organisation.

The first requirement of a sound promotion policy is that it must provide for uniform distribution of promotional opportunities throughout the organisation. In other words, the ratio of internal promotions to recruitment must be the same at various levels in all departments. If this ratio differs considerably from one department to another, the morale of employees may be seriously impaired in the department known for its low ratio of promotions.

A sound promotion policy must state opportunities for advancement.

Secondly, a sound promotion policy must clearly state to managers and all other employees in advance about the opportunities for advancement. Organisations generally make use of various types of charts for this purpose. These charts variously known as "opportunity charts" or "promotion charts" do not promise or guarantee the promotion of an individual. They merely point out how various positions in the organisation are related to each other.

There should be definite criteria for promotion.

The third requirement for such a policy is to have some definite system for the selection of the employees who are to be promoted. This obviously calls for having a set of definite criteria for the purpose. This makes the process fair and objective.

Promotion policies must provide for follow-up, counselling and review.

Fourthly and finally, a sound promotion policy must provide for a suitable system of follow-up, counselling and review. For example, after a couple of months either the personnel manager or the departmental head should hold a brief interview with the promoted manager or personnel himself/herself or discuss with the concerned superior to know about his/her performance in the newly promoted post. All promotions should be made for a trial period so that in case the promotee is not found capable of handling the job he can be reverted to his former post on the former pay scale.

Basis of Promotion

The seniority method of promotion may demoralise capable young employees.

There is a controversy over what should be the criterion for promotion – seniority or ability? Seniority refers to the relative length of service of employees. The seniority method of promotion has been in vogue since ancient times. Historically this method should be regarded as a success. However, in modern business it is not always reliable and effective as a promotional policy. One important drawback of the seniority principle is that capable young people are likely to become impatient and demoralised "waiting-for-dead-men's shoes" and may quit to look for better opportunities elsewhere. Consequently, the organisation is most likely to be managed by second-grade people.

Employees might be suspicious of the merit criterion of promotion.

In principle, it is agreed by all that promotion should be based on merit. The use of merit as a basis for promotion causes difficulties because employees may not have full faith in what management regards as merit, or they might consider such a criterion as a pretext for favouritism.

Therefore as far as possible merit rating should be fair, objective and transparent.

Seniority-cum-merit should be the basis of promotions where merit can be objectively tested. The term merit generally means efficiency, skill, aptitude etc. When a combination of merit and seniority is desirable, the play of discretion in the matter of selection cannot be overlooked. A sound management will also pursue a policy of properly balancing these factors.

Seniority-cum-merit should be the basis of promotions where merit can be properly assessed and tested.

Transfer

Transfer usually means changes in which the pay, status and privileges of the new posts are more or less the same as the old one. In other words, a transfer is the lateral movement of an employee to change his present work group, work place or organisational unit. As against it, promotion means changes in which the pay, status and privileges, of new posts are higher as compared to the old.

In case of transfers, the employee moves laterally in the organisation without any change of his or her status, pay or privileges.

Transfer serves a number of goals. They are used to broaden the job experiences of people forming a part of their development and to fill vacancies as they occur. Transfers are also made to positions where they may get greater job satisfaction and contribute their best to the organisation. Transfers are also used to keep channels of promotion open and thereby keeping people interested in the work. There are examples, when many mid-level managers reach a ceiling simply because there is no room for all of them at the top. Such managers may be shifted to other positions with further scope to keep their morale and motivation high.[11]

Transfers are used to broaden job experience and also to keep channels of promotion open.

Demotion

It is just the opposite of promotion. It means the reduction or down-grading of an employee in terms of status, salary and responsibility. It is usually a punitive measure and often a first step towards discharge or dismissal. Demotion, however, becomes necessary under the following circumstances:

1. When an employee is found guilty of serious misconduct or indiscipline.
2. When a company curtails some of its activities and employees with longer service 'bump' persons in lower jobs with shorter service.
3. When there have been errors in promotions and these need to be corrected.

All demotions produce adverse effects on the status, interpersonal relations and self-esteem of demoted employees. But demotions which follow layoffs and corrections for wrong promotions are generally more acceptable to employees than those which result from punishment. Management can, however, make demotions acceptable to employees by resorting to the following methods:

Demotion means the downgrading of an employee in terms of status, salary and responsibility.

1. Leaving roles of positions and individuals ambiguous or changing titles and job responsibilities. This is likely to disguise demotions.
2. Maintaining the structure of the organisation fluid with the increasing use of work teams, task forces or project management. This too will help

management in hiding demotions.

(3) Making demotions without a loss of pay to demoted person.

(4) Making individuals aware of their prospect of demotion well ahead of time.[12]

Lesson-end assessment

Essay type questions

1. How would you define promotion? What are its types? Discuss each of them in brief with its significance.
2. Do you think that a sound promotion policy is necessary? Discuss the bases of promotion with their relative merits and demerits.
3. What is transfer? What are its goals?
4. What is demotion? Identify the circumstances under which demotion becomes necessary.

Multiple choice questions

√ the most appropriate answer:

1. Promotions which do not give rise to any increase in the employee's pay is called:
   (a) sympathy promotion.
   (b) vertical promotion.
   (c) horizontal promotion.
   (d) dry promotion.
2. First requirement of a sound promotion policy is that it must provide for:
   (a) uniform distribution of promotional opportunities throughout the organisation.
   (b) a sound transfer policy as well.
   (c) an increase of pay, too.
   (d) equal opportunities for all employees.
3. Seniority-cum-merit should be the basis of promotion where:
   (a) merit comes next to seniority.
   (b) merit can be objectively tested.
   (c) efficiency is in urgent need.
   (d) employee motivation is of prime importance.

Exercise

1. Interview the manager of a company of your locality, and ask him to state the policy of promotion and demotion followed by the company.

CASE 7-1

WOMAN CEO MANAGES BY THE TEXTBOOK

The demand for managers with an international backgound is great. Consider Marisa Bellisario, one of the most sought-after executives in Europe in 1984. She was the first woman to head a major industrial firm in Italy, the state-controlled ITALTEL Societa Italiana. This company is the biggest Italian firm making telecommunications equipment. Bellisario's background, however, is international. After receiving her degree in economics and business administration from Turin University, she worked at Olivetti in the electronics division. When Olivetti sold its data processing unit to General Electric, she spent time in Miami working on GE's worldwide marketing strategy for computers. She left GE to head corporate planning at Olivetti. As the CEO at ITALTEL, she turned the company around, showing a small profit. (The firm had experienced huge losses in the past). Her managerial approach has been characterized as "straight out of the textbook", and companies such as GTE Corporation, IBM, AT &T, and other European and Japanese firms are interested in recruiting her.

1. Why was Ms. Bellisario a much-sought-after CEOP? What was her career path?
2. What special problems may she have encountered as a woman heading a major company in Italy?
3. If she was successful managing by the textbook why do some managers still think that management cannot be taught?

Source: Heinz Weihrich and Harold Koontz, "*Management: A Global Perspective*", Tenth Edition, p.106.

For further study

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[8] James A. E. Stoner et. al., op. cit., pp. 395-396.

[9] Ibid, pp. 396.

[10] Harold Koontz et. al., *Essentials of Management*, Second Edition., 1998, p. 324.

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Human Factors in Management and Motivation

8

Unit Highlights

- ☐ Human Factors in Management, Motivation, Motivation Process, Motivators, Motivating and Satisfaction
- ☐ Basic Assumptions about Motivation, Nature of People, McGregor's Theory-X and Theory-Y
- ☐ Various Leading Theories of Motivation - Their Origin, Strengths and Weaknesses
- ☐ Special Motivational Techniques.

এই পৃষ্ঠা খালি থাকবে

Unit-8 : Human Factors in Management and Motivation

Lesson 1: Human Factors in Management, Motivation, Motivation Process, Motivators, Motivating and Satisfaction

Lesson Objectives

Upon completion of this lesson you will be able to:

- describe the human factors that affect management
- elaborate on the motivation process with the help of a diagram
- understand the meaning and significance of the key terms such as motivation, motivators, motivating and satisfaction.

Human Factors in Management

There is no denying the fact that individuals involved in an organisation have needs and objectives that are especially important to them. By leading them, managers help them see that they can satisfy their own needs, utilise their potential and at the same time contribute to the aims of an enterprise. Managers should thus have an understanding of the roles assumed by people, the individuality of people and the personalities of people. However, the following aspects of the human factor are important and deserve a manager's careful attention:

The Human factors deserve particular attention from managers.

(1) Multiplicity of employee roles: Employees are much more than merely a productive factor in an organisation. As members, they are associated with many organisations. They are members of families, trade associations, co-operatives, political parties, schools and so on. In these different roles they establish ethics that guide behaviour, rules that govern management, and a tradition of human dignity that is a major characteristic of our society. In short each and every individual employee has a multiplicity of roles to play as a member of a broad social system.

(2) No existence of an average person: No two persons are alike. There is no average person. In fact individuals are unique - they have different needs, different tastes, different attitudes, different levels of knowledge and skills, different potentials, and different ambitions. If managers fail to understand the complexity and individuality of employees as separate human entities, they might misapply the generalisations about leadership, communication, and motivation. Principles and concepts, although generally true, have to be adjusted to fit specific situations. In an enterprise, not all the needs of individuals can be completely satisfied, but managers do have considerable latitude in making individual arrangements.

Managers need to recognise the uniqueness of every individual employee as a human being.

(3) The importance of personal dignity: Managing involves achieving organisation objectives. Achieving results is important, but the means must never violate the dignity of people. The concept of individual dignity means that people must be treated with respect, no matter what their position in the organisation is.

Apart from fulfilling the economic needs and giving job security, managers should recognise the social dignity of every individual employee as a human being.

(4) Consideration of the whole person: We cannot talk about the nature of people unless we consider the whole person. A human being is a total person influenced by external factors. People cannot divest themselves of the impact of these forces when they come to work. Managers must recognise these facts and be prepared to deal with them.

In short, managers must be aware of the fact that an enterprise to be successful must win the co-operation and dedication of the workforce, which in turn requires corporate concern for the individual, recognition of his or her dignity as a human being, and reasonable job security with an opportunity for personal growth and development.

Motivation

Motivation is a psychological characteristic that contributes to a person's degree of commitment. It includes the facts that cause, channel and sustain human behaviour in a particular committed direction. However, the term motivation has been defined by authors in many ways. Some of the definitions are as follows:

(i) “Motivation may be defined as the state of an individual's perspective which represents the strength of his or her propensity to exert effort toward some particular behaviour” - Gibson

(ii) “Motivation refers to expenditure of effort toward a goal” - Dubrin

(iii) “Motivation is a predisposition to act in a specific goal directed manner” - Hellriegel and Slocum

(iv) “Motivation is a cyclical process affecting the inner needs or drives that energize, channel, and maintain behaviour” - Steers and Lyman.

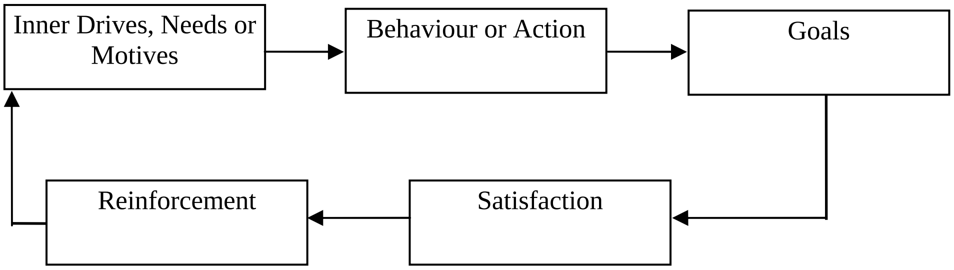
For our purpose, we shall define motivation as the need or drive within an individual that urges him or her towards Goal-oriented action.

The Motivation Process

Motivation comes from the instance of a reward for making certain efforts.

The motivation process may be represented by a diagram (see, figure 6.1) which begins with inner drives and needs that motivate the individual to work towards certain goals, which the individual has chosen in the belief that those goals will satisfy the inner drives and needs. After attaining these goals, the individual consciously or unconsciously judges whether the effort has been worthwhile. As long as the individual perceives the effort as rewarding, the habit of making the effort is reinforced and the individual can be persuaded to continue or repeat that kind of effort. Reinforcement, or what happens as a result of behaviour, affects other needs and drives as the process is repeated.

Figure 8.1



The Motivation Process

Employee motivation is of crucial concern to management, mainly because of the role that employee motivation plays in performance. Basically, performance is determined by (i) ability, (ii) environment and (iii) motivation. If any of these three factors is missing or deficient, effective performance is impossible. A manager may have the most highly qualified employees under him and provide them with the best possible environment, but effective performance will not result unless the subordinates are motivated to perform.

Motivators

Motivators are things that induce an individual to perform. While motivation reflects wants, motivators are the identified rewards or incentives that sharpen the drive to satisfy these wants.

Managers use motivators to influence the employee to behave in favour of the enterprise.

A manager can do much to sharpen motives by establishing an environment favourable to certain drives. For example, employees in a business that has developed a reputation for excellence tend to be motivated to contribute to this reputation.

A motivator, then, is something that influences an individual's behaviour. It makes a difference in what a person will do. Obviously, in any enterprise, the manager must be concerned about motivators and also inventive in their use. Also he has to use such motivators as will lead the employees to perform effectively for their employing.

Motivating

Motivation is the management process of influencing people's behaviour based on the knowledge of what cause and channel sustain human behaviour in a particular committed direction.

Simply, the term motivation indicates a noun whereas motivating a verb. Motivation refers to some relevant factors that influence human behaviour, whereas motivating is the process of influencing behaviour.

Motivation is the drive or urge while the fulfillment of this drive is satisfaction.

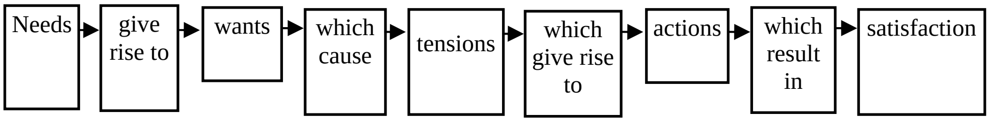
Satisfaction

Satisfaction is the end result of the need-want-satisfaction chain, which can be represented in the following diagram.

“Motivation” and “satisfaction” are related to each other, although there is a fine difference between these two terms. Motivation refers to the drive and effort to satisfy a want or goal. But satisfaction refers to the contentment experienced when a want is satisfied. In other words, motivation implies a drive toward an outcome, and satisfaction is the outcome already experienced.

From the management point of view, then, a person might have high job satisfaction but a low level of motivation for the job, or the reverse might be true.[1]

Figure 8.2



Need-Want-Satisfaction Chain

Lesson-end assessment

Essay type questions

1. How would you describe the human factors that affect management?
2. What do you mean by motivation? Explain the motivation process with the help of a diagram.
3. Can you distinguish between motivation, motivator and motivating?
4. What is satisfaction? Describe the need-want-satisfaction chain with the help of a diagram.

Multiple choice questions

√ the most appropriate answer:

1. Managers have considerable latitude in making:
   (a) employees happy
   (b) individual arrangements in motivation
   (c) arrangements to earn more
   (d) workers work hard
2. Motivation contributes to a person's level of
   (a) earning
   (b) understanding
   (c) commitment
   (d) satisfaction
3. The end result of the need-want-satisfaction chain is:
   (a) motivation
   (b) satisfaction
   (c) need
   (d) productivity

Lesson 2 : Basic Assumptions about Motivation and the Nature of People, McGregor's Theory-X and Theory-Y.

Lesson Objectives

Upon completion of this lesson you will be able to:

- explain the basic assumptions about motivation
- describe the assumptions about people
- elaborate on theory-X and theory-Y assumptions about people.

Assumptions about Motivation

In order to understand motivation in depth, we need to have some idea about certain basic assumptions about motivation as given below:

1. Motivation is one of several factors that goes into a person's performance. The other important factors are — ability, resources, and conditions under which one performs.
2. Motivation is in short supply and in need of periodic replenishment. It is like the heat in a house during winter months in northern climate. Because heat gradually escapes, the furnace must cycle on frequently to maintain the warmth of the house. Managers may try to replenish employee motivation frequently.
3. Motivation is a tool with which managers can arrange job relations in organisations. If managers know what drives the people working for them, they tailor job assignments and rewards to what makes these people "tick".
4. Motivation is commonly regarded as useful. People are usually praised for being motivated. Management also rewards those who are properly motivated and perform satisfactorily. In fact, an employee who is unmotivated can never feel good about himself.

Motivation is an important driving force that makes people work when it is strong, and slows them down when it is weak or absent. Managers identify employees' drives and beef them up for motivation for work.

All these assumptions run deep in the discussion about the evolution of motivation theories.

Assumptions about People

Managing, McGregor suggests, must start with the basic question of how managers see themselves in relation to others. This necessitates some reflection on the perception of human nature. One view about human nature, as set forth by Douglas McGregor, is expressed in two sets of assumptions commonly known as "Theory X" and "Theory Y".

Theory X views human beings to be naturally averse to work, and therefore employees need pushing constantly. But Theory Y asserts that people are fond of work and derive satisfaction by doing work.

Theory X assumptions: This type of assumptions is traditional and holds that people have an instinctive dislike for work. Although employees may view it as a necessity, they would, if they could, avoid it whenever possible. In this view most people prefer to be directed and to avoid responsibility. Consequently, work is of secondary importance, and managers must push workers to work.

Theory Y Assumptions: This type of assumptions is more optimistic. It holds that work is as natural as play or rest. According to "Theory Y", people want to work and can drive a great deal of satisfaction from work. In this view, people have the capacity to accept - even seek - responsibility and to apply imagination, ingenuity, and creativity to organisational problems.

These two sets of assumptions under "Theory X" and "Theory Y", are fundamentally different. Theory X is pessimistic, static, and rigid. Control is primarily external, that is, imposed on the subordinate by the superior. In contrast, "Theory Y" is optimistic, dynamic, and flexible, with an emphasis on self-direction and the integration of individual needs with organisational demands. The problem, according to "Theory Y" is that modern industrial life does not fully tap the potential of human beings. To take advantage of their employees, innate willingness and ability to work, Y-type managers should provide a climate that gives employees scope for personal improvement.

Clarification about Assumptions of Theory X and Theory Y

The following points will help clarify some of the areas of misunderstanding regarding Theory X and Y and keep the assumptions in right perspective.

First, they are only assumptions, not prescriptions or suggestions for managerial strategies. They are intuitive deductions and are not based on research.

Second, Theories X and Y do not imply "hard" or "soft" management. The "hard" approach may produce resistance and antagonism. The "soft" approach may result in laissez-faire management and is not congruent with "Theory Y."

Third, Theories X and Y are not a matter of degree; rather, they are completely different views of people.

Fourth, different tasks and situations require a variety of approaches to management. At times, authority and structure may be effective for certain tasks, while democratic approach may prove unavoidable in certain other tasks. Thus the effective manager is one who fits the task requirements to the people and the particular situation.

Fifth, under "Theory Y", authority is seen as only one of the many ways by which a manager exerts leadership. It does not argue against the use of authority.

Lesson-end assessment

Essay type questions

1. Explain the assumptions about motivation
2. What are the assumptions about people under Theory X and theory Y?
3. How would you clarify the assumptions of Theory X and Theory Y?

Multiple choice questions

√ the most appropriate answer:

1. Theory X assumptions are:
    - (a) democratic
    - (b) pessimistic
    - (c) optimistic
    - (d) participative
2. Theory Y assumptions are:
    - (a) optimistic
    - (b) autocratic
    - (c) pessimistic
    - (d) production-oriented
3. Theories X and Y were coined by:
    - (a) Elton Mayo
    - (b) Fayol
    - (c) Doglas McGregor
    - (d) F. W. Taylor

Lesson 3 : Various Leading Theories of Motivation - Their Origin, Strengths and Weaknesses.

Lesson Objectives

Upon completion of this lesson you will be able to:

- understand the theories of motivation
- elaborate on the need theories of motivation
- describe Maslow's Hierarchy of Needs Theory with the help of a diagram
- explain McClellend's Need Theory of Motivation
- describe the Two-factor Theory of Herzberg with the help of a diargam
- explain the Expectancy Theory, Equity Theory, Reinforcement Theory and Goal-setting Theory of Motivation

Need Theory

- According to need theory, individuals are motivated by the urge to fulfill their needs.

It may be stated as the theory of motivation that addresses what people need or require to live a life of fulfilment, particularly with regard to work. Need theory has a long-standing tradition in motivation research. It deals with the part work plays in meeting the needs of those employed.

According to need theory, a person is motivated when he or she has not yet attained certain levels of satisfaction with his or her life. A satisfied need is not a motivator.

There are various need theories of motivation. All of them focus on the importance of analysing and understanding the psychological factors within individuals (i.e. needs) that cause people to behave in certain ways. Behaviour is the result of attempts to satisfy those needs, and specific acts are based on the particular need driving the individual at any time.

The most popular need theories of motivation are — (i) Maslow's Hierarchy of Needs Theory; (ii) McClelland's Needs Theory of Motivation and (iii) Herzberg's Two-factor Theory of Motivation.

Maslow's Hierarchy of Needs Theory

In Maslow’s ascending hierarchy of needs, the strongest and the most immediate one tends to be met first.

One of the most widely mentioned theories of motivation is the Hierarchy of Needs Theory put forward by psychologist Abraham Maslow. Maslow views human motivation in terms of a hierarchy of five needs, ranging from the most basic physiological needs to the highest needs for self-actualisation (see figure, 8-3). According to Maslow, individuals will be motivated to fulfil whichever need is the most powerful for them at a given time. The prepotency of a need depends on the individuals’ current situation and recent experiences. Starting with the physical needs, which are the most basic, each need must be satisfied before the individual desires to satisfy a need at the next higher level.

It is in the following hierarchy of importance according to immediacy that Maslow places human needs:

(a) **Physiological needs:** These are the basic needs for sustaining human life itself, such as air, water, food, sleep, shelter, warmth and sex. They are so basic as needs that people will be motivated to fulfil them first through whatever behaviour achieves this end. Maslow took the position that until these needs are satisfied to the degree necessary to maintain life, other needs will not motivate people.

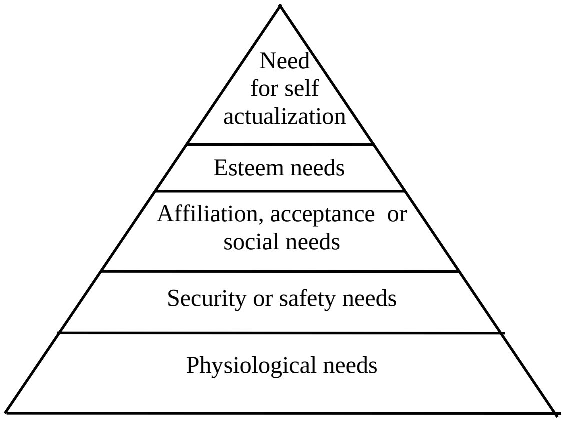
(b) **Safety or security needs:** They consist of the need for clothing, shelter, and an environment with a predictable pattern such as job security, pension, insurance etc. People are motivated to fulfil these needs only when the physiological needs are mostly satisfied.

(c) **Affiliation, acceptance, love or social needs:** Since people are social beings, they need to belong, to be accepted and loved by others.

(d) **Esteem needs:** They include the need for power, prestige, status, achievement, and recognition from others. Satisfaction of the self-esteem need leads to feelings of self-confidence, worth, capability, and adequacy, of being useful and necessary in the world.

(e) **Need for self-actualisation:** Maslow regards this as the highest need in his hierarchy. This is the concept of fulfilling one's potential and becoming everything one is capable of becoming.

Figure 8.3



Maslow's Hierarchy of Needs

A Critical Review of the Hierarchy of Needs

It is understood that relatively fewer people can gain satisfaction for higher level needs. However, the hierarchy of needs is not always followed in a rigid pattern. There are reversals and substitutions. A research scientist, for example, may neglect to eat and sleep (physiological need) in the midst of creativity (self-actualisation). Likewise, some persons concentrate on acquision of wealth (esteem need), almost on the exclusion of the need to belong to a group (social need). In fact, needs are relative in their strength and are individualistic. A lower need does not necessarily have to be fulfilled in full before a higher need emerges.

The need theory is a challege for managers to practice for two reasons:

Hofstede criticised Maslow's hierarchy for assuming a single universal hierarchy of needs for all individuals for all time. Besides, he opines that the priority of needs might vary with even an individual over time.

First, any manager works in a complex web of relationships with people whose needs probably differ widely. In his study, Geert Hofstede finds[2] that Maslow's hierarchy of needs does not describe a universal human motivational process. He argues that people with some peculiar value systems may be concerned about social or even self-esteem needs before security needs become a major focus of their activities.

Second, any person's needs can change over time. Although Maslow thought in terms of people progressing up his hierarchy, sometimes circumstances dictate moving down the hierarchy. The example may be of a top-level executive who is afraid of being fired.

Practical Implications of the Need Hierarchy Theory for Managers

Managers can ensure effective motivation by correctly prioritising the needs of the employee.

Maslow's need hierarchy has practical implications for managers in dealing with subordinates. Astute managers must have a good idea about the real needs of each and every subordinate that serve as the basis of his or her behaviour. If an employee is struggling at the lowest level of the needs hierarchy, attention must be paid to that employee's wages and salary. Compliments and offers of future advancement (esteem need) would fail to motivate that individual until his physiological needs are first satisfied.

Even when satisfactory wages are paid, employees want to have a sense of job security. Social need within the enterprise may become very important for a new employee. He is to be accepted into the work group. A well-implemented orientation programme can expeditiously satisfy this need. Then managers can also offer incentives designed to provide employees with esteem, feelings of belonging, or opportunities to grow. When all other needs have been adequately met, employees will become motivated by the need for self-actualisation. They will look for personal growth and meaning in their work and will actively seek out new responsibilities.

McClelland's Need Theory of Motivation

David C. McClelland has identified three types of basic motivating needs as - (a) need for power, (b) need for affiliation, and (c) need for achievement. They are all relevant to management and must be recognised to make an organised enterprise work well.

Power-loving individuals seek driving positions in the organisation. On the other hand, sociable individuals would look for places where they can cultivate human relationships.

Need for power: It deals with the degree of control a person desires over his or her situation. This need can be related to how people deal with failure and success. Fear of failure and an erosion of one's power can be a strong motivator for some people. Individuals with the need for power usually seek positions of leadership in organisations, are outspoken, often argumentative, forceful, hard-headed and demanding, and they enjoy being in positions that require persuasive speaking or travelling and seek positions in organisations that control the means of influencing others. Research studies indicate that top managers are highly motivated by the need for power.

Need for affiliation: Many people spend much of their time thinking about developing warm, friendly, personal relationships with others in the organisation. They have a high need for affiliation and usually are more sensitive to others' feelings, seek for jobs with a pleasant social environment that is conducive to personal interaction. Research studies indicate that concern for the feelings of subordinates is essential for outstanding management success and executive expertise.[3]

People with a high need for affiliation seek for jobs that allow personal interaction

Need for achievement: David C. McClelland's research indicated that a strong need for achievement - the drive to succeed or excel - is related to how well individuals are motivated to perform their tasks. People with a high need for achievement like to take responsibility for solving problems. They tend to set moderately difficult goals for themselves and take calculated risks to meet those goals. They greatly value feedback on how well they are doing. Thus those with high achievement needs tend to be highly motivated by challenging and competitive work situations; people with low achievement needs tend to perform poorly in the same sort of situations.

Those who want the glory of achievement take risks and responsibilities.

There is ample evidence of the correlation between high achievement needs and high performance. McClelland finds, for example, that people who succeed in competitive occupations are well above average in achievement motivation. Successful managers who presumably operate in one of the most competitive of all environments have a higher achievement need than other professionals.

McClelland's Approach in Management

McClelland's theory highlights the importance of matching the individual and the job. Employees with high achievement needs thrive better in work that is challenging, satisfying, stimulating, and complex. They welcome autonomy, variety, and frequent feedback from supervisors. Employees with low achievement needs prefer situations of stability, security, and predictability. They respond better to consideration than to impersonal, high-pressure supervision, and they look to the workplace and co-workers for social satisfaction.

The achievement need can be increased by granting more freedom, responsibility and autonomy to the employees and by rewarding them for good performance.

McClelland also suggests that managers can, to some extent, raise the achievement need level of employees by creating a proper work environment. Managers can do this by permitting employees a measure of independence, increasing responsibility and autonomy, gradually making tasks more challenging, and praising and rewarding high performance.

Critical Appreciation of McClelland's Approach in Management

Research studies show that entrepreneurs with a very high need for achievement and a fairly high need for power drives are quite low in their need for affiliation. Managers also show high on achievement and power, and low on affiliation, but not as high or as low as entrepreneurs.

Achievement motivation slackens as managers go up the ladder of their career. At the top level, it is less than in any other level below.

McClelland finds that the chief executives of small companies have high achievement motivation. In large companies, the chief executives are found to be with average achievement motivation. Managers in the upper-middle level of management in such companies are rated higher than their presidents in achievement motivation. The reason may be that the chief executive has "arrived," and those below are striving to advance.

It is true that managers with high achievement motivation will put their best to advance themselves but a large enterprise should probably have many managers who, while possessing fairly strong achievement motivation, also have a high need for affiliation. This latter need is important for working with people and for co-ordinating the efforts of individuals working in groups.[4]

The Two-Factor (Motivation-Hygiene) Theory of Motivation

Maslow's needs approach has been considerably modified by Fredrick Herzberg and his associates. In the late 1950s, Frederck Herzberg and his associates conducted a study of the job attitudes of 200 accountants and engineers in Pittsburgh. During the interviews, he asked them to recall occasions when they had been especially satisfied with their work and highly motivated in occasions when they had been dissatisfied and unmotivated. Somewhat surprisingly, he found that entirely different sets of facts were associated with satisfaction and dissatisfaction.

As **figure 8-4** shows, Herzberg placed responses from the engineers and accountants interviewed in one of 16 categories- the factors on the right side of the figure were consistently related to job satisfaction and those on the left side to job dissatisfaction. Thus, as an outcome of this research a **two-factor theory** (i.e. dissatisfiers and satisfiers) emerged. Satisfiers (Motivating factors), as recognised by Herzberg, include factors like achievement, recognition, work itself, responsibility, advancement and growth - all related to job content and rewards for performance.

Motivation is connected with the work content and the hygiene factors are related to the work environment.

Dissatisfiers (which Herzberg terms Hygiene factors) include - company policy and administration, supervision, relationship with supervisors, work conditions, salary, relationship with peers, personal life, relationship with subordinates, status and security - most of which are related to the work environment and the rest to disturbed personal life. Positive ratings for these factors did not lead to job satisfaction but merely to the absence of dissatisfaction.

It is to be noted that the motivating factors are related specifically to the work content and the hygiene factors are related to the work environment.

Herzberg's study led him to conclude that the traditional model of job satisfaction was incomplete. The traditional view of satisfaction, as shown in figure 8-4, was that satisfaction and dissatisfaction were at opposite ends of a continuum i.e. employees might be satisfied, dissatisfied, or somewhere in between. But Herzberg's research identified two different sets of factors- one ranging from satisfaction to no satisfaction and the other ranging from dissatisfaction to no dissatisfaction.

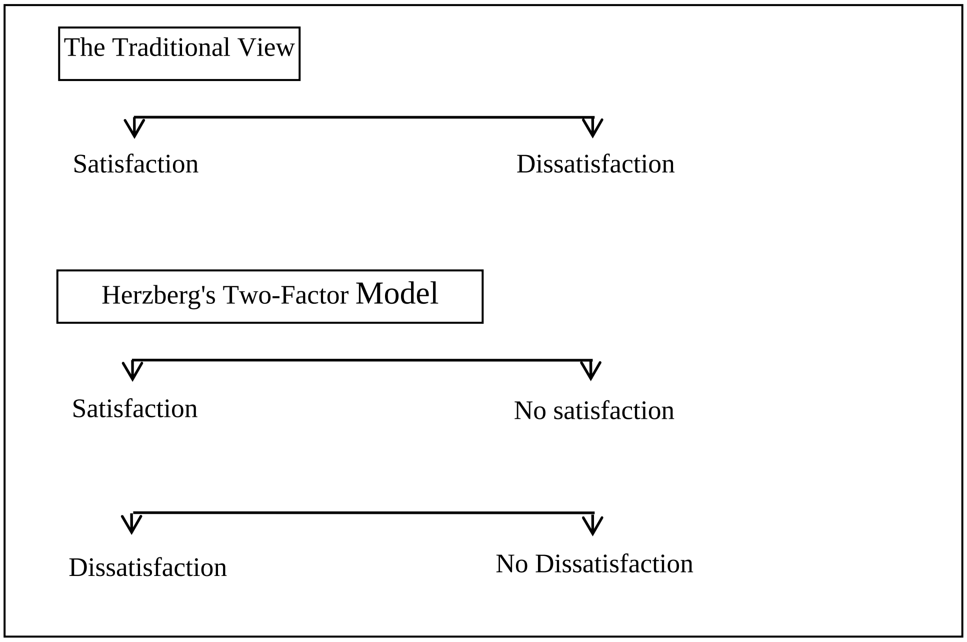
Managers should see to it that employees are provided with the hygiene factors as well as the opportunity for motivation.

Herzberg then argues that there are two stages in the process of motivating employees.

First¸the manager must see that the hygiene factors are provided at an appropriate level so that the employees become "not dissatisfied".

Second, the manager should give employees the opportunity to experience motivation factors such as achievement and recognition, and the result is predicted to be a high level of satisfaction and motivation. Herzberg also demonstrated the way of using the two-factor theory. He recommends that jobs be redesigned to provide higher levels of the motivation factors.

Figure 8.4



The Satisfaction-Dissatisfaction Continuum under the Traditional View and the Two-Factor Model

Critical Appreciation of the Two-Factor Theory

Herzberg's theory has had a major impact on managers and has, in fact, played a key role in increasing their awareness of motivation and its importance in the workplace. However, the two-factor theory is not beyond criticism. One criticism is that the findings in Herzberg's initial interviews are subject to different explanations. Another criticism is that his sample was not representative of the general population and that subsequent researches often failed to uphold the theory. Thus at present, Herzberg’s theory is not held in high esteem by research scholars in the field.

Summary of the Need Theories

Each of these need theories (Maslow’s, McClelland’s and Herzberg’s) emphasises the satisfaction of some important personal needs that people acquire over time. Each theory also stresses that people decide on their degree of satisfaction by consciously comparing their circumstances with their needs. Finally, each theory leaves room for considerable variation from person to person, and “within” a person over time.

Expectancy Theory

Psychologist Victor H. Vroom is one of the leaders in advancing and explaining the Expectancy Theory. He holds that employees are motivated to work with a view to a goal if they consider that goal worthwhile and if they believe that what they do will help them in achieving it.

According to Vroom, motivation is generated by the anticipated value of the goal and the possibility of achieving that goal.

Vroom believes that people's motivation for work is determined by the value they place on the outcome of their effort, multiplied by the confidence they have that their efforts will materially aid them in achieving a goal. In other words, Vroom argues that motivation is a product of the anticipated worth that an individual places on a goal and the chances he or she sees of achieving that goal. Vroom's theory may be stated as

Force = valence × expectancy,

where "force" is the strength of a person's motivation, "valance" is the strength of an individual's performance for an outcome, and "expectancy" is the probability that a particular action will lead to a desired outcome. When a person is indifferent to achieving a certain goal, a valence of zero, meaning the existence of "no motivation," occurs. Likewise, a person would have no motivation to achieve a goal if the expectancy were zero. Thus the force exerted to do something will depend on both valence and expectancy.

If there is no expectancy of a goal, there exists no motivation.

Moreover, a motive to accomplish some action might be determined by a desire to accomplish something else. For example, a manager might be willing to work hard to achieve company goals for a promotion or pay valence.

Critical Appreciation of the Vroom Theory

Vroom recognises that motivation for work is too complex for theorising.

The strength of the Vroom theory is that it recognises the importance of various individual needs and motivations. It is more realistic because it avoids some of the simplistic features of the Maslow and Herzberg approaches. It fits the concept of harmony of objectives — that is, individuals have personal goals different from the organisation's goals which need to be harmonised.

However, Vroom's theory is difficult to apply in practice. Despite its difficulty in application, the logical accuracy of Vroom's theory indicates that motivation is much more complex than the approaches of Maslow and Herzberg seem to imply.

The Porter and Lawler Model based on Expectancy Theory

L.W. Porter and E. E. Lawler III derive a substantially more complete model of motivation, built in large part on the Expectancy theory. In their study, they applied this model primarily to managers.

According to Porter and Lawler, the individual exerts as much effort to a task as he or she deems equal to the value of the expected reward. Actual performance is measured by the amount of effort expended.

According to this model, the amount of effort (the strength of motivation and energy exerted) depends on the value of a reward plus the amount of energy a person believes is required and the probability of receiving reward. The perceived effort and the probability of actually getting a reward are, in turn, influenced by the record of actual performance. Clearly, if people know they can do a job, and will be appreciated and the probability of being rewarded is high when they have done it, they will do it.

Actual performance in a job is determined principally by effort expended. It is also influenced by an individual's ability to do the job and by his or her perception of what the required task is. Performance, in turn, is seen as leading to intrinsic and extrinsic rewards. These rewards, tempered by what the individual sees as equitable lead to satisfaction. But performance also influences sensed equitable rewards. Understandably, what the individual sees as a fair reward for effort will necessarily affect the satisfaction derived. Likewise, the actual value of rewards will be influenced by satisfaction.

Critical Appreciation

Although complex in nature, this model is almost certainly a more adequate portrayal of the system of motivation. To the practising manager, this model means that motivation is not a simple cause and effect matter. It means, too, that managers should carefully assess their reward structures and that through careful planning and carefully defining duties and responsibilities through a good organisation structure, the effort-performance-reward- satisfaction system can be integrated into an entire system of managing.[5]

The Equity Theory

Much of our current thinking on equity has been shaped by the equity theory developed by J. Stacey Adams, who contends that people are motivated to seek social equity in the rewards they receive for performance. We can define equity at this point as the belief that one is being treated fairly relative to the treatment of others.

According to the Equity theory, the outcome from the job includes pay, promotions, recognition, social relationships and intrinsic rewards. To get these rewards, the individual contributes various inputs to the job, such as time, effort, education, experience, and loyalty. This theory suggests that people tend to view their outcome and inputs as a ratio, and then to compare this ratio to the ratio of someone else. This other "person" may be someone in the work group or some sort of group average or composite. The process of comparison looks like this:

The Equity theory postulates that the individual tends to view his or her input and returns in terms of ratio and compare this ratio with the ratio of another individual’s similar ratio of input and reward.

After arriving at these ratios in what is probably a non-quantitative and subjective way, the individual compares them. The individual will experience a state of equity if the two ratios are equal. People who feel under-rewarded compared to someone else try to reduce the inequity. Ways of reducing inequity include - (a) describing one's inputs by exerting less effort, (b) increasing one's outcomes by asking for a raise, (c) distorting the original ratios by rationalising, (d) trying to get the other person to change his or her outcome or inputs, (e) leaving the situation, and (f) changing the object of comparison.

An individual may also feel over-rewarded relative to the other person. This is not likely to be terribly disturbing to most people, but research suggests that some experience inequity under these conditions, and are motivated to reduce it. Methods for reducing this kind of inequity include - (a) increasing one's inputs by exerting more effort, (b) reducing one's outcome by producing fewer units, if paid on a per-unit basis, (c) distorting the original ratios by rationalising, and (d) trying to reduce the inputs or increase the outcome of the other person.

$$\frac{\text{Outcome (self)?}}{\text{Inputs (self)}} = \frac{\text{Outcomes (other)}}{\text{Inputs (other)}}$$

Critical Appreciation

The feeling of equity or inequity is generated when the employee compares his or her effort, performance and rewards with another employee’s , working under the same or identical conditions.

Managers must remember that if rewards are to motivate employees, the employees must perceive them as equitable and fair. Moreover, the managers need to consider the nature of the "other" with whom the employee is comparing himself or herself.

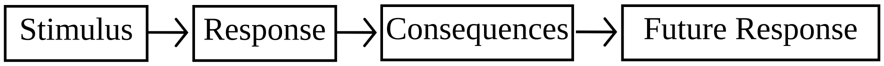
If people feel that they are inequitably rewarded, they must be dissatisfied, reduce the quantity or quality of output, or leave the organisation. If people perceive the rewards as equitable, they probably will continue at the same level of output. If they think the rewards are greater than what is considered equitable, they may work harder.

Sometimes people may over-estimate their own contribution and the rewards others receive. This may also create a feeling of inequity. A manager should keep in mind that certain inequities may be tolerated by employees for some time but prolonged feelings of inequity may meet with strong reactions to an apparently minor occurrence.

Reinforcement Theory of Motivation

The Reinforcement theory, associated with the psychologist B.F. Skinner and others, shows how the consequences of past behaviour affect future actions in a cyclical learning process, which may be expressed as follows:

Figure 8.5



The Cyclical Learning Process

From this viewpoint, the individual's own voluntary behaviour (response) towards a situation or event (stimulus) is the cause of specific consequences. If those consequences are positive, the individual will in the future tend to have similar responses in similar situations. If those consequences are unpleasant, the individual will tend to change his or her behaviour in order to avoid them.

According to the Reinforcement theory, a person is motivated by his or her reaction to stimuli in consistent patterns of behaviour over time.

The Reinforcement theory involves people's memory of past stimulus-response-consequence experiences. According to the Reinforcement theory, a person is motivated when she or he responds to stimuli in consistent patterns of behaviour over time. This theory, like the Expectancy theory, is a way to link motivation and behaviours.[6]

Positive reinforcement or behaviour modification holds that individuals can be motivated by proper design of their work environment and praise for their performance and that punishment for poor performance produces negative results.

According to this theory, the manager has to analyse the work situation to determine what causes workers to act the way they do and then they initiate changes to eliminate troublesome areas as obstructions to performance. Specific goals are then set with workers' participation and assistance, a prompt and regular feedback of results is made available, and performance improvements are rewarded with recognition and praise. This has been found very useful and motivating to give people full information on a company's problems, specially those in which they are involved.

Critical Appreciation

The Reinforcement theory appears too simple to work, and many behavioural scientists and managers are sceptical of its effectiveness.

However, the Skinner approach is closely akin to the requirements of good managing. It emphasises removal of obstructions to performance, careful planning and organising, control through feedback, and the expansion of communication.[7]

The Goal-Setting Theory

This theory focuses on the process of setting goals themselves. In the words of psychologist Edwin Locke, the natural human inclination to set and strive for goals is useful only if the individual both understands and accepts a particular goal. According to the goal-setting theory, individuals are motivated when they behave in ways that move them to certain clear goals that they accept and can reasonably expect to attain.

The Goal-setting theory holds that setting and pursuing a goal is useful when it is understood and accepted by the employee.

Christopher Early and Christine Shalley describe the goal-setting process in terms of four phases of a person's reasoning:

(i) Establishment of a standard to be attained

(ii) Evaluation of whether the standard can be achieved

(iii) Evaluation of whether the standard matches personal goals

(iv) The standard is accepted, the goal is thereby set, and behaviour proceed toward the goal.

Critical Appreciation

Research shows that when goals are specific and challenging, they function more effectively as motivating factors in both individual and group performance. Research also indicates that motivation and commitment are higher when employees participate in the setting of goals. Employees need accurate feedback on their performance, however, to help them adjust their work methods when necessary and to encourage them to persist in working toward goals.[8]

When goals are well-defined and clear, they work as strong motivating factors.

Lesson-end assessment

Essay type questions

1. Name the need theories of motivation. Elaborate with critical appreciation Maslow's Hierarchy of Needs theory.
2. Critically discuss McClelland's Need Theory of Motivation
3. What do you understand by the "Two-factor (Motivation-Hygience) Theory of Motivation"?

4. What do you mean by "Expectancy Theory"? Critically discuss the "Porter and Lawler Model" based on Expectancy Theory.
5. Write a critical appreciation of the "Equity Theory" developed by J. Stacy Adams.
6. What do you understand by the "Reinforcement Theory of Motivation"?
7. Do you agree that motivation and commitment are higher when employees participate in the setting of goals? Discuss.
8. Name the different theories of motivation. Discuss the one which you consider most suitable for motivating our managers.

Multiple choice questions

√ the most appropriate answer:

1. A satisfied need:
    (a) is not a motivator.
    (b) is a motivator.
    (c) improves productivity.
    (d) lowers productivity.

2. The Two-Factor Theory of Motivation was coined by
    (a) Abraham Maslow.
    (b) Frederick Herzberg.
    (c) David C. McClelland.
    (d) L.W. Porter.

3. A person's needs:
    (a) can change over time.
    (b) have inverse relation with income
    (c) remain static.
    (d) cannot be satisfied.

4. Individuals with the need for power usually:
    (a) demand more money
    (b) are polite and gentle
    (c) seek positions of leadership in organisations
    (d) are autocratic

5. McClelland's theory highlights the importance of:
    (a) social needs in motivation
    (b) matching the individual and the job
    (c) monetary incentives
    (d) power

6. Expectancy Theory of Vroom may be stated as:
    (a) Expectance = Valence × force
    (b) Valence = Force × expectancy
    (c) Force = Valence × expectancy
    (d) Force = Expectancy × reward

7. Equity can be defined as the belief that one is being treated:
    (a) on equal terms with one's colleagues.
    (b) fairly relative to the treatment of others
    (c) as a good performer
    (d) as a friend

8. The Reinforcement theory was developed by:
    (a) McCelland
    (b) Frederick Herzberg
    (c) F.W. Taylor
    (d) B. F. Skinner

Lesson 4 : Special Motivational Techniques

Lesson Objectives

Upon completion of this lesson you will be able to:

- describe the special motivational techniques used to motivate employees
- distinguish monetary incentives from non-monetary ones.

Introduction

In the previous lesson on motivation we learnt that motivation is so complex and individualised that there can be no single best answer to the question as to what a manager should do to motivate his sub ordinates. But experience suggests that they can use some specialised techniques to motivate their sub ordinates.

In MBO, motivation is done by collaborative goal-setting and promise of rewards to the employee.

(1) Management By Objectives (MBO) and goal setting: MBO is a process of collaborative goal-setting between a manager and a subordinate with the understanding that the degree of goal attainment by the subordinate will be a major factor in evaluating and rewarding the subordinate's performance. When the manager sits with the subordinates, jointly establishes goals for them and agree that the future rewards will be based on goal attainment then he or she is expected to be more motivated to work toward the goals that merit them.

Participation of employees in decision-making motivates them.

(2) Participation in management: Subordinates are likely to be motivated the most when they are not only consulted but are also allowed to participate in decision-making. In fact the right kind of participation yields both motivation and knowledge valuable for enterprise success.

Participation appeals to the need for affiliation and acceptance. It is a means of recognition and thus enhances subordinates' eagerness to work harder.

Monetary incentives work as a great boost to the employee's willingness to work. Money is a good motivator when it is paid substantially in recognition of performance.

(3) Monetary incentives: Money can never be overlooked as a motivator. Whether in the form of bonuses, piecework, or any other incentive pay, money is important. And, as some writers have pointed out, money is often more than monetary value. It can also mean power or status.

In order to use money as a motivator, a manager has to remember the following:

(i) Money is an urgent means of achieving a minimum standard of living, although this minimum has a way of getting higher as people become more affluent.

(ii) An enterprise can make its wages and salaries competitive within their industry and their geographic area to attract and hold people.

(iii) People usually evaluate their compensation in the light of what their equals are receiving.

(iv) Unless bonuses for managers are based to a major extent on individual performance, an enterprise is not buying much motivation with them. In so far as possible, compensation has to be based on performance.

(v) Money can motivate only when the prospective payment is large relative to a person's income.

(4) Modified work week/flexible working hours: There is considerable interest among employees in altering the workweek to suit their convenience better. The primary motivational implications of the modified workweek are that modification in their routine helps them satisfy their higher-level needs and provides them with an opportunity to fulfil several of their needs simultaneously.

By allowing employees more independence in terms of when they come to work and when they leave, managers acknowledge and show “esteem” for the employees’ ability to exercise self-control. It is hoped that employees will respond with higher levels of motivation. Modified workweeks give employees the opportunity to fulfil a variety of needs. Using flexible working hours, a person can contribute to the organisation and still have time, for example, to study for the MBA programme of BOU or to carry on business as a part-time occupation.

Flexible routines flatter the ego of the employee about his or her self-control. The freedom with working hours helps the employee accommodate higher needs, which fact acts as a good motivator.

(5) Quality of working life (QWL): This is an important motivational technique, used by managers in western societies. QWL is not only a very broad approach to job enrichment but also an interdisciplinary field of enquiry and action combining industrial relations, industrial engineering, industrial psychology and sociology, organisation theory and development, leadership theory and motivation, etc.

QWL is a promising means to improve working condition and productivity.

Managers have regarded QWL as a promising means of dealing with stagnating productivity. Workers and trade union leaders have also seen it as a way to improve working conditions and productivity and also as a means of justifying higher pay. It may also help minimising labour disputes and obtaining industrial democracy.

(6) Effective criticism: This can be a springboard for improving an employee's behaviour and performance. Adopting a positive approach makes criticism less difficult as well as more effective. The manager should examine his or her own motives before criticising. The manager should plan the presentation of his criticism in the best possible form with a view to motivating rather than rebuking him or her. Criticism should apply to the use of personal efforts for improvement now, not next week or next month. Specific time schedules for improvements are also to be set up.

Constructive and carefully worded criticism of the employee’s performance can work as a motivating factor for his or her immediate self-improvement.

(7) Job enrichment: Making jobs challenging and meaningful is an accepted way of motivating employees greatly. In job enrichment, the attempt is to build into jobs a higher sense of challenge and achievement. Jobs may be enriched by variety. But they also may be enriched by (a) giving workers more freedom at workplace; (b) giving subordinates a feeling of personal responsibility for their tasks; (c) encouraging participation of workers and interaction between them; (d) giving subordinates feedback on their job performance; and (e) involving workers in the analysis and change of physical aspects of the work environment, such as cleanliness, layout, temperature, lighting, etc.

Several studies tend to prove that workers will work harder if their jobs are enriched and expanded so as to give them greater control over their work and more freedom from their supervisor.[9]

Job enrichment can work as a powerful motivator, but it could be costly and ineffectual where high skill levels and technology are required.

Job enrichment has certain limitations also. Cost factor, very often, comes to hinder job enrichment. Jobs requiring hi-tech specialisation, special machinery and technology may also suffer from being too meaningful to workers. It merits mention that the limitations of job enrichment apply mainly to jobs requiring low skill levels. The jobs of managers, professionals or technicians already contain varying degrees of challenge and accomplishment.

In order to make job enrichment effective, the following approaches can be used:

(i) manager should have a better understanding of what sub-ordinates want;

(ii) if productivity increases are the main goal of enrichment, the programme must show how workers will benefit;

(iii) it has to be recognised that people like to be consulted, to be involved, and to be given an opportunity to offer suggestions;

(iv) people like to feel that their managers are truly concerned with their welfare. They like to know what they are doing and why. They like to be appreciated and recognised for their work.

Job enrichment is effectively done when the programmes of the enterprise are participatively drawn, and appear beneficial to the employees.

Lesson-end assessment

Essay type questions

1. Describe the special motivational techniques used for the purpose of motivating employees.
2. What do you mean by monetary incentive? Which factors should a manager remember in order to use money as an incentive?
3. Elaborate on the non-monetary motivational techniques that are suitable for industrial workers in Bangladesh.

Multiple choice questions

√ the most appropriate answer:

1. Participation in management enhances subordinates'
   (a) lust for power.
   (b) willingness to mix with others.
   (c) craze for more money.
   (d) eagerness to work harder.

2. People usually evaluate their compensation in the light of what their:
   (a) equals are receiving.
   (b) productivity is.
   (c) employer is capable of giving.
   (d) friends are earning in other organisations.

3. Employees like to feel that their managers are truly concerned with their:
   (a) welfare.
   (b) productivity.
   (c) smartness
   (d) treatment.

Exercise

1. Interview some of the workers/employees of a company you know, and ask them what motivates them the most.

CASE 8-1

MANAGING THE HEWLETT-PACKARD WAY

William R. Hewlett and David Packard, two organisational leaders who demonstrated a unique managerial style, began their operation with $538 in 1939, in a one-car garage. Eventually they built a very successful company that now produces more than 10,000 products, such as computers, peripheral equipment, test and measuring instruments, and handheld calculators. Perhaps even better known than its products is the distinct managerial style preached and practiced at Hewlett-Packard (HP). It is known as the HP way.

The values of the founders - who withdrew from active management in 1978 - still permeate the organization. The HP way emphasizes honesty, a strong belief in the value of people, and customer satisfaction. The managerial style also emphasizes an open-door policy, which promotes team effort. Informality in personal relationships is illustrated by the use of first names. Management by objectives is supplemented by what is known as managing by wandering around. By strolling through the organization, top managers keep in touch with what is really going on in the company.

This informal organizational climate does not mean that the organization structure has not changed. Indeed, the organizational changes in the 1980s in response to environmental changes were quite painful. However, these changes resulted in extraordinary company growth during the 1980s.

Questions

1. Is the Hewlett-Packard way of managing creating a climate in which employees are motivated to contribute to the aims of the organization? What is unique abot the HP way?

2. Would the HP managerial style work in any organization? Why, or why not? What are the conditions for such a style to work?

Source: Heinz Weihrich and Harold Koontz, "*Management - A Global Perspective*", Tenth Edition, p.485.

For further study

1. Heinz Weihrich and Harold Koontz, "Management: A Global Perspective", McGraw-Hill International Editions, Tenth Edition, 1994.
2. Griffin, "Management", Boston: Houghton Mifflin Company, 1984.
3. George R. Terry, Stephen G. Franklin, "Principles of Management", A.L.T.B.S. Publishers & Distributors, India, Eighth Edition, 1997.
4. James A.F., R. Edward and Daniel R. Gilbert, Jr., "Management", Prentice-Hall of India Private Limited, Sixth Edition, 1997.

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[1] Heinz Weihrich and Harold Koontz, *Management - A Global Perspective* (McGraw-Hill International Editions, 1994), p. 465.

[2] James A.F. Stoner, et. al., *Management, (* New Delhi: Prentice Hall of India, 1997), p. 449.

[3] George R. Terry and Stephen G. Franklin, *Principles of Management, (*Delhi: A.I.T.B.S., 1997), p.305.

[4] Weihrich and Koontz, op. cit., p.476.

[5] Ibid., p. 473.

[6] Stoner, op. cit., p.459.

[7] Weihrich and Koontz, op. cit., p. 475.

[8] Stoner, op. cit., p.461.

[9] Weihrich and Koontz, op. cit., p.480.

Leadership

9

Unit Highlights

- ☐ Definition, Nature and Qualities of Leadership
- ☐ Styles and Types of Leadership
- ☐ Theories of Leadership

Unit-9 : Leadership

Lesson 1 : Definition and Nature of Leadership, Qualities/ Ingredients of Leadership

Lesson Objectives

Upon completion of this lesson you will be able to:

- define leadership
- describe the nature of leadership
- distinguish between management and leadership
- elaborate the importance of leadership in management
- discuss the qualities/ingredients of leadership

Definition of Leadership

Leadership can simply be defined as the ability to influence others.[1] In the course of his survey of leadership theories and research, Stogdil came across innumerable definitions of leadership. For our purpose we may define leadership as the process of directing and influencing people so that they will strive willingly and enthusiastically towards the achievement of group objectives. Ideally, people should be encouraged to develop not only willingness to work but also willingness to work with confidence and zeal. Confidence reflects experience and technical expertise; zeal is earnestness, and intensity in the execution of work. A leader acts to help a group achieve objectives through the exploitation of its maximum capabilities. A leader does not stand behind a group to push and prod; she/he places herself/himself before the group, facilitates progress and inspires the group to accomplish organisational goals.

Leadership is the process of persuading people to work willingly and enthusiastically in order to achieve goals.

Nature of Leadership

Leadership derives from power and is similar to, yet distinct from, management. In fact "leadership" and "managership" are different. There can be leaders of completely unorganised groups, but there can be managers only of organised groups. Thus it can be said that a manager is necessarily a leader but a leader may not be a manager.

Leadership integrates the available resources of an organisation and guides a team of people to utilise those resources to best achieve the organisational goals.

Leadership is essential for managing. The ability to lead effectively is one of the keys to being an effective manager because she/ he has to combine resources and lead a group to achieve objectives.

Leadership and motivation are closely interconnected. By understanding motivation, one can appreciate better what people want and why they act as they do. A leader can encourage or dampen workers' motivation by creating a favourable or unfavourable working environment in the organisation.

The essence of leadership is followership. In other words, it is the willingness of people to follow a person that makes that person a leader. Moreover, people tend to follow those whom they see as providing a means of achieving their own desires, needs and wants.

The leader needs to be more capable than any of the group members. Besides, moral teachings and examples come from the leader.

Leadership involves an unequal distribution of power between leaders and group members. Group members are not powerless; they can shape group activities in a number of ways. Still the leader will usually have more power than the group members.

Leaders can influence the followers' behaviour in a number of ways. In fact, leaders can influence workers either to do ill or well for the company.

Leadership is to be concerned about values. Followers learn ethics and values from their leaders. Leaders are the real teachers of ethics and they can reinforce ideals. It is very important for leaders to make positive statements of ethics if they are not hypocritical.

Qualities/Ingredients of Leadership

An effective leader makes just use of power, understands human drives, inspires the followers and sustains a working climate.

Undoubtedly, leadership is one of the most talked about, written about, and researched topics in the field of management. It is inherent in management. Every group of people that performs satisfactorily has somebody among them who is more skilled than any of them in the art of leadership. This skill is a compound of at least four major ingredients: (a) the ability to use power effectively and in a responsible manner, (b) the ability to comprehend that human beings have different motivation forces at different times and in different situations, (c) the ability to inspire, and (d) the ability to act in a manner that will develop a climate conducive to responding and arousing motivations.[2] These are elaborated below:

The leader's power is his/ her capability of influencing others.

(a) **Power:** This is the first ingredient of leadership. Power is the potential ability to affect the behaviour of others. The word potential suggests that one can have power without actually using it. In organisational settings, there are usually five kinds of power - legitimate, reward, coercive, referent, and expert power. A manager may have one or more of these kinds of power.

Categories of power:

- Legitimate power uses authority.
- Reward power is the power to give or withhold rewards.
- Coercive power uses force.
- Referent power emerges from the employee's fellow feeling for the leader or the leader's charisma.
- Expert power is derive from the leader's expertise.

(i) **Legitimate power:** This power is granted through the organisational hierarchy. It is the same as authority. All managers have legitimate power over their sub-ordinates.

(ii) **Reward power:** Reward power is the power to give or withhold rewards. In general, the greater the number of rewards controlled by a manager and the more important the rewards are to the subordinates, the greater the manager's reward power.

(iii) **Coercive power:** This type of power is the power to force compliance via psychological, emotional, or physical threat. In some isolated settings, coercion can take the form of physical punishment. It is likely that the more a manager uses coercive power, the more likely he or she is to provoke resentment and hostility.

(iv) **Referent Power:** Referent power is more abstract than the other types of power. It is usually based on identification or imitation. That is, followers may react favourably to a leader because somehow they identify with the leader, who may be like them in background, attitude, affiliation or personality. Referent power may also take the form of charisma, an intangible attribute in the leader's personality that inspires loyalty and enthusiasm.

(v) **Expert power:** Expert power is derived from expertise. A scientist who is capable of achieving an important technical breakthrough or a manager who knows how to deal with an important but eccentric customer, are examples of expert power.

An understanding manager can motivate his employees by satisfying their various needs.

(b) **Fundamental understanding of people:** It is not enough to know the theoretical aspects of motivation. The more important is the ability of the manager to apply them to real people and situations. But a manager who understands the elements of motivation and motivation theories, is more aware of the nature and strength of human needs and is better able to define and design ways of satisfying them and to administer so as to get the desired responses.

The sheer personality of the manager can inspire the employees to give a big hand to overcome a crisis.

(c) **The ability to inspire followers to apply their full capabilities:** Inspiration to do something usually comes from leaders, who may have qualities of charm and appeal that give rise to loyalty, devotion, and a strong desire on the part of followers to promote what leaders want. This is not a matter of need satisfaction; rather, it is a matter of unselfish support from followers to their leader. The best examples of inspirational leadership come from hopeless and frightening situations. The workers of a dying concern may come forward and follow the leader to overcome crisis.

A primary job of the manager is to develop and maintain a good working environment.

(d) **The ability to develop a climate conducive to arousing motivation:** This ingredient of leadership has to do with the style of the leader and the climate she or he develops. As we know, strength of motivation greatly depends on factors that are part of an environment, as well as an organisational climate. There is no denying the fact that the primary tasks of managers are the design and maintenance of an environment for performance. The fundamental principle of leadership is this - since people tend to follow those who, in their view, offer them a means of satisfying their own personal goals, the more managers understand what motivates their subordinates and how these motivations operate, and the more they reflect this understanding in carrying out their managerial actions, the more effective they are likely to be their leaders.[3]

Lesson-end assessment

Essay type questions

1. Define leadership and state the nature of leadership.
2. Describe in brief the qualities/ingredients of leadership.
3. What do you mean by leadership? Can you distinguish it from management? Discuss the types of power a manager may have.

Multiple choice questions

√ the most appropriate answer:

1. A leader inspires the group to:
   (a) work hard
   (b) accomplish organisational goals
   (c) earn more
   (d) try for better living

2. There can be managers:
   (a) only of organised group
   (b) of unorganised group
   (c) of both organised and unorganised groups
   (d) only of business firms

3. In organisational settings there are usually:
   (a) two kinds of power
   (b) three kinds of power
   (c) four kinds of power
   (d) five kinds of power

4. Referent power is usually based on:
   (a) reward
   (b) identification
   (c) coercion
   (d) authority

Lesson 2 : Styles/Types of Leadership

Lesson Objectives

Upon completion of this lesson you will be able to:

- describe the leadership styles based on the use of authority
- understand the leadership continuum
- elaborate the leadership styles described in Managerial Grid
- identify the systems of management by Lensis Likert

Styles/Types of Leadership

Leadership styles/ types can be classified under the following categories:

1. Leadership style based on the use of authority
2. Leadership continuum, involving a variety of styles ranging from a maximum to a minimum use of power and influence
3. Leadership styles described in Managerial Grid by Blake and Mouton
4. Systems of management by Rensis Likert

1. Leadership Style Based on the Use of Authority

The traditional way of classifying leadership is based on the use of authority by the leader. Those classifications are:

(a) **Autocratic leadership:** This type of leadership is based on the use of coercive power. An autocratic leader gives orders and expects compliance. He is dogmatic and leads by the ability to withhold or give punishment or rewards. However, some autocratic leaders may happen to be "benevolent autocrats". Usually, they are willing to hear and consider subordinates' ideas and suggestions but when a decision is to be made, they turn to be more autocratic than benevolent.

Autocratic leadership relies on coercion, and its style is paternalism, arbitrariness, command and compliance.

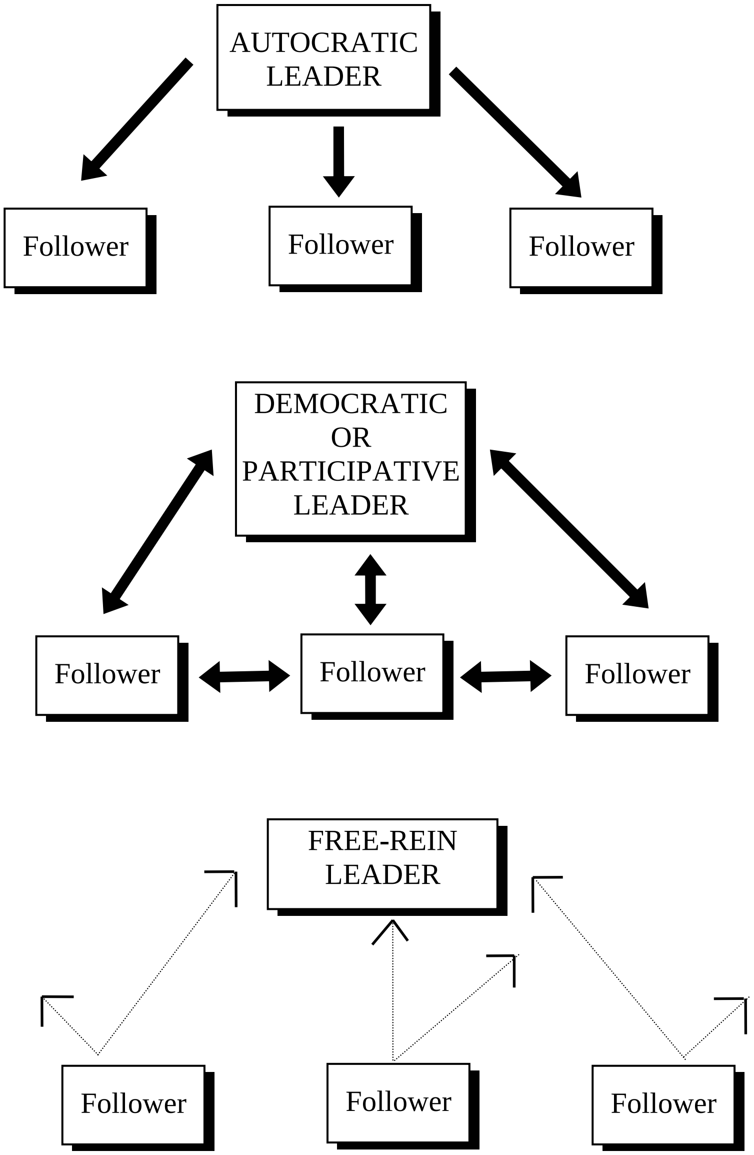
(b) **Democratic leadership:** The type or style of leadership that uses legitimate power can be called democratic leadership. A democratic leader usually consults with subordinates on proposed actions and decisions and encourages participation from them. This type of leader ranges from the person who does not take action without subordinates’ concurrence to the one who makes decisions but consults with sub-ordinates before doing so.

Democratic leadership solicits employees’ participation and respects their opinions.

(c) **Free-rein leadership:** The leadership style which allows maximum freedom to followers may be called free-rein leadership. A free-rein manager gives workers a high degree of independence in their operations. He or she depends largely on subordinates to set their own goals and the means of achieving them, and they see their role as one of aiding the operations of followers by furnishing them with information and acting primarily as a contact with the groups' external environment. Figure 9.1 illustrates the flow of power on the three leadership styles discussed.

Free-rein leadership is employee-dependent, allows maximum freedom to employees.

Figure 9-1


AUTOCRATIC LEADER
Follower
Follower
Follower
DEMOCRATIC OR PARTICIPATIVE LEADER
Follower
Follower
Follower
FREE-REIN LEADER
Follower
Follower
Follower

THE FLOW OF INFLUENCE WITH THREE LEADERSHIP STYLES

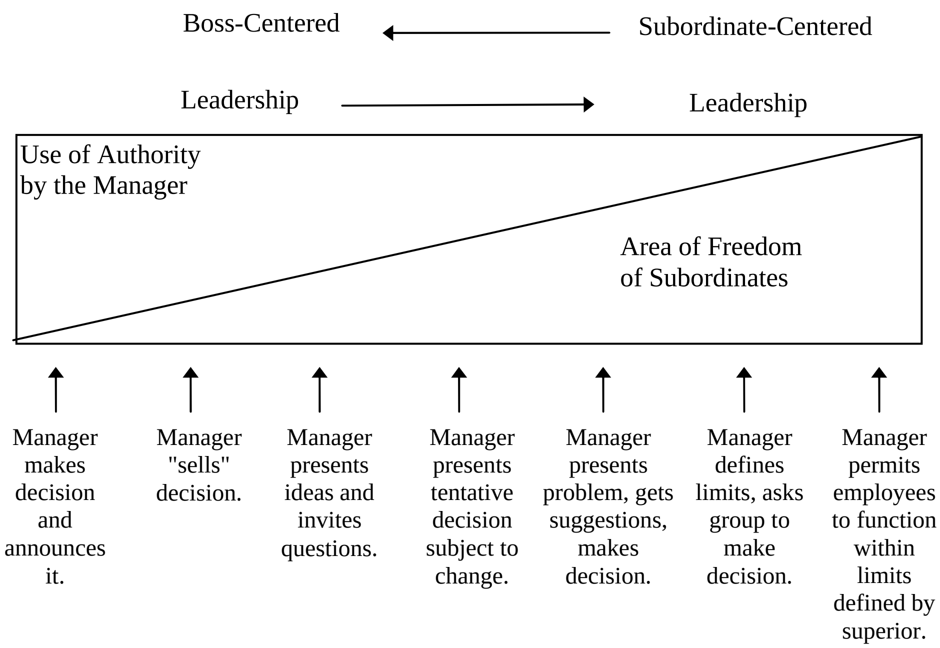
Source: Heinz Weihrich and Harold Koontz, "*Management - A Global Perspective*", Tenth Edition, p.485.

The use of any style may depend on the situation. A democratic leader may turn into an autocrat in an emergency. The reverse may also happen when an autocratic manager finds no alternative to winning the co-operation of his subordinates in combating a crisis.

2. Leadership Continuum

Robert Tennenbaum and Warren H. Schmidt developed the leadership continuum depicting the adaptation of different leadership styles to different contingencies (situations), ranging from one that is highly subordinate-centred to one that is highly boss-centred. The styles vary with the degree of freedom a leader or manager grants to the subordinates. Thus, instead of suggesting a choice between the two styles of leadership, democratic or autocratic, this approach offers a range of styles as shown in figure 9.2.

Figure 9-2


Boss-Centered
Subordinate-Centered
Leadership
Leadership
Use of Authority by the Manager
Area of Freedom of Subordinates
Manager makes decision and announces it.
Manager "sells" decision.
Manager presents ideas and invites questions.
Manager presents tentative decision subject to change.
Manager presents problem, gets suggestions, makes decision.
Manager defines limits, asks group to make decision.
Manager permits employees to function within limits defined by superior.

Continuum of Leadership Behaviour

Source: J.A.F. Stoner, R.E. Frecman and D.R. Gilbert, Jr, "*Management*", Sixth Edition, p.475.

Robert Tannenbaum and Warren H. Schmidt described the various factors thought to influence a manager's choice of leadership style. While they personally favour the employee-centred type, they suggest that a manager considers three sets of "forces" before choosing a leadership style: forces in the manager, forces in employees (subordinates) and forces in the situation.

According to the leadership continuum the leadership style depends on three forces: in the manager, employees and the situation.

How a manager leads will undoubtedly be primarily influenced by his or her background, knowledge, experience, and values. For example, a manager who believes that the needs of the employees rather than those of the organisation must come first is likely to be subordinate-centred.

The characteristics of subordinates must also be considered before managers can choose an appropriate leadership style. A manager can be employee-centred and allow greater freedom when employees identify with the organisation's goals, are knowledgeable and experienced, and want to have decision making responsibility. Where these conditions are absent, managers might need to initially adopt a more authoritarian style. They can, however, modify their leadership style as employees gain in self-confidence, skill, and organisational commitment.

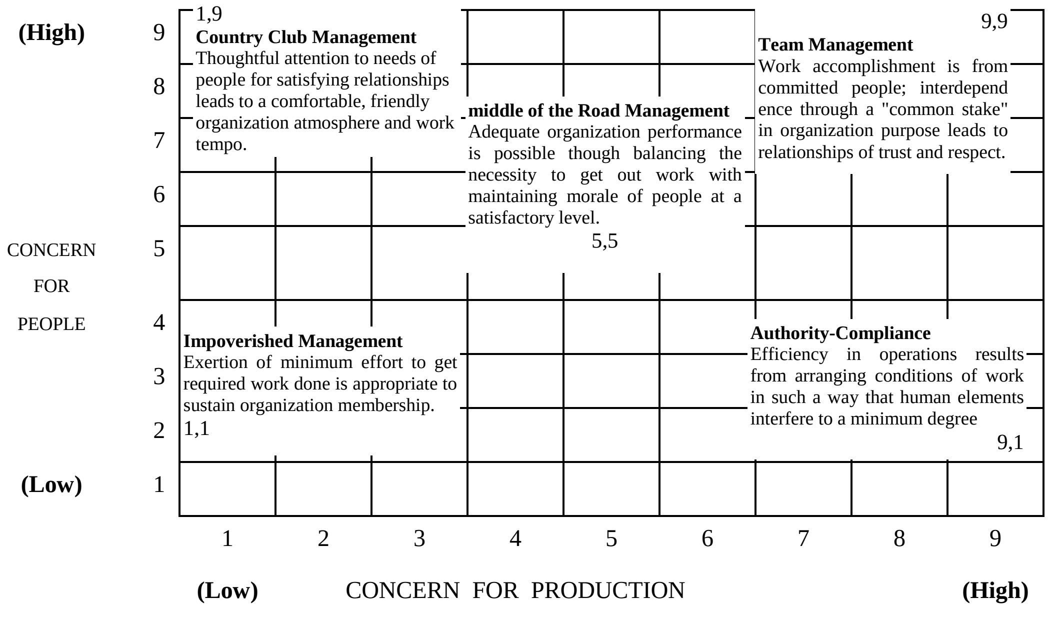
Finally, a manager's choice of leadership style must consider such situational forces as the organisation's preferred style, the size and nature of the work group, the pressures of time, etc. which may affect the attitude of the members of the organisation towards authority. More often than not, managers lean toward the leadership style favoured by the organisation's top boss/bosses.

3. Leadership Styles in Managerial Grid

A most useful approach to describing leadership styles is the managerial grid, developed by Robert Blake and Jane Mouton. The grid has two dimensions - concern for people and concern for production. Concern for people may include such elements as provision of good working conditions, placement of responsibility on the basis of trust rather than obedience, maintenance of self-esteem of workers and good interpersonal relations. Concern for production may also include the attitudes of a supervisor toward a wide variety of things, such a quality of staff services, work efficiency, volume and quality of output etc.

The bi-dimensional managerial grid identifies a range of management behaviours based on the various ways that task-oriented and employee-oriented styles (each expressed as a continuum on a scale of 1 to 9) can interact with each other (see figure - 9.3).

Figure 9-3



Country Club Management
Thoughtful attention to needs of people for satisfying relationships leads to a comfortable, friendly organization atmosphere and work tempo.

Team Management
Work accomplishment is from committed people; interdependence through a "common stake" in organization purpose leads to relationships of trust and respect.

middle of the Road Management
Adequate organization performance is possible though balancing the necessity to get out work with maintaining morale of people at a satisfactory level.

Impoverished Management
Exertion of minimum effort to get required work done is appropriate to sustain organization membership.

Authority-Compliance
Efficiency in operations results from arranging conditions of work in such a way that human elements interfere to a minimum degree

The Managerial Grid

Source: J.A.F. Stoner, R.E. Freeman and D.R. Gilbert, Jr, "*Management*", Sixth Edition, p.475.

Style 1,1 management is **impoverished management** with low concern for both people and production. This may be called laissez-faire management because the leader does not take a leadership role.

Style 1,9 management is **country club management** having high concern for employees but low concern for production.

Style 5,5 management is **middle of the road management with** medium concern for production and for people.

Style 9,1 management is **authoritarian management** with high concern for production but low concern for employees.

Style 9,9 management is **democratic management** with high concern for both production and employee morale and satisfaction.

Blak and Mouton strongly argue that style 9,9 is the most effective management style. They believe this leadership approach will, in almost all situations, result in improved performance, low turnover and absenteeism, and high employee satisfaction.

4. Systems of Management by Rensis Likert

Professor Rensis Likert of Michigan University studied the patterns and styles of managers and leaders for three decades. He suggests four styles of management as:

Managers are highly autocratic

(a) **Exploitative-authoritative management:** Under this type, the managers are highly autocratic, have little trust in subordinates, motivate people through fear and punishment, engage in downward communication, and limit decision making to the top.

Managers use both reward and punishment to motivate

(b) **Benevolent-authoritative management:** Managers under this type have a patronising confidence and trust in subordinates, motivates with rewards and some punishment, permit some upward communication, solicit some ideas and opinions from subordinates and allow some delegation of decision making but with close policy control.

Managers try to make use of subordinates' ideas by allowing them some participation

(c) **Consultative management:** Under this type of management managers have substantial but not complete confidence and trust in subordinates, use rewards for motivation with occasional punishment and some participation, usually try to make use of subordinates' ideas and opinions, engage in communication flow both up and down, make broad policy and general decisions at the top while allowing specific decisions to be made at lower levels and act consultatively in other ways.

Managers have complete trust and confidence in subordinates.

(d) **Participative management :** Under this type managers have complete trust and confidence in subordinates in all matters; they always get ideas and opinions from subordinates and constructively use them. They engage in much communication down and up and with peers, encourage decision-making throughout the organisation, and give economic rewards on the basis of group participation and involvement in such areas as setting goals.

Likert finds that those managers who applied the **participative management** approach to their operations had the greatest success as leaders. He also notes that organisations managed by managers in this style were most effective in setting goals and achieving them, and are generally more productive.

Lesson-end assessment

Essay type questions

1. Describe in short the various styles of management you have studied in this lesson.
2. What are the styles of leadership based on authority? Discuss them in brief.
3. What do you understand by leadership continuum developed by Tanenbaum and Schmidt? Give diagrammatic representation of the continuum.
4. Elaborate the leadership styles described by Blake and Mouton in Managerial Grid. Which style is the best?
5. Discuss the systems of management suggested by Rensis Likert.
6. What do you understand by participative management? Why is it important?

Multiple choice questions

√ the most appropriate answer:

1. The leadership style which allows maximum freedom to followers may be called
   (a) democratic leadership.
   (b) free-rein leadership.
   (c) participative leadership.
   (d) benevolent dictatorship.

2. According to Managerial Grid the Style 1-9 management is
   (a) impoversihed management.
   (b) authoritarian management.
   (c) country club management.
   (d) democratic management.

Lesson 3 : Theories of Leadership

Lesson Objectives

Upon completion of this lesson you will be able to:

- describe the different theories of leadership.
- critically evaluate the theories of leadership.
- differentiate between theories of leadership and describe their applicability in modern industrial settings.

Trait Theory of Leadership

The Trait Theory, also called the "Greatman Theory" of leadership, is based on the view that leaders are born, not made.

In ancient times the Greeks and Romans believed that leaders were to have certain inborn qualities. Also the first organised approach to studying leadership was to analyse the personality traits of successful leaders. It was thought that leadership traits might include intelligence, assertiveness, above average height, good vocabulary, attractiveness, self- confidence, and similar attributes.[4]

According to the Trait theory, leadership is innate.

In recent studies, the following key leadership traits have been identified:

(a) drive (including achievement, motivation, ambition, energy, initiative and tenacity),

(b) leadership motivation (the aspiration to lead),

(c) honesty and integrity, self-confidence (including emotional stability),

(d) cognitive ability, and an understanding of the business,

(e) creativity, flexibility and charisma (the impact of these factors is, however, less clear).

Critical appreciation

In general, the study of leaders’ traits has not been a very fruitful approach to explaining leadership. Not all leaders possess all the traits, and many non-leaders may possess most or all of them.

Leaders have certain traits that are absent in non-leaders.

During the first several decades of this century, hundreds of studies were conducted in an attempt to identify important leadership traits. For the most part, the results of these studies were disappointing. For every set of leaders who possessed a common trait, a long list of expectations were also found, and the list of suggested traits soon grew so long that it had little practical value. Some of the traits identified may have been the “**results**” of leadership experience rather than the “**causes**” of leadership ability. Also the evidence thus far suggests that people who emerge as leaders possess no single constellation of traits that clearly distinguishes them from non-leaders.

Situational or Contingency Theories of Leadership

The general belief of situational theories is that leaders are products of real situations rather than gifts of nature.

The Trait Theory caused huge disillusionment on the ground that only a few gifted people could be leaders because of their innate qualities denied to others. Gradually attention was turned to the study of situations. The findings of this new investigation overturned the assumptions of the Trait Theory, now stating that leaders are the product of given situations. A large number of studies have been made on the premise that leadership is strongly affected by the situation from which the leader emerges and in which he or she operates. The ingenuity of this approach is indicated, for example, by the rise of Mao Tse-tung in China in the period after world War II and the emergence of Gandhi in India during the early decades of the twentieth century.

Theories belonging to the contingency approach mainly focus on the following factors.

- Task requirements
- Peers' expectations and behaviour
- Employees' characteristics, expectations, and behaviour
- Organisational culture and policies.

Let us now review some of the more recent and well-known contingency theories of leadership.

(1) Contingency Leadership Theory by Hersey and Blanchard

Leadership style varies with the change of employee readiness on various counts as the concern develops and expands.

This theory holds that the most effective leadership style varies with the readiness of employees which includes, *inter alia*, the desire for achievement, willingness to accept responsibility, and task-related ability, skill, and experience. The goals and knowledge of followers are important variables in determining effective leadership style.

Hersey and Blanchard believe that the relationship between a manager and the followers moves through phases as employees develop, and managers need to vary their leadership style. In the initial stage of readiness, high amounts of task behaviour by the manager may be appropriate, while in the later stages gradual progression towards the non-directive approach would be desirable. In the last phase, the followers would no longer expect or need direction from their manager.

Critical appreciation

Situational leadership is dynamic and flexible but requires monitoring and adjustment from time to time. This leadership allows the followers an opportunity to develop.

The situational leadership theory has generated interest because it recommends a leadership type that is dynamic and flexible rather than static. The motivation, ability, and experience of followers must constantly be assessed to determine the appropriate style of leadership. If the style is appropriate, according to Hersey and Blanchard, it will not only motivate employees but will also help them develop professionally. Thus, the leader who wants to develop followers, increase their confidence, and help them learn their work will have to shift style constantly. But the leaders who are inflexible will operate effectively only in those situations that best match their style.

(2) Fiedler's Contingency Theory of Leadership

Fred E. Fiedler and his associates at the university of Illinois have developed the contingency theory of leadership. This theory holds that people become leaders not only because of their qualities but also because of various situational factors and the interactions between group members and the leader.

Fiedler set forth two major styles of leadership — one is primarily task-oriented and the other is oriented primarily toward achieving good inter-personal relations and attaining a position of personal prominence.

Fiedler was specially concerned with finding out the favourableness of the situation by which he meant the degree to which a given situation enables a leader to exert influence over a group. What differentiates Fiedler's model from the others' is the measuring instrument he used. He measured leadership style on a scale that indicated "the degree to which a man described favourably or unfavourably his least preferred co-worker (LPC)" - the employee with whom the person could work least well. This measure (scale) locates an individual on the leadership style continuum. According to Fiedler, a person who describes his least preferred co-worker in relatively favourable manner tends to be human relations- oriented and considerate of the feelings of his men. But a person, who describes his LPC in an unfavourable manner, tends to be task-controlling and less concerned with the human relations aspects of the job.

Human relations-oriented managers are considerate of the employee's human condition and feelings while task-oriented managers are not, apart from the organisation' s sheer interest.

Thus the high-LPC managers want to have warm personal relations with their co-workers and will regard close ties with employees as important to their overall effectiveness. Low-LPC managers, on the other hand, want to get the job done. The reactions of employees to their leadership style is of far lower priority than the need to maintain production. Low-LPC managers who feel that a harsh style is necessary to maintain production will not hesitate to use it.

Fiedler found three critical dimensions of the leadership situation that help determine the most effective style of leadership.

1. **Leader-member relations:** Fiedler considered it the most important influence on the manager's power and effectiveness. If the manager gets along well with the rest of the group and if the group members respect the manager for reasons of personality, ability or character, then the manager might not have to rely on formal authority.

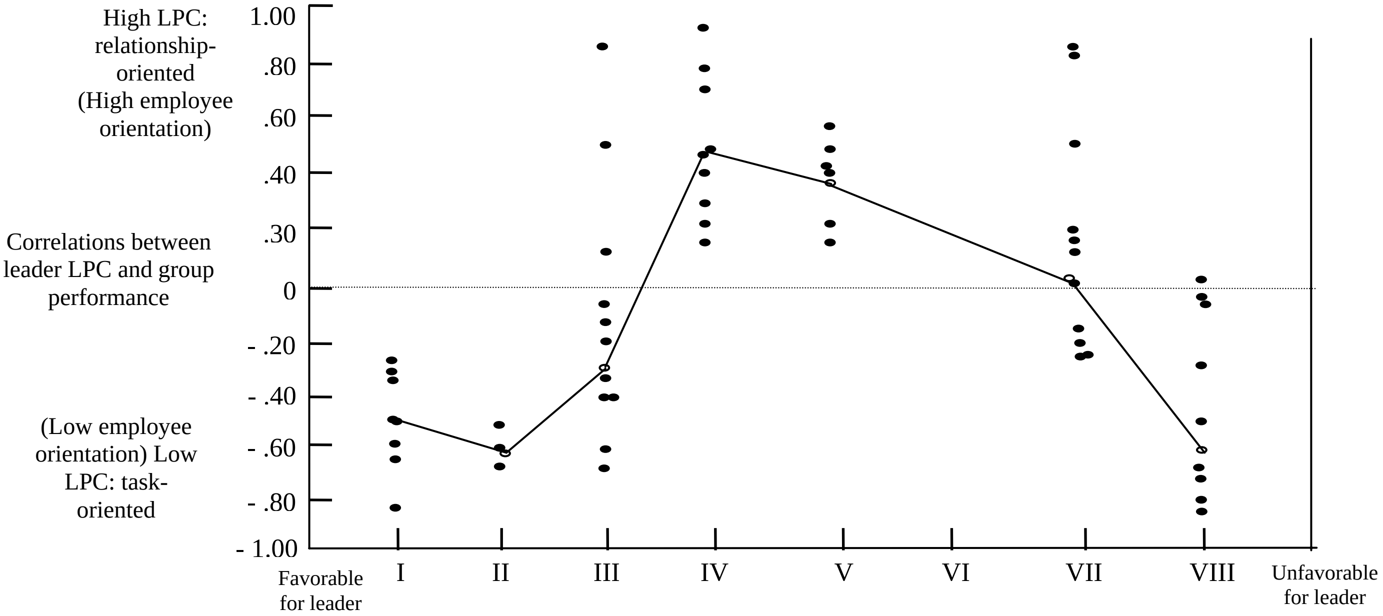
2. **Task structure:** With this dimension, Fiedler had in mind the extent to which tasks could be clearly spelled out and people held responsible for them. If tasks are clear, the quality of performance can be more easily controlled and the group members can be held more definitely responsible for performance.

3. **Position power:** This enables a leader to get group members to comply with directions. A leader with clear and considerable position power can obtain good followership more easily than the one without such power.

Fiedler then went on to specify eight possible combinations of these three variables (leadership situations) in the leadership situation:

Leader-member relations can be good or bad, tasks may be structured or unstructured, and position power may be strong or week (Figure 9-4).

Figure 9-4



	I	II	III	IV	V	VI	VII	VIII
Leader-Member relations	Good	Good	Good	Good	Moderately poor	Moderately poor	Moderately poor	Moderately poor
Task structure	Structured	Structured	Unstructured	Unstructured	Structured	Structured	Unstructured	Unstructured
Leader position power	Strong	Weak	Strong	Weak	Strong	Weak	Strong	Weak

FIEDLER'S MODEL OF LEADERSHIP

Source: Adapted from F.E. Fiedler, *A Theory of Leadership Effectiveness*, New York: McGraw-Hill Book Company, 1967, p. 146.

“Low-LPC” leaders are effective managers in extreme situations while “high-LPC" leaders are good in employee-oriented situations. Neither type is suitable for all situations.

Using these eight categories of leadership situations and his two types of leaders — "high-LPC" and "low-LPC" — Fiedler reviewed studies of over 800 groups to see which type of leader was the most effective in each situation. He found that "low-LPC" leaders, being authoritarian, were the most effective in extreme situations, situations in which the leader either had a great deal of power and influence or had very little power and influence. On the other hand, "high-LPC" leaders, being employee-oriented, were most effective in situations where the leader had moderate power and influence.

Fielder's model, then, suggests that (a) an appropriate match of the leader's style (as measured by the LPC score) to the situation (as determined by the interaction of these three variables) leads to effective managerial performance, (b) except for the unusual case, it is simply not meaningful to speak of an effective leader or an ineffective leader; we can speak of a leader who tends to be effective in one situation and ineffective in another; (c) for increasing organisational and group effectiveness we must learn not only how to train leaders more effectively but also how to build an organisational environment in which the leader can perform well.

Critical appreciation

Several scholars have put Fielder's theory to test in various situations. Some have questioned the meaning of the LPC score, and others suggest that the model does not explain the causal effect of the LPC score on performance. Some of the findings are not statistically significant, and situational measures may not be completely independent of the LPC score.

Despite such criticism, it is important to recognise that effective leadership style depends on the situation. Although this idea is not new, Fiedler and his colleagues drew attention to this fact and stimulated a great deal of research.

Path-Goal Theory of Leadership

The Path-goal Theory developed by Martin G. Evans and Robert J. House suggests that the main function of the leader is to clarify and set goals with subordinates, help them find the best path for achieving the goals, and remove obstacles.

The Path-Goal theory asserts that the individual motivation for work depends on the expectation and value of rewards.

This theory is based on the expectancy model of motivation, which states that an individual's motivation depends on his or her expectation of reward and attractiveness of the reward. Managers ensure the availability of rewards (Goals) and the "paths" that will earn them.

Evans suggests that a manager's leadership style influences the rewards available to the employees, as well as the employees' perceptions of the path to those rewards. An employee-centred manager, for example, will offer not only pay and promotion, but also support, encouragement, security, and respect. That type of manager will also be sensitive to differences between employees and will tailor rewards to the individual. On the other hand, a task-oriented manager will offer a narrower, less individualised set of rewards, but will usually be much better at linking employee performance to rewards than an employee-centred manager. Employees of a task-oriented manager will know exactly what productivity or performance level they must attain to get salary increases, bonuses, or promotions. Evans believes that the leadership style, most effective in motivating employees, depends on the types of rewards they most desire.[5]

An employee-oriented manager looks after not only the employees' job-related interests but also their human dimensions.

House and his associates have tried to expand the Path-Goal Theory by identifying two variables that help determine the most effective leadership style — (1) the personal characteristics of employees and (2) the environmental pressures and demands in the workplace with which employees must cope.

Lesson-end assessment

Essay type questions

1. Name the leadership theories you know of. Critically discuss the Trait Theory of Leadership.
2. What are the Contingency Theories of Leadership? Discuss critically Fiedler's Contingency Theory of Leadership.

3. Describe the Contingency Leadership Theory by Hersey and Blanchard. Elaborate the three critical dimensions of the leadership situation that help determine the most effective style of leadership.
4. Can you distinguish between Trait Theory and Contingency Theory of Leadership?
5. What do you understand by LPC? Discuss the LPC approach described by Fiedler in his Contingency Approach of Leadership.

Multiple choice questions

√ the most appropriate answer:

1. In ancient times the Greeks and Romans believed that leaders:
   (a) could better be trained up
   (b) were to have in born qualities
   (c) were more powerful than their followers
   (d) must have good health
2. Contingency theory develped by Fred E. Fiedler holds that people become leaders because of:
   (a) loyalty of followers
   (b) their own quality
   (c) democracy
   (d) various situational factors

Exercise

1. Interview the managers of two enterprises of your locality, and ask them the type of leadership they follow with reasons.

CASE 9-1

WHO ARE THE EFFECTIVE LEADERS?

In a search for effective leaders, 206 CEO respondents from Fortune 500 and Service 500 companies identified as the three top leaders Don Petersen (No. 1) at Ford, Lee Iacocca at Chrysler, and Jack Welch at General Electric. The overwhelming majority of those questioned felt that there is no leadership crisis in the United States. On the other hand, those holding another view pointed to the ineffectiveness of managers in competing in the global market; the excessive focus on short-term results, often at the expense of long-term company health; and the lack of investment in plants.

About two-thirds of the respondents thought that leadership can be taught, especially through job rotation, in-company training, and delegation of authority. But there was also the realization that latent leadership qualities have to be the foundation of leadership.

Althought not on the basis of the survey, Fortune identified the following factors for successful business leadership:

- Trust in subordinates is the foundation for delegating authority. A manager gets things done through people.

- Leaders must provide a vision for the enterprise and inspire others to commit themselves to this vision.
- Leaders must take command in times of crisis. Even those who subscribe to participative management realize that at critical times they have to take charge.
- Taking risks is a part of business - not careless risk, but calculated ones. Probably those who have never failed (who played it safe) may not have managed well.
- Leaders need to be very competent in their fields and command the respect of employees.
- A top executive surrounded by "yes-sayers" will get an incorrect view of what is really going on within and outside the organization. Thus, executives should invite dissenting views.
- Effective leaders see and understand the big picture. They simplify complex situations and problems so that they can be understood.

Questions

1. Who were the leaders identified in the survey? Why do you think they have been effective?
2. What were the leadership characteristics identified by Fortune? Do you agree with the seven statements about the characteristics? Should other factors be taken into account?
3. Do you think that leadership can be taught? Explain.
4. How do the leadership characteristics relate to the managerial functions?

Source: Heinz Weihrich and Harold Koontz, "*Management - A Global Perspective*", Tenth Edition, p.510.

For further study

1. Heinz Weihrich and Harold Koontz, "Management: A Global Perspective", McGraw-Hill International Editions, Tenth Edition, 1994.
2. Griffin, "Management", Boston: Houghton Mifflin Company, 1984.
3. George R. Terry, Stephen G. Franklin, "Principles of Management", A.L.T.B.S. Publishers & Distributors, India, Eighth Edition, 1997.
4. James A.F., R. Edward and Daniel R. Gilbert, Jr., "Management", Prentice-Hall of India Private Limited, Sixth Edition, 1997.

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[1] Ricky W. Griffin, *Management* (Boston: Houghton Mifflin Company, 1984), p. 416.

[2] Heinz Weihrich and Harold Koontz, *Management - A Global Perspective* (Mc-Graw-Hill, International Edition, 1994), p.491.

[3] Ibid., p.492.

[4] See Bass, Stogdill's Handbook of Leadership.

[5] James A. F. Stoner, et. al., *Management* (New Delhi: Prentice-Hall of India, 1997), p. 485.

Committees and Group Decision Making

10

Unit Highlights

- ☐ Definition, Nature and Reasons for Using Committees
- ☐ Plural Executive and the Board of Directors, Making Committees Successful, Disadvantages and Misuse of Committees.

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Unit-10: Committees and Group Decision Making

Lesson 1: Definition, Nature and Reasons for using Committees

Lesson Objectives

Upon completion of this lesson you will be able to:

- define committee and state its nature
- explain the reasons for using committee

Definition of Committee

The term committee may be referred to as team, board, taskforce, commission etc. It implies the existence of a group to accomplish certain acts. It may be defined as "a group of persons to whom, as a group, some matter is committed".

A committee is instituted to deal with a specific problem or problem areas.

It is sometimes difficult to draw sharp distinction between committees and other small groups. The essential characteristics of the committee is that it is a group charged with dealing with a specific problem or problem areas.

Effective use of committees can enhance motivation and productivity.

Committees are widely used, although they are often criticised for being time-consuming and inefficient. Research studies indicate that the right use of committees can result in a greater motivation, improved problem solving and increased output. In fact, the problem is not the existence of committees but rather the way they are conducted and where they are used.[1]

Nature of Committee

There is a wide variation in the authority assigned to committees and thus the nature of committees also varies. The following discussion will make it clear.

1. **Wide use of committees:** Committees are a fact of modern organisational life. They are used in almost all types of organisations - government, non-government, autonomous, and so forth. They are operating in education institutions, industrial organisations and in purely commercial enterprises. In a university or in a bank, for example, there may be dozens of standing and /or special committees either to share in administration or advise the administration on policy. A board of directors of a company is also a committee, as are its various constituent groups such as the executive committee, the finance committee, the bonus committee, the pension committee, the audit committee, the salary and wages review committee, the grievance committee, the planning committee, and numerous other standing and special committees.
2. **Variety of functions and formalities of committees:** A committee may be with or without managerial functions. Some committees may make decisions while others may receive information only. Some of them may have line authority (as the board of directors or the syndicate) while others only staff authority (as the bonus committee or the pension committee).

An informal committee has no power, and is intended only for group thinking. A formal committee, on the other hand, is charged with specific power, duties and responsibilities.

Committees may also be informal or formal. A committee, formed without specific delegation of authority usually by a top level executive desiring group thinking on a particular problem, may be termed an informal committee. On the other hand if a committee is organised as part of the organisation structure, with specifically delegated duties and authority, it is a formal committee.

Committees may also be temporary or relatively permanent. When a committee is formed for a specific purpose and is disbanded immediately upon the completion of its task, such as an enquiry committee, it may be called temporary. But when some committees are assigned tasks to continue for a longer period, such as finance committee, they are relatively permanent.

3. **Different roles of committee members:** Members play certain roles in committees. Some try to encourage others to contribute, others follow. Some give information, others seek information. Some take an aggressive role, while others try to co-ordinate the group's efforts or negotiate a compromise in the event of disagreements.

Reasons for Using Committee

There are widespread uses of committees, the more important ones are discussed below:

Committees help arrive at better judgements and decisions through group deliberations and interactions.

1. **Superior judgement:** The most important reason for the use of committees is to arrive at a superior judgement through group deliberations. It is increasingly being recognised that most problems of modern business require more experience, knowledge, and judgement than any individual possesses. Committees may help the clarification of problems and development of new ideas. Group interactions through committees have been found to be especially enlightening in policy matters. In complex business situations, however, group interactions may be superior to individual judgement.

Participation in committee meetings increases motivation among participants.

2. **Motivation through participation:** Membership of committees permit wider participation in decision-making. There are people who seem to be against every move unless they have been previously consulted. Committee membership may help improve the situation. Persons who take part in decision-making through committee membership usually feel more enthusiastic about accepting and executing it.

Committees help decentralise authority and delegate power.

3. **Avoiding concentration of authority in a single person:** The use of committee can help avoid concentration of authority in a single person. There may also be a committee to make recommendations on a problem because the manager does not wish to take full responsibility for making a decision. Major financial and capital investment policies are also often developed by committees, partly because of unwillingness to give a single individual complete authority to make such important decisions.

By use of committee, information is disseminated widely.

4. **Sharing and transmitting of information:** Another reason for using committee is sharing and transmitting information. All the members of a committee can learn about a project or problem simultaneously. Moreover, decisions and instructions can be received uniformly with opportunities for

clarification. This may help avoid misunderstanding and save time.

5. **Achieving co-ordination:** Committees are very useful for co-ordinating activities among various organisational units. The dynamics of modern organisations place a heavy burden on the managers to integrate plans and activities. Committees can help a lot in this direction by co-ordinating plans and policies as well as their implementation.

Committees co-ordinate activities of organisational units.

6. **Representation of interested groups:** Committees are often formed with membership from different interested groups. Members of board of directors are often selected on the basis of groups interested in the company and, perhaps more often, on the basis of groups in which the company has an interest. When top executives have internal problems involving, for example, heads of various departments, they may choose committee members in such a way as to give these departments representation.

Committees can ensure representation of interest groups.

7. **Delaying or avoiding action:** It is well known that committees are often appointed by managers when they want to delay or avoid action. At times, committee members are chosen in a way aimed at delaying action. Careful managers know that one of the surest ways to delay the handling of a problem, and even to postpone a decision indefinitely, is to appoint a committee to study the matter.

Sometimes managers make committees for strategic reasons.

Lesson-end assessment

Essay type questions

1. Can you define committee? State the nature of committee.
2. What do you mean by committee? What are the reasons for using committee?
3. What does committee mean? Why committees are used?

Multiple choice questions

√ the most appropriate answer:

1. A committee may be:
   (a) with managerial functions only.
   (b) without managerial functions.
   (c) with or without managerial functions.
   (d) with disciplinary actions only.
2. A formal committee is one that is formed
   (a) without specific delegation of authority.
   (b) with specific delegation of authority.
   (c) with or without specific delegation of authority.
   (d) with an objective to replace managers.
3. Committees are often formed with membership from:
   (a) managers only.
   (b) trade unions.
   (c) different interested groups.
   (d) both managers and workers.

Lesson 2 : Plural Executive and Board of Directors, Making Committee Successful, Disadvantages and Misuses of Committees

Lesson Objectives

Upon completion of this lesson you will be able to:

- understand what a plural executive is and its role in decision making and execution of decisions;
- discuss whether board of directors can be called a plural executive;
- discuss how committees can be made successful;
- elaborate the disadvantages/drawbacks of committees;
- point out how the misuse of committees occurs.

Plural Executive and the Board of Directors

The committees that are managerial in nature and are given the power to make decisions and to undertake one or most of the managerial functions, may be called plural executives. An ideal example of a plural executive is the board of directors.

Plural Executive in Decision Making

Plural executives are policymaking bodies.

Plural executives are often engaged in policy making. Many companies form executive or management committees to develop basic policies and adopt major strategies. Such committees go by various names - Management Committee, Corporate Policy Committee, Operating Policy Committee etc.

The extent of authority of these committees varies considerably, although their influence on decision making is perhaps greater in strategic planning than in any other area. Such committees also engage in control, for their concern with strategic planning must be followed up to ensure that activities conform to plans.

The plural executive is an ideal negotiator of disputes.

The plural executive is an ideal negotiator of disputes, since a settlement by a group will usually be more acceptable to parties concerned than that of a single arbiter.

Sometimes plural executive depends on accurate and adequate staff work. Moreover, in order to make group deliberations in plural executive productive, facts and analysis must be developed and presented so that members have readily available the data on which to base a decision.

Plural Executive in the Execution of Decisions

A plural executive is primarily used for decision-making rather than its execution. Decision/ policy implementation is primarily carried out by managers who set standards and procedures to guide and govern the execution of policies, establish controls to ensure adherence to standards, improve interdivisional co-ordination, and meet various, emergencies as they arise.

Board of Directors as Plural Executive

A board of directors usually makes decisions and has the authority to manage a company, although it may not exercise it.

A board of directors is not a plural executive proper.

In fact the chairman/president is the dominant figure on the board with the other members often being little more than advisers. Thus the board of directors can seldom be called plural executive because a single executive often formulates the policies.

A board may have both insiders and outsiders as members. Some recommend that company directors own stocks. Some others speak about workers' representation on the board. Still others favour the existence of full-time members of the board to make the concept of plural executive in real practice.

Making Committees Successful

The ever-increasing use of committees owes a great deal to the growing emphasis on group participation in organisations and group management. Yet committees are found to suffer from certain disadvantages which a manager may try to overcome by following the guidelines that appear below:

The committee’s authority needs to be clearly stated.

1. **Committee's authority is to be clearly stated:** A committee's authority should be spelled out clearly so that each and every member knows whether their responsibility is to make recommendations, make decisions, or merely deliberate and give the committee chief some insights into the issue under discussion.

Members of the committee must represent their group interests.

2. **Members must be selected carefully:** If a committee is to be effective, the members must be representative of the interests they are expected to serve. They must also be competent to perform well in group. Moreover, the members should have the capacity for communicating well and reaching group decisions by integrated group thinking rather than by inappropriate compromise.

The committee should be small in size, but not too small to carry on deliberation.

3. **The size should be workable:** The size of committee is important. It should not be either too big or too small. If the committee is too big, there may not be enough opportunities for adequate communication among its members. If, on the other hand, the committee is too small it may fail to serve the purpose. Thus, as a general rule, a committee should be large enough to promote deliberation and include the breadth of expertise required for the job but not so large as to waste time or foster indecision. As is generally found, the optimum committee size is between five to fifteen members.

The chairperson of the committee should be competent in providing leadership.

4. **Selecting a competent chairperson:** In order to make committee meetings successful, the selection of the chairperson is crucial. A competent chairperson can minimise the limitations of a committee by a proper planning of the meeting, preparing the agenda carefully, conducting the meeting effectively and integrating the ideas judiciously. As a matter of fact the success of committee meetings depend to a large extent upon the competence of the chairperson.

Issues should be suitable for group discussion.

5. **Careful selection of the subject matter:** The subject should be selected carefully. Committee actions are to be kept limited to those types of subjects which are suitable for group deliberations. Members should be given an opportunity to study the subject matter well ahead of the meeting time and for that matter, the agenda and relevant information are to be circulated among them accordingly.

Committees should prove worth the money and time in the long run.

6. **Committee must be cost effective:** In the long run, committees are justified if the costs are offset by tangible and intangible benefits. It should be remembered, however, that although the tangible benefits are not very hard to be determined, it may be difficult to count the intangible benefits such as morale, motivation and training of committee members.

Circulation of minutes of meetings is a must.

7. **Circulation of minutes:** Circulation of minutes and checking conclusions are indispensable for effective communication in committees. Sometimes individuals may leave a meeting with varying interpretations as to what agreements were reached. This can be avoided by noting down minutes carefully and circulating them in draft form for correction or modification before the final copy is approved by the committee.

Disadvantages/ Drawbacks of Committees

Although there are many advantages for the use of committee, it also suffers from a number of drawbacks as discussed below:

If problems can be solved by an individual, committees should be avoided, because they are costly and time-consuming.

1. **Time consuming and costly:** Committee action is usually time consuming. In a committee meeting all the members have the right to be heard, to challenge and cross-examine the presentation of others, and to have their viewpoints discussed. If the committee is supposed to reach a unanimous decision, the discussion is likely to be lengthy. The monetary cost of committee discussion can also be very high. However, the cost in time and money becomes all the more disadvantageous when a committee is assigned a job that could just as well, or better, be solved by an individual.

Often meetings are devoted to unnecessary hair-splitting discussion.

2. **Cost of indecision:** Another major drawback of committee is that the discussion of less important or peripheral subjects takes up valuable time and often results in adjournment without action. It is not unusual that some hidden agenda may also prevent the committee from reaching agreement on the official agenda of the meeting.

The influential few tend to impose on the silent and meek majority.

3. **Tyranny by the influential members:** A few influential members, representing a minority view, may be in a strong position to impose their will on the majority of members. By their insistence on acceptance of their position, or of a compromise position, they may exercise an unwarranted tyranny over the majority. Sometimes, a single member may also control the committee through the power to withhold his vote.

Weak decisions can result from a compromise formula.

4. **Taking compromise decision:** If differences of opinion exist among committee members, the point at which all or the majority of the committee members can agree tends to be at the least common denominator. Small groups of people frequently seek - from feelings of politeness, mutual respect, and humility - to reach conclusions on which all can agree. Since

committee members are often selected from organisation equals, reluctance to force a conclusion on a recalcitrant member presenting a minority view is clear. This, however, increases the chance of making weak decisions.

Sharing of responsibility among the members can cause a weak commitment to making a strong decision.

5. **Splitting of responsibility:** This is one of the chief drawbacks of a committee. Since no one member of a committee feels personally accountable for the actions of the group, no individual feels personally responsible for any action taken by it. Individual members hardly feel the same degree of responsibility that they would if they personally were charged with the same task.

A domineering chairman can be an obstacle to a balanced decision.

6. **Possibility of being self-destructive:** Almost invariably, one person in a committee emerges as the leader. But when the chairman or a member becomes dominant, the nature of the committee as a decision-making group of equals changes. It then turns into a team composed of subordinate advisors or even "yes-men" following a leader.

Misuse of Committees

When committees are set-up and operated, the five abuses that appear below should be carefully avoided:

1. **For unimportant decisions:** The use of committee involves cost both in terms of money and time. Thus its use should be limited to important matters. It needs mention that no busy executive can help feeling uncomfortable when time is wasted by the committee members deliberating at length on trivial subjects.
2. **For replacing a manager:** A committee cannot replace a line manager. It had better perform advisory functions. In fact most committees function in this manner, leaving the real decision-making and managing to the line executives to whom they report.
3. **For decisions beyond participants' authority:** Sometimes the important committee members, instead of attending committee meetings themselves, send subordinates who have not had the superior's authority delegated to them. As a result the committee fails to function as intended.
4. **For consolidating divided authority:** In large organisations having several departments, authority is so delegated that in some cases no one except the chief executive has adequate authority to do what must be done. If such a problem of divided authority can be eliminated either by delegating authority properly or by changing the organisation structure, the use of committee is inappropriate.
5. **For research or study:** Research and study are essentially not group activities. A group of people meeting together can hardly engage in research or study that requires individual devotion and a proper bent of mind, more than anything else. Gathering information is also an individual function, even though individuals may be co-ordinated into a team with individual research assignments. Most monumental research works and studies are the results of individual efforts, although committees may be there to evaluate them.

Lesson-end assessment

Essay type questions

1. What do you mean by a plural executive? Discuss the role of the plural executive in both decision-making and execution of decisions.
2. Define plural executive. Can a board of directors be called a plural executive?
3. How can committees be made successful? Explain the drawbacks/ disadvantages of committee.
4. What are the drawbacks of committee? What abuses are to be avoided in the use of committee?

Multiple choice questions

√ the most appropriate answer:

1. A plural executive is primarily used for:
   (a) execution of decision.
   (b) decision making.
   (c) taking corrective action.
   (d) fact finding.
2. A committee discussion is likely to be lengthy if:
   (a) an unanimous decision is desired.
   (b) a quality decision is expected.
   (c) the members are talkative.
   (d) the chairperson is unable to control.
3. The use of committee should be kept limited to important matters because:
   (a) its use involve cost both in terms of money and time.
   (b) committee is disliked by most managers.
   (c) the chairman influences members.
   (d) most members remain absent in committee meetings.

Exercise

1. Ask two managers about their experiences in committees. What they have found to be most important for making committees effective and efficient? Do they have a positive or a negative view of committees? Why?

CASE 10-1

COMMITTEE MANAGEMENT AT THE UNIVERSITY OF CALIFORNIA

Many universities, notably the larger ones, operate extensively through committee management, especially in the appointment and promotion of persons to tenured associate and full professorships. One example of a university where committees are extensively used in this area is the University of California (its various campuses.)

For appointment or promotion to the position of associate professor or full professor (each carries tenure), the University of California uses the following steps:

- A candidate is reviewed thoroughly by the staffing committee of his or her department or school.
- If the candidate passes there, the action is sent to the chairperson or dean for review and then to the office of the executive Vice-Chancellor of the campus, where it is referred to the campus budget and promotion committee.
- The budget and promotion committee immediately refers the case to a specially appointed ad hoc committee of five faculty members, of whom only one or two may be from the candidate's department or school.
- The ad hoc committee reviews the case and make a recommendation to the budget and promotion committee.
- The budget and promotion committee reviews the case and makes recommendations to the executive Vice-Chancellor and Chancellor of the campus.
- The executive Vice-Chancellor and Chancellor review the case, and after this review, the case is sent to the academic Vice President of the university with recommendations.

The university's academic Vice President and President review the case and, if their decision is favorable, send it with recommendations to the regents of the university for final action.

Questions

1. How would you like to be reviewed for appointment or promotion by this hierarchy of committees?
2. What strengths or weaknesses do you see in this procedure?
3. Assuming that you see certain weaknesses and perhaps dangers in this kind of committee management, what do you suggest be done?

Source: Heinz Weihrich and Harold Koontz, "*Management - A Global Perspective*", Tenth Edition, p.534.

For further study

1. Heinz Weihrich and Harold Koontz, "Management: A Global Perspective", McGraw-Hill International Editions, Tenth Edition, 1994.
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[1] Heinz Weihrich and Harold Koontz, *Management - A Global Perspective, (*McGraw-Hill International Editions, Tenth Edition, 1994), p. 515.

Communication in Organisations

11

Unit Highlights

- ☐ Definition, Process and Purpose of Communication
- ☐ Communication in Organization, Importance of Effective Communication
- ☐ Causes of Communication Problems, Ensuring Effective Communication, Electronic Media in Communication, Teleconferencing

Unit-11 : Communication in Organisations

Lesson 1: Definition, Process and Purpose of Communication

Lesson Objectives

Upon completing this unit you will be able to:

- understand what is communication
- define communication
- elaborate the communication process
- state the purposes of communication
- explain the role of communication in management

Definition of Communication

Communication is the transfer of information from a sender to a receiver after the information has been understood by the receiver. It can be defined as the process of transmitting information from one person to another. By effective communication is meant the process of sending a message in such a way that the message received is close in meaning to the message intended.

Effective communication takes place when the message is understood by the receiver as intended by the sender.

In our definition of communication, we see that three conditions are necessary for communication to take place.

First, there must be at least two persons involved. Of course, more than two persons can be involved in communication.

Second, there must be information to be communicated.

Third, some attempt must be made to transmit this information.

The Communication Model/ Process

An expanded model of how communication occurs is shown in figure 11.1.

The communication process takes place through the following four stages:

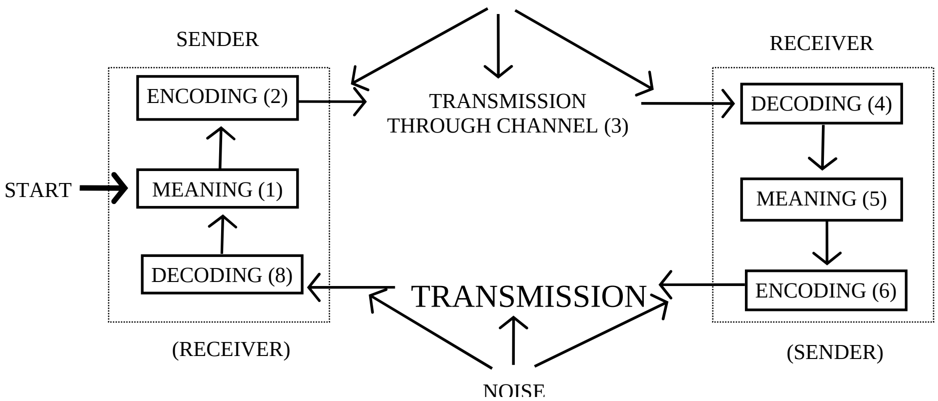
- conceiving a meaningful idea;
- translating this idea into an understandable form (encoding);
- transmitting this encoded message;
- decoding the message for meaning.

One-way communication involves five steps - meaning, encoding, transmission, decoding, and meaning. In the case of two-way communication the three steps of encoding, transmission and decoding are repeated as the second person responds to the first.

The process begins when one person (sender) initiates a communication process. He or she may decide that an idea, opinion or fact needs to be transmitted to someone else. This idea, opinion or fact has **meaning** to the sender which is the first step in the communication process.

The next step is to **encode** the meaning into a form appropriate to the situation. This encoding might take the form of verbal words, gestures, facial expressions, physical actions or even artistic expressions.

FIGURE 11-1



A COMMUNICATION MODEL
Source: Grifin,*,"Management"*,Honghton Mifflin Company,

After encoding, the message is **transmitted** through the appropriate channel. The common channels include printed pages, face-to-face discussion, the air waves and telephone lines. Transmission is the third step of the communication process.

In the fourth step the message is received and **decoded** by one or more other people via such senses as eyesight and hearing. After the message is received, it must be translated into **meaning** relevant to the receiver.

Managers need to keep the noise down to a minimum level during a communication for reducing distortion of the message.

In many cases, this meaning prompts a response, and the cycle is continued when the new message is sent by the same steps back to the original sender (steps 6,7 and 8). As shown in figure 11.1, "noise" may occur at any stage of the communication process and distort the message. It is particularly troublesome in the encoding or decoding stage. Since noise can interfere with understanding, managers should attempt to restrict it to a level that permits effective communication.

Purposes of Communication

Chester I. Barnard viewed communication as the means by which people are linked together in an organisation to achieve a common purpose. As a matter of fact, group activity is impossible without communication, because co-ordination and change cannot be effected.

The purpose of internal communication is to spread enterprise objectives and plans among the organisation inmates, to inspire them to achieve those objectives and to organise resources.

Psychologists have greatly been interested in communication. They focus on human problems that occur in the communication process of initiating, transmitting, and receiving information. In fact, the internal functioning of an enterprise depends upon effective communication to a great extent, which integrates the managerial functions. The main purposes of communication, however, are to:

(i) set and disseminate the goals of an enterprise,

(ii) develop plans for their achievement,

(iii) organise human and other resources in the most effective and efficient way,

(iv) lead, direct, motivate, and create a climate in which people want to contribute and

(vi) control performance.[1]

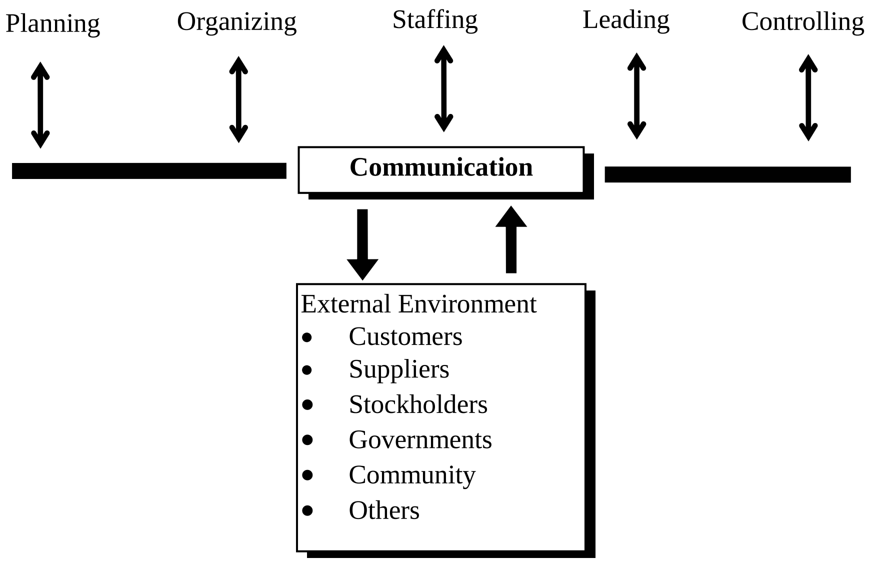
It needs to be emphasised that communication not only facilitates managerial functions but also relates an enterprise to its external environment [see fig. 11.2]

It is through communication that managers become aware of the claims of stockholders, the needs of customers, the regulations of governments, the availability of suppliers, the concerns of the community etc. In fact, it is through communication that an organisation (can facilitate exchanges of information with its environment) can interact with its environment.

Managers get information about market environment through communication.

Figure 11.2

THE MANAGEMENT PROCESS



THE PURPOSE AND FUNCTION OF COMMUNICATION

Source: Heinz Weihrich and Harold Koontz, "*Management - A Global Perspective*", Tenth Edition, p.539.

Role of Communication in Management

Communication is an indispensable part of every manager's job. Managerial roles as observed by Henry Mintzberg involve a great deal of communication. The **interpersonal roles** involve interacting with subordinates, workers, peers and also outsiders. Managers' **decisional roles** require that they seek information for making decisions and then communicate those decisions to others. The **informational roles** of managers also involve communication; they focus specially on acquiring and disseminating information.

All managerial roles require the use of communication one way or another.

The basic management functions of planning, organising, motivation, leading and controlling are directly related to communication. Delegation, co-ordination, decision- making, organisation development and change also entail communication. Establishing standards, monitoring performance, taking corrective actions as part of control and interacting with subordinates as part of the leading function would be impossible without some form of communication.

Lesson-end assessment

Essay type questions

1. Define communication. What conditions are necessary for communication to take place?
2. Explain the communication process with the help of a diagram.
3. Elaborate on the purposes of communication?
4. How can communication relate an enterprise to its organisation? Write a note on the role of communication in management.

Multiple Choice questions

√ the most appropriate answer:

1. The number of conditions necessary for communication to take place is
   (a) two.
   (b) three.
   (c) four.
   (d) five.
2. One-way communication involves
   (a) three steps.
   (b) four steps.
   (c) five steps.
   (d) six steps.
3. In the fourth step of the process of communication, the message is received and
   (a) encoded.
   (b) decoded.
   (c) transmitted.
   (d) circulated.

Lesson 2 : Communication in Organisation, Importance of Effective Communication

Lesson Objectives

Upon completing this unit you will be able to:

- discuss the flow of communication and the direction in which they flow
- understand the forms of communication
- elaborate on the importance of effective communication

Communication in Organisation

Managers need relevant information for effective decision-making. Obtaining this information frequently requires getting information from managers' subordinates and also from people and divisions elsewhere in the organisation. Managers also have to disseminate information for effective management. At this stage we need to elaborately understand the following:

1. Flow of Communication; and
2. Form of Communication

1. **Flow of communication:** In any modern organisation communication flows in various directions : (a) downward, (b) upward and (c) crosswise (horizontal and diagonal)

   (a) **Downward communication:** It flows from executives at higher levels to those at lower levels in the management structure. This type of communication is preferred mostly by authoritarian managers. Downward communication may be both written (such as memorandums, pamphlets, letters etc.) and oral (e.g., telephone, loudspeakers, verbal instructions etc.),

   Information is often distorted or lost as it comes down the chain of command. Top management's issuance of instructions does not ensure communication. Many directives are, in fact, not read or understood.

   Downward communication, through the different levels of the organisation, may often be time-consuming. Delays may sometimes be so frustrating that some top executives insist that information be sent directly to the subordinate requiring it.

Downward communication is preferred by authoritarian management, and the message is often likely to be distorted in transmission or ignored by the intended receiver.

   (b) **Upward communication:** Upward communication includes written, oral and non-verbal messages from subordinates to superiors. Usually this type of communication originates from a subordinate to his or her direct superior, then to that person's direct boss, and so on up through the hierarchy. Sometimes, however, a message might by-pass a particular superior. When this happens, the by-passed superior may feel resentful and hostile.

Upward communication is encouraged in the free, genial and democratic atmosphere of participative management. This type of communication is aimed to gather information about low-level employees' attitude towards management, production and marketing information.

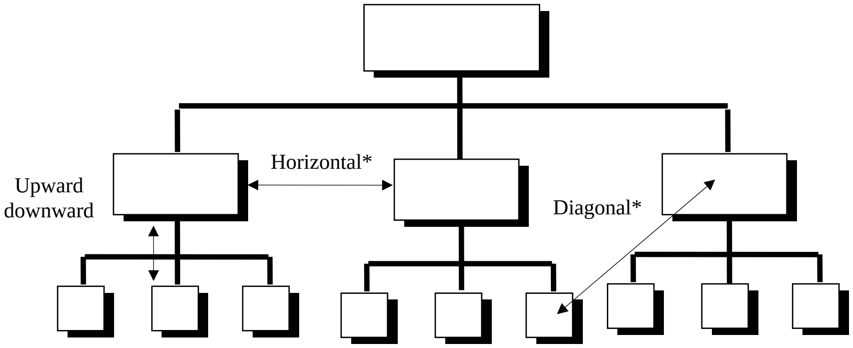
   Upward communication is basically non-directive and is usually found in participative and democratic organisational environments. Typical means for upward communication are counselling sessions, complaint systems, joint setting of objectives, suggestion systems, group meetings etc. Top level management normally needs to know marketing information, production data financial information, attitude of lower-level employees, etc.

The two types of communication discussed above i.e., downward and upward communication could also be categorised as **vertical communication**. When vertical communication includes both downward and upward communication, it is termed as 'two-way' or both-way communication.

Crosswise communication is used for enhancing information flow and co-ordinating efforts among persons of the same or different status in the organisation who have no direct reporting relationship.

(c) **Crosswise communication:** This includes the **horizontal** flow of information, among people on the same level in the organisation, and the **diagonal** flow, among persons at different levels, who have no direct reporting relationships with one another. This kind of communication is used to speed up information flow, to co-ordinate efforts for the achievement of organisational objectives and to improve understanding. A great deal of communication may happen to cut across the chain of command and avoid following the organisational hierarchy.

Figure: 11.3



INFORMATION FLOW IN AN ORGANIZATION

Source.: Heinz Weihrich and Harold Koontz, "Management - A Global Perspective", Tenth Edition. P.544.

***** Since horizontal and diagonal communication flows have some common characteristics, we call them crosswise communication and discuss them together later in this chapter.

Written communication is documentary, uniformly transmittable and cheap. But it takes up great physical space, and the feedback is slow.

2. **Form of communication:** Communication may take in written, oral or non-verbal form.

(i) **Written communication:** Written communication may take several forms such as notices, circulars, news letters, bulletins, and so on. These written forms have the advantage of providing references, records and legal defences. A message can be prepared with care and then directed to a large number of audience through mass mailings. Written communication can also promote uniformity in policy and procedure and can reduce costs, in some cases.

Written communications do have certain disadvantages also. They may create mountains of paper, may be poorly expressed by ineffective writers, and may provide no immediate feedback. Consequently, it may take a long time to know whether a message has been received and properly understood.[2]

(ii) **Oral communication:** A great deal of communication is done orally. It can occur in a manager's presentation to a large number of subordinates, or in a face-to-face meeting of two persons; it can be planned or sudden, and it can be formal or informal.

Oral communication has certain advantages. It makes possible speedy interchange with quick feedback. In a face-to-face interaction, people may ask questions and clarify points. Moreover, a meeting with the superior may give the subordinate a feeling of importance. Planned or informal meetings can also greatly contribute to the understanding of the issues.

There are some disadvantages also of oral communication. It is often time-consuming. Even some of the meetings end up without any result or agreement. Moreover, oral communication suffers from disadvantages of providing no written record, references and legal defences.

Oral communication and its feedback are both instantaneous and direct. But it might be time-consuming, and end without results.

(iii) **Non-verbal communication:** Little understood but powerful, non-verbal communication is interpersonal in nature. It includes any communicational exchange that does not use words or that uses verbalisation to carry more meaning than the strict definition of the words themselves. Body movements, facial expressions, gestures, sneers and physical contact may all be used.

Non-verbal communication is expected to support the verbal, but it does not always do so. For example, an autocratic manager may announce that from now on participative management will be practised; such contradictory communication will certainly create a credibility gap. As a matter of fact, non-verbal communication may support or contradict verbal communication, giving rise to the saying that actions often speak louder than words.

Non-verbal communication is made by paralinguistic means such as body language, and might both support and contradict verbal communication.

The Importance of Effective Communication

Effective communication is important in management for three primary reasons as stated below:

First, communication provides a common thread for the management processes of planning, organising, leading, motivating and controlling. All of these managerial activities depend on effective communication.

Second, effective communication skills can enable managers to draw on the vast array of talents available in the multicultural world of organisations. The globalisation of business certainly poses a challenge to managers' communications abilities. Like any other intellectual activity, communication can

Effective communication in management is essential for maintaining the total management process in the organisation, co-ordinating efforts in multicultural situations and communicating inside and outside the organisation.

be one through encountering new, challenging circumstances. Organisations can be good places to learn that lesson.

Third, managers have to spend a great deal of time in communication. Managers' time is spent largely in face-to-face, electronic, or telephone communication with workers, supervisors, customers or employers. Even when not conferring with others in persons or on the telephone, managers may be writing or dictating notes, reports, or letters or probably reading such communications sent to them.

Lesson-end assessment

Essay type questions

1. What do you mean by flow of communication? Can you discuss the directions in which communication flows?
2. Elaborate on the different forms of communication with their advantages and disadvantages.
3. Do you think communication is important in an organisation? Discuss.

Multiple Choice questions

√ the most appropriate answer:

1. Downward communication may be
   (a) only written.
   (b) only oral.
   (c) both written and oral.
   (d) through letters only.
2. Upward communication is usually found in
   (a) autocratic organisational environment.
   (b) public enterprises.
   (c) participative and democratic organisational environments.
   (d) private enterprises.
3. Managers have to spend a great deal of time
   (a) talking.
   (b) communicating.
   (c) writing.
   (d) mediating.

Lesson 3 : Causes of Communication Problems, Ensuring Effective Communication, Electronic Media in Communication

Lesson Objectives

Upon completion of this unit you will be able to:

- know the communication problems and their causes;
- identify the guidelines that can help improve communication effectiveness;
- understand the use of different electronic media in communication.
- describe teleconferencing

The causes rather than the symptoms of communication problems need to be identified and dealt with.

Communication Problems

Communication problems are often symptoms of more deeply rooted problems. Thus poor planning may be the causes of uncertainty about the direction of the firm. Vague performance standards may leave managers uncertain about what is expected of them. Similarly, a poorly designed organisation structure may not clearly communicate organisational relationships. So, the perceptive manager will look for the causes of communication problems instead of dealing with the symptoms. Causes can exist in the transmission of the message, in the sender, in the receiver, or in the feedback. Specific causes are discussed below:

1. **Poor planning:** Effective communication seldom happens by chance. Sometimes people start communication without proper planning, and stating the purpose of the message. This is wrong and wasteful. Experience suggests that drafting the right message, selecting the appropriate channel and choosing proper timing through planning can greatly improve understanding and reduce resistance to change.

2. **Poorly worded messages:** The sender of communication may have a clear idea about the message but it may still be marked by poorly chosen words, poor organisation, awkward sentence structure, lack of coherence, omissions, unnecessary jargon, and a failure to clarify its implications. This lack of clarity and precision, which can be costly, can be avoided through greater care in encoding the message.

3. **Semantic problems:** Another barrier to effective communication is semantic problem, which can be deliberate or accidental. Semantic problems arise when words have different meanings for different people. Words and phrases like 'profit', 'increased productivity', 'return on investment', or 'retained earnings' may have positive meanings for managers but less positive (or even negative) meanings for labour.

4. **Status differences between sender and receiver:** Communication problems may arise when people of different status try to communicate with each other. The employer may not pay much attention to a suggestion from a worker, thinking something like, "how can someone at that level help men run my business." Conversely, when the employer goes out to inspect a new plant, workers may be reluctant to offer suggestions because of their lower status.

Communication problems may arise if

- the message is not planned;
- the message is poorly structured and worded;
- the meanings of the words in the message are not delimited;
- the status of the sender and that of the receiver are different;

5. **Perceptual differences between sender and receiver:** If people perceive a situation differently, they may also have difficulty communicating with one another.

6. **Environmental factors:** Environmental problems may also disrupt effective communication. For example, noise may affect communication in many ways. Similarly, overload may be a problem when the receiver is being sent more information than he or she can effectively handle.

7. **Unclarified assumptions:** Unclarified assumptions that underlie messages may also create problems. For example, a customer may send a note stating that he/ she will visit a vendor's plant. Then the customer may assume that the vendor will meet him/ her at the airport/railway station, reserve accommodation, arrange for transportation, and set up a full-scale review of the program at the plant. But the vendor may assume that the customer is coming to city mainly to meet friends and will make a routine call at the plant. These unclarified assumptions in both instances may result in confusion and the loss of goodwill.

8. **Loss by transmission and poor retention:** In a series of transmissions from one person to the next, the message becomes less and less accurate. Poor retention of information is another serious problem. Thus, the necessity of repeating the message and using several channels are imperative indeed. Consequently, companies often use more than one channel to communicate the same message.

9. **Poor listening and premature evaluation:** There are many talkers but few listeners. Everyone probably has observed people entering a discussion with comments that have no relation to the topic. One reason may be that these persons are pondering their own problems instead of listening to the conversation. Listening demands full attention and self-discipline. It also requires that the listener avoids premature evaluation of what another person has to say. Listening without hasty judgements can make the whole enterprise more effective and more efficient. For example, sympathetic listening can result in better labour-management relations and greater understanding among managers.

10. **Distrust, threat and fear:** Distrust, threat, and fear undermine communication. In a climate containing these forces, any message will be viewed with scepticism. Distrust can be the result of inconsistent behaviour by the superior, or it can be due to past experiences in which the subordinate was punished for honestly reporting true, but unfavourable, information to the boss. Similarly, in threat, people tend to tighten up, distort information, and become defensive. What is required is a climate of trust, which facilitates open and honest communication.

11. **Insufficient period for adjustment to change:** the purpose of communication is to effect change that may seriously concern employees. Changes affect people in different ways, and it may take time to think through the full meaning of a message. Thus, for maximum efficiency, it is important not to force change before people can adjust to its implications.

- they have not the same understanding of the situation or subject being discussed;
- if there is interruption during the transmission of the message;
- if assumptions made in the message are not explicit;
- if the original message is not faithfully and truthfully retained;
- if the listener is inattentive and anxious to comment or evaluate without hearing out the speaker;
- if communication is attempted under coercive conditions;
- if the receiver of the message is not given sufficient time to adapt himself or herself to the demands of the message.

Improving Communication Effectiveness

The following guidelines can help improve communication effectiveness:

1. **The Communication Audit:** Such an audit is a tool for examining communication policies, networks and activities. The four major communication networks that need to be audited are as follows:
    - (a) The regulative or task-related network pertaining to policies, procedures, rules, and superior-subordinate relationships.
    - (b) The innovative network, which includes problem-solving, meetings, and suggestions for change.
    - (c) The integrative network, which consists of praise, rewards, promotions, and such items as link enterprise goals with personal needs.
    - (d) The informative-instructive network, which includes company publications, bulletin boards, and grapevines.[3]

Communication audit is used not only to deal with problems when they occur but also to prevent them from occurring in the first place. The format of the audit can take many shapes and may include observations, questionnaires, interviews, and analyses of written documents.

2. **Other Guidelines:**
    - (a) The sender must clarify in his/ her mind what he/she wants to communicate. This means that the sender has to clarify the purpose of the message and make a plan to achieve the intended end.
    - (b) Encoding and decoding be done with symbols that are familiar to the sender and the receiver of the message.
    - (c) The planning of the communication should be done in consultation with the concerned people.
    - (d) The needs of the receivers of the information have to be considered. Whenever appropriate, one should communicate something that is of value to them.
    - (e) The tone of voice, the choice of language, and the convergence between what is said and how it is said influence the reactions of the receiver of the message.
    - (f) Communication is complete only when the message is understood by the receiver. This can be ensured when the sender gets feedback. To this end the sender may request the receiver to give his reactions to the message.
    - (g) Communication has to aim at creating an environment in which people are motivated to - (i) work towards the goals of the enterprise and (ii) exercise self-control for ensuring effective performance against set criteria.

Electronic Media in Communication

Modern managers are studying and gradually adopting several electronic devices that improve communication. These electronic media include personal computers (PCs), minicomputers, mainframe computers, electronic mail (e-mail), voice mail, fax, and cellular telephones for making telephone calls from moving conditions.

Computer Networking

PCs have decentralised information and helped step up information dynamics.

As a matter of fact information technology has changed how people communicate. This has altered, accordingly, the way many organisations are managed. The use of personal computers is noteworthy. Personal computers broke the firm grip of the central computer system on the flow of information in organisations. One consequence of such decentralisation of information was the end of the related firm grip of middle management on corporate communications.

PCs help strong networks of constant relationships through groupware.

Greater still has been the technological communications. Personal computers put greater power on more people's desks. But those people frequently worked in isolation from other personal computer users. Now, however, a whole new array of products - software capabilities known generally as groupware - has begun to challenge that practice and has begun to change organisational communication patterns. As Linda Applegate says: "Instead of managing data, computers are being used, in effect, to manage networks of relationships between people."[4]

E-mail is a private channel between the correspondents while groupware is intended for group participation.

Electronic mail (or E-mail) is one kind of new technological capability. E-mail users send messages between each other's computers. But e-mail is a relatively private communication channel compared to groupware networks, which serve as combinations of bulletin boards and conferences that many managers and employees can tap into at an organisation.

Telecommunication

Telecommunication with or without the use of a computer has been used fruitfully in recent years in various ways by most large-scale companies throughout the world.

The following are some of the examples of its use:

- The computerised railway/airline reservation system facilitates making quick travel arrangements.
- Many banks provide bank-by-phone services available even to individuals.
- Large banks supply hardware and software to their customers so that they can easily transfer funds to their suppliers.
- Facsimile (fax) service transmits information within minutes to any destination on earth.
- Telecommunication provides an important link for just-in-time inventory systems.
- Large enterprises now have detailed personnel information - including

performance appraisals and career development plans - in a data bank.

These are some of the many applications of telecommunication. What is important is to ensure its use effectively and for that matter technical experts must make every effort to identify real needs of users (managers, customers etc.) and to design systems that are useful. We may now turn to a specific application of the new technology: teleconferencing.

Teleconferencing

It is very popular in open universities for distance education. Students from different locations can confer with their teacher who is based in a distant place. It is interactive and can be either audio or video or both. In general, most people think of a teleconference as a group of people interacting with each other by means of audio and video media with moving or still pictures.

Full-motion video is sometimes used to hold meetings among executives stationed at different locations. Not only can they hear each other, but they can also see each other's expressions or discuss some visual display. This is, of course, rather expensive but effective.

Some of the potential advantages of teleconferencing includes savings in travel expenses and travel time. Also, conferences can be held whenever necessary, since there is no need to make travel plans long in advance. Because meetings can be held more frequently, communication is improved between, for example, headquarters and geographically scattered divisions/branches.

Teleconferencing is interactive, and feedback is instantaneous. It is effective in holding meetings among people based in different locations. Though it is time-saving it can be in terms of physical movement , it can be expensive.

Conclusion

Communication is hindered by many problems. Understanding these problems, making a communication audit, and applying the guidelines for effective communication facilitate not only understanding but also managing. Electronic media can improve communication, as illustrated by the application of computers and teleconferencing, the two of many approaches to handling the increasing amount of information in organisations.

Lesson-end assessment

Essay type questions

1. What do you understand by communication problems? Can you discuss their causes?
2. What is effective communication? How can communication effectiveness be improved?
3. Discuss the electronic media that are being used in communication.
4. What is teleconferencing? What are its benefits?

Multiple Choice questions

√ the most appropriate answer:

1. A poorly designed organisation structure may not clearly communicate
   (a) personal relationships.
   (b) organisational relationships.
   (c) non-formal relationships.
   (d) organisational objectives.

2. Environmental problem such as noise may disrupt
   (a) planning.
   (b) effective communication.
   (c) controlling.
   (d) directing.

3. E-mail users send messages
   (a) between each others telephones.
   (b) between each others computers.
   (c) through fax.
   (d) in verbal form.

4. Teleconferencing can be
   (a) either audio or video.
   (b) either audio or video or both.
   (c) audio only.
   (d) video only.

Exercise

1. Ask two managers you know, to mention the communication problem they experienced in their organization and how they tried to overcome them.

CASE 11-1

HAYNES FASHION STORES, INCORPORATED

After graduating from college, Joyce Haynes went to work for her father, Dudley Haynes, who was president of Haynes Fashion Stores Incorporated, a chain of women's apparel stores. The company had been founded by Ms. Haynes's grandfather over 50 years before. With her father's drive and knowledge of women's fashions and of how to buy and sell them, the company had developed from a single store in Harford, Connecticut, to a fairly large and highly profitable chain of thirty stores in the New England area. Dudley Haynes was much like his father. He knew what he was doing and how to do it, and he prided himself on being able to keep his hands on details in buying, advertising, and store management. Every one of his store managers, as well as his top vice presidents and headquarters staff people, met with him every 2 weeks in Hartford. Between these meetings, Mr. Haynes spent 2 or 3 days each week visiting the stores and working with store managers.

His major worries were communication and motivation. Although he felt that all his managers and staff people listened carefully at the conferences he held, their subsequent actions made him wonder whether they had heard him at all. He observed that many of his policies were not being strictly followed in the stores; he often had to rewrite advertising copy; and in some of the stores the employees had joined the clerks union. He increasingly heard things he did not like, such as reports that many employees and even some managers felt they did not know the company's goals and believed they could do better if they had a chance to communicate with the executives at headquarters. He also had a strong feeling that many of his managers and most of the store clerks were merely doing their jobs without showing any real imagination or drive. An additional concern was the fact that some of his best people had quit and took positions with a competitor.

When his daughter walked into his office to begin work as his special assistant, he said: "Joyed I'm worried about how things are going. Apparently my two problems are communication and motivation. Now, I know that you took some courses in management in school. I've heard you talk of the problem barriers, and techniques of communication, and you've mentioned some fellows - Maslow, Herzberg, Vroom, McClelland, and others - who knew a great deal about motivation. While I doubt that these Psychologists knew much about business and I feel that I know what motivates people - primarily money, good bosses, and a good place to work - I wonder you've learned anything that will help me communicate better. What do you suggest?"

Questions

1. If you were Ms. Haynes, what would you say to your father?
2. How would you go about analyzing the communication problem, and what difficulties do you see already from the case?
3. Suggest ways that the motivation and communication theories you have studied might be applied to Haynes Fashion Stores. Is there anything else you would want to know?
4. How would you apply the Rogers and Roethlisbeger experiment discussed in this chapter to the case?

Source: Heinz Weihrich and Harold Koontz, "Management: A Global Perspective", McGraw-Hill International Editions, Tenth Edition, 1994, P.560.

For further study

1. Heinz Weihrich and Harold Koontz, "Management: A Global Perspective", McGraw-Hill International Editions, Tenth Edition, 1994.

2. Griffin, "Management", Boston: Houghton Mifflin Company, 1984.

3. George R. Terry, Stephen G. Franklin, "Principles of Management", A.L.T.B.S. Publishers & Distributors, India, Eighth Edition, 1997.

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[1] Heinz Weihrich and Harold Koontz, *Management - A Global Perspective, (*McGraw-Hill International Editions, Tenth Edition, 1994), p. 538.

[2] Ibid., p. 546.

[3] Ibid., p. 553.

[4] James A. F. Stoner, et. al., *Management, (*New Delhi: Prentice Hall of India, 1997), p. 546.

Controlling

12

Unit Highlights

- ☐ Definition of Controlling, Steps in Control Process, Importance of Control in Management
- ☐ Control Systems and Techniques
- ☐ Effective Control , Budgetary and Non-Budgetary Control

Unit-12 : Controlling

Lesson 1: Controlling Defined, Steps in the Control Process, Importance of Control in Management

Lesson Objectives

Upon completing this unit you will be able to:

- define controlling
- identify steps in the control process
- discuss the importance of control in management

Controlling Defined

Controlling is the process of ensuring that actual activities conform to planned activities. Planning and controlling are closely related. In fact, controlling is more pervasive than planning. Controlling helps managers monitor the effectiveness of their planning, organising and leading activities.

Controlling tries to ensure that all activities in the organisation go according to plan.

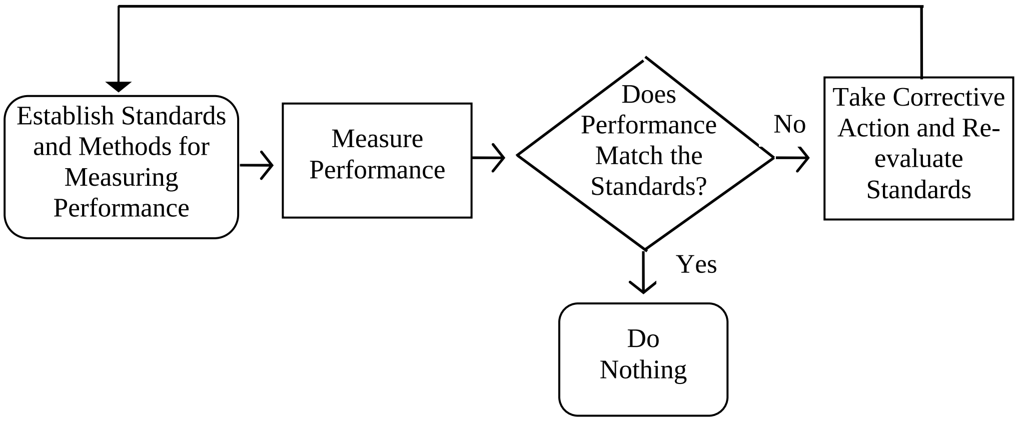
In fact, controlling determines what is being accomplished - that is, evaluating the performance and, if necessary, taking corrective measures so that the performance takes place according to plans. Controlling can also be viewed as detecting and correcting significant variations in the results obtained from planned activities.

Steps in the Control Process

The basic control process involves the following steps:

(1) Establishing standards and methods for measuring performance
(2) Measuring the performance
(3) Determining whether performance matches the standard
(4) Taking corrective action

Figure 12.1


Establish Standards and Methods for Measuring Performance
Measure Performance
Does Performance Match the Standards?
No
Take Corrective Action and Re-evaluate Standards
Yes
Do Nothing

Basic Steps in the control Process

Source : Stoner, Freeman and Gilbert, "Management", Sixth Edition, p. 559.

Standards are certain points in the planning programme at which the satisfactoriness of ongoing work can be checked.

1. **Establishing standards and methods for measuring performance:** Standards are, by definition, simply the criteria of performance. They are the selected points in an entire planning programme at which performance is measured so that managers can receive signals about how things are going and thus do not have to watch every step in the execution of plans. Standard elements form precisely worded, measurable objectives and is specially important for control.

   In an industrial enterprise, standards could include sales and production targets, work attendance goals, safety records etc. In service industries, on the other hand, standards might include the amount of time customers have to wait in the queue at a bank, or the number of new clients attracted by a revamped advertising campaign.

2. **Measuring the performance:** The measurement of performance against standards should be done on a forward-looking basis so that deviations may be detected in advance of their occurrence and avoided by appropriate actions.

   If standards are appropriately drawn and if means are available for determining exactly what subordinates are doing, appraisal of actual or expected performance is fairly easy. But there are many activities for which it is difficult to develop accurate standards, and there are many activities that are hard to measure. It may be quite simple, for example, to establish labour-hour standards for the production of a mass-produced item and it may be equally simple to measure performance against these standards, but in the less technical kinds of work, for example, controlling the work of the industrial relations manager is not easy because definite standards can not be easily developed. The superior of this type of managers often relies on vague standards, such as the attitude of labour unions, the enthusiasm and loyalty of subordinates, the index of labour turn-over and/or industrial disputes etc. In such cases, the superior's measurements are often equally vague.

Although most of the performance can be checked against the preset standards, there is still some areas that cannot be standardised.

Performance and standards need to be matched from time to time.

3. **Determining whether performance matches the standard:** It is an easy but important step in the control process. It involves comparing measured results with the standards already set. If performance matches the standard, managers may assume that "everything is under control". In such a case the managers do not have to intervene in the organisation’s operations.

If performance falls short of standards corrective action becomes essential.

4. **Taking corrective action:** This step becomes essential if performance falls short of standards and the analysis indicates that corrective action is required. The corrective action could involve a change in one or more activities of the organisation’s operations. For example, the branch manager of a bank might discover that more counter clerks are needed to meet the five-minute customer-waiting standard set earlier. Control can also reveal inappropriate standards and in that case, the corrective action could involve a change in the original standards rather than a change in performance.

   It needs to be mentioned that, unless managers see the control process through to its conclusion, they are merely monitoring performance rather than exercising control. The emphasis should always be on devising constructive ways to bring performance up to standard rather than on merely identifying past failures.[1]

Importance of Controlling in Management

Planning without controlling is useless. Undoubtedly, controlling also helps managers monitor environmental changes and the effects of these changes on the organisations' progress. The gravity of control in management may be ascertained from the following discussion:

(1) **Coping with changes:** Each and every modern organisation has to cope with changes in the environment. New products and technologies emerge, government regulations are two often amended or enacted, competitors change their strategies. The control function helps managers to respond to these environmental changes as and when necessary.

Controlling allows managers to adjust organisational activities with environmental changes.

(2) **Creating better quality:** Modern industries follow total quality management (TQM) which has led to dramatic improvements in controlling. Under it, process flaws are spotted, and the process is purged of mistakes. Employees are empowered to inspect and improve their own work and this also helps change their attitudes and approaches to achieving effective control. There are innumerable examples in which the TQM program had helped restore quality, decrease cost and increase production of giant organisations that confronted threats of shutdowns owing to low quality, high cost and declining productivity.

Controlling helps detect and correct defects in the process of executing a plan, and improve quality of performance and results.

(3) **Creating faster cycles:** Control helps speed up the cycles involved in creating and then delivering new products and services to customers. Speed is essential in complying with customers' orders. But modern marketing managers must remember that today's customers expect not only speed but also customised products and services. It is clear that the most successful companies try to personalise things and tailor them to individual needs. They most successfully target narrow customer niches with specific models.

Customisation of products and services can be speeded up by control.

(4) **Adding value:** An organisation that strives to survive through competition should be able to "add value" to products or services so that customers prefer them to those offered by the organisation's rivals. Very often this added value takes the form of above-average quality achieved through exacting control procedures.

Higher added value can be ensured by a severe control system.

(5) **Facilitating delegation and teamwork:** Modern participative management has changed the nature of the control process. Under the traditional system, the manager would specify both the standards for performance and the methods for achieving them. Under a new, participative system, managers communicate the standards, but then let employees, either as individuals or as teams, use their own creativity to decide how to solve certain work problems. The control process, then, lets the manager monitor the employees' progress without hampering employees' creativity or involvement with the work.[2]

Under participative management the control process helps managers monitor work progress without interrupting the employees' creativity.

Lesson-end assessment

Essay type questions

1. What is controlling? Discuss the steps involved in the control process.
2. State the importance of controlling in management.

Multiple choice questions

√ the most appropriate answer:

1. The basic control process involves
   (a) three steps.
   (b) four steps.
   (c) five steps.
   (d) six steps.

2. Corrective action could involve a change in
   (a) only one activity of the organisation.
   (b) one or more activities of the organisation's operations.
   (c) motivation.
   (d) planning activities.

Lesson 2 : Designing Control System, Control as a Feedback System, Feedforward Control, Techniques of Future-Directed Control

Lesson Objectives

Upon completing this unit, you will be able to:

- design an effective control system;
- describe control as a feed-back system;
- explain the necessity of feedforward control;
- identify the techniques of future-directed control.

Designing Control Systems

In order to design an effective control system the manager should know what needs to be controlled and how often progress needs to be measured. Trying to control too many elements of operation too strictly can annoy and demoralise employees, waste valuable time, money, and energy, and frustrate managers. Many of these problems can be avoided by:

Control points need to be carefully and sparingly selected.

(1) **Identifying key result areas (KRAs) or key performance areas:** They are those aspects of the unit or organisation that must function effectively for the entire unit or organisation to succeed. These areas usually involve major organisational activities or groups of related activities that occur throughout the unit or organisation. Some of the key performance areas are shown in exhibit 10.2 below:

Only those areas of the organisation need to be selected for control that can affect the entire organisation.

Figure 12.2

Production	**Marketing**	**Personnel Management**	**Finance and Accounting**
Quality	Sales volume	Labour relations	Capital expenditures
Quantity	Sales expense	Labour turnover	Inventories
Cost	Advertising expenditures	Labour absenteeism	Flow of capital
Individual job performance	Individual sales-person's performance		Liquidity

Standards Used in Functional Areas to Gauge Performance

Source.: Stoner, F.,and Gilbert, "Management", Sixth Edition, p.559.

These key result areas help define detailed control systems and standards and are cross-functional.

(2) **Identifying strategic control points (SCPs):** It is needed to determine the critical points in the system where monitoring or information collecting should occur. Once such SCPs can be located, the amount of information

that has to be gathered and evaluated can be reduced significantly.

Representative activities should be chosen as SCPs.

The most effective method of selecting SCPs is to focus on the most significant elements in a given operation. Usually only a small percentage of the objects, events, individuals or activities in a given operation will account for a high proportion of the problems or expenses that managers will have to meet. For example, 2 percent of customers may buy 80% of the products of a company; 5 percent of a manufacturer's products may well yield 50 percent of its revenue, and 1 percent of an industry's employees may account for 90 percent of its employee grievances.

(3) **Determining Critical Point Standards (CPS):** Every goal, every objective, and every procedure becomes a standard against which actual or expected performance might be measured. In practice, however, standards may be of the following types:

Goals, objectives and procedures serve to set CPS.

(a) **Physical standards:** Physical standards may reflect quantities such as units of production per machine hour, yards of wire per mound of copper, or labour-hours per unit of output. Physical standards may also reflect quality, such as durability of a fabric, fastness of a colour, or softness of a cushion.

(b) **Revenue standards:** They usually arise from attaching monetary values to sales and may include such standards as revenue per unit sold, sales per capita in a given market, or average sale-proceed per customer.

(c) **Cost standards:** These standards are monetary measurements and attach monetary values to specific aspects of operations. Illustrative of cost standards may be labour cost per hour or per unit, machine-hour cost, material cost per unit, or selling cost per unit or taka of sales.

(d) **Capital standards:** The most widely used capital standard is "return on investment." Some other capital standards may be the ratios of - fixed investment to total investment, debt to net worth, or current assets to current liabilities.

Intangible standards of control, such as control over interpersonal relationships, are often difficult to set by qualitative or quantitative measurement. They are to be determined by trial and error or by informal means.

(e) **Intangible standards:** Some standards are difficult to be expressed in either physical or monetary measurement. Questions — such as whether the office staff are dutiful or supervisors loyal to the company's objectives — clearly show the extent of difficulty in establishing absolute standards for quantitative or qualitative measurement. In fact, where human relationships count in performance, as they do above the basic operating levels, it is very hard to establish standards. Thus many managerial controls over interpersonal relationships continue to be based on intangible standards, trial and error and informal gatherings.

(f) **Goals as standards:** In complex program operations, as well as in the performance of managers themselves, modern managers find that it is possible to define goals that can be used as performance standards through research and thinking.[3]

Control as a Feedback System

Most managers exercise control through information feedback, which shows deviations from standards and initiates changes. In other words, feedback information helps compare performance with a standard and to initiate corrective action. In controlling, managers do measure actual performance, compare this measurement against standards, and identify and analyse deviations. But then, for making necessary corrections, they must develop a program for corrective action and implement this program in order to arrive at the performance desired.

Though feedback information helps find out the extent of departure of the performance from the standard, separate programmes are required to correct the departure.

Feedforward Control

It is now increasingly recognised that control must be directed towards the future in order to be effective. Knowing about deviations long after they occur is useless. What managers need for effective control is a system that will tell them well in time for corrective action and that problems will occur if they do not do something about them now. Feedback from the output of a system is not good enough for control. It is little more than a post-mortem, and no manager can ever change the past.[4]

Feedforward control allows the manager to anticipate and take measures against problems that might occur in the future.

Requirements For Feedforward Control

In short, the requirements for a workable feedforward control system are:

1. Making a thorough and careful analysis of the planning and control systems.
2. Developing a model of the system.
3. Reviewing the model regularly to see whether the input variables identified and their inter-relationships continue to represent realities.
4. Collecting data on input variables regularly, and putting them into the system.
5. Assessing regularly the variations of actual input data from planned-for inputs, and evaluating the impact on the expected end result.
6. Taking action to solve problems.[5]

Techniques of Future-Directed Control

The most common technique some managers resort to is the use of forecasts based on the latest available information. By comparing what is desired with the forecasts, managers can introduce program changes that will make the forecasts more promising.

Another technique is to plan carefully in advance the availability of cash to meet requirements. Managers would hardly find it wise, for example, to wait for a report at the end of December to determine whether they had enough cash in the bank to cover checks issued in November.

Yet, another technique is network planning, exemplified by PERT (Programme Evaluation and Review Technique) networks **(see lesson-3 of this unit)** which enable managers to see that they will have problems in such areas as cost or on-time delivery unless they take action now.[6]

Future-directed control depends on

- forecasts on available information;
- planning cash well in advance;
- ascertaining potential problem areas.

Lesson-end assessment

Essay type questions

1. How can an effective control system be designed? Discuss.
2. Should control be treated as a feedback system? Do you think that control should be feedforward rather than feedback in order to be effective?
3. Explain the requirements for feedforward control. What are the techniques of future- directed control?

Multiple choice questions

√ the most appropriate answer:

1. Through research and thinking it is possible to define goals to be used as:
   (a) organisational objectives.
   (b) a guide to planning.
   (c) performance standards.
   (d) a leadership guide.

2. No manager can find a way to change:
   (a) the past.
   (b) the standard.
   (c) the future.
   (d) the plan.

3. In order to be effective, control must be directed towards:
   (a) the future.
   (b) the present.
   (c) the past.
   (d) both past and present.

Lesson 3 : Making Control Effective, Control Techniques-Budgetary and Non-Budgetary Control Devices

Lesson Objectives

Upon completing this lesson you will be able to:

- understand how to make control effective,
- describe the control techniques-both budgetary and non-budgetary,
- elaborate the types of budgets and the advantages and disadvantages of budgeting,
- discuss how to make budgetary control effective and
- describe the various non-budgetary control devices

Making Control Effective/Requirement for Effective Control

Managers can do a great deal to improve the effectiveness of their control systems. The nine most important steps that managers can take are discussed below:

1. **Matching controls to plans and position:** Control techniques should reflect the plans they are designed to follow. Managers need the information that will tell them how the plans for which they are responsible are progressing. Controls should also be tailored to positions i.e. they may differ in between positions.

   Some control techniques, such as those involving standard hours and costs, budgets, and various financial ratios, have general application in various situations.

   However, none of these techniques are completely applicable in any given situation. Managers should, therefore, be aware of the critical factors in their plans requiring control, and they must use techniques and information suited to them. Controls should also reflect the place in the organisation wherein responsibility for action lies, thereby enabling managers to correct deviations from plans.

Techniques of control need to be changed and adjusted to circumstances at a given stage and time.

2. **Ensuring flexibility to control:** Flexibility is another essential characteristic of an effective control system. This means that the control system itself must be flexible enough to accommodate change. In other words, controls should remain workable in the face of changed plans, unforeseen circumstances, or outright failures.

   The illustration may be of an organisation whose diverse product lines require 101 different raw materials. The company's inventory control system must be able to manage and monitor the current levels of inventory for all the 101 materials. When a change in the product line changes the number of raw materials needed, or when the required quantities of any of the existing materials change, the control system should be able to accommodate the revised requirements.

The control system is to be flexible so as to accommodate changed circumstances.

Another example of flexibility in control may be found in the computerised admission registration system of Bangladesh Open University (BOU). When a course's enrolment reaches a specified upper limit, no additional students are allowed in. Yet the seniors and probably other students with certain problems may simply have to take the course and they will be accommodated in its flexible computerised admission registration system.

The control system should be designed on accurate information.

3. **Ensuring accuracy:** Control systems must also be accurate. Managerial decisions based on inaccurate information may prove costly and harmful. If, for example, sales estimates are artificially high, a manager might either cut advertising on the assumption that it is no longer needed or increase advertising to enhance sale. In either case the action may not be appropriate. Similarly, a manager, unaware of the hidden production cost, may quote a sales price much lower than is desirable. The accuracy of control systems goes a long way in preventing such damaging upshots.

The control system should be able to provide objective information.

4. **Seeking objectivity of controls:** As far as possible, the information provided by the control system should be objective. If, on the other hand, controls are subjective, a manager's or an executive's personality may influence judgements of performance and make them less accurate. Thus, the control system should ideally provide objective information to the manger for evaluation and action.

An efficient control system can bring real or probable departures from plans to attention.

5. **Achieving economy of controls:** A limiting factor of control systems is their cost. So in order to be effective, controls must be worth their cost. Although it sounds simple, it is very difficult to accomplish. If tailored to the job and to the size of the enterprise, control will probably be economical. To be precise, control techniques and approaches can be called efficient when they bring to light actual or potential deviations from plans with the minimum of cost.[7]

Control systems and information should be useful to managers in their given situations.

6. **Tailoring control to individual managers:** Control systems and information are, of course, intended to help individual managers carry out their function of control. If they are not of a type that a manager can or will understand, they will not be useful. What managers cannot understand they will not trust. And what they do not trust they will not use.

An effective control system can accommodate exceptions.

7. **Pointing up exceptions:** One of the best ways to make control effective is to make sure that it is designed to point up exceptions. In fact, controls that concentrate on exceptions from planned performance allow managers to benefit from the time-honoured exception principle and detect those areas that require their attention.

An effective control system is commensurate with organisational culture.

8. **Fitting the system of control to the organisational culture:** An effective control system must fits in with organisational culture. For example, if employees have been managed without allowing them any participation in decision making, the sudden introduction of a permissive control system will hardly succeed. On the other hand, in an organisation where people have been allowed participation and freedom, tight control system may fail to produce positive results.

9. **Ensuring corrective action through control:** An effective control system will disclose where failures are occurring and who is/are responsible for them, and it will ensure that some corrective action is taken. Control is justified only if deviations from plans are corrected by an appropriate authority. As a matter of fact, taking the proper corrective action necessitates sufficient authority to accomplish this task.

In case of failures, control systems should be able to expose them , hold the responsible persons to account and take corrective measures.

Control Techniques

Managers use a large number of tools and techniques for effective controlling. Therefore we need to discuss specific techniques for managing the control process. First we'll discuss budgetary control. And then we shall deal with other control techniques and methods.

* Budgetary Control:

Budgeting is the formulation of plans for a given future period in numerical terms. Organisations may establish budgets for units, departments, divisions, or the whole organisation. The usual time period for a budget is one year and is generally expressed in financial terms.

Budgets are the foundation of most control systems.[8] They provide yardsticks for measuring performance and facilitate comparisons across divisions, between levels in the organisation, and from one time period to another.

Through budgets managers can co-ordinate resources, set standards for all control systems, provide transparent guidelines for action and ease performance evaluation.

Budgets usually serve four control purposes: (i) they help managers co-ordinate resources; (ii) they help define the standards needed in all control systems; (iii) they provide clear and unambiguous guidelines about the organisation's resources and expectations and (iv) they facilitate performance evaluations of managers and units.

Types of Budgets: Most organisations use a number of different kinds of budgets - (i) financial; (ii) operating; and (iii) non-monetary'.

1. **Financial budgets:** Such budgets detail where the organisation expects to get its cash for the coming time period and how it plans to spend it. Usual sources of cash include sales revenue, the sales of assets, the issuance of stock, and loans. On the other hand, the common uses of cash are to purchase new assets, pay expenses, repay debts, or pay dividends to shareholders. Financial budgets may be of the following types:

Financial budgets are concerned with planning future earnings and their expenditure.

(a) **Cash budget:** This is simply a forecast of cash receipts and disbursements against which actual cash "experience" is measured. It provides an important control in an enterprise since it breaks down incoming and outgoing cash into monthly, weekly, or even daily periods so that the organisation can make sure it is able to meet its current obligations. Cash budget also shows the availability of excess cash, thereby making it possible to plan for profit-making investment of surpluses.[10]

A cash budget helps control by providing information about the organisation's cash status at a particular time.

A capital expenditure budget focuses on acquiring assets.

(b) **Capital expenditure budget:** This type of financial budget concentrates on major assets such as a new plant, land or machinery. Organisations often acquire such assets by borrowing significant amounts through, say, long-term bonds or securities. All organisations, large or small, business or non-business, pay close attention to such budget because of the large investment usually associated with capital expenditure.[11]

ensures overall control

(c) **The balance sheet budget:** It forecasts what the organisation's balance sheet will look like if all other budgets are met. Hence it serves the purpose of an overall control to ensure that other budgets mesh properly and yield results that are in the best interests of the organisation.

2. **Operating budgets:** This type of budget is an expression of the organisation's planned operations for a particular period. They are usually of the following types:

Operating budgets are an expression of the organisation's periodic activities.

(a) **The sales or revenue budget:** It focuses on income the organisation expects to receive from normal operations. It is important since it helps the manager understand what the future financial position of the organisation will be.

(b) **The expense budget:** It outlines the anticipated expenses of the organisation in an specified time period. It also points out upcoming expenses so that the manager can better prepare for them.

(c) **The project budget:** It focuses on anticipated differences between sales or revenues and expenses, i.e. profit. If the anticipated profit figure is too small, steps may be needed to increase the sales budget or cut the expense budget.

3. **Non-monetary budgets:** Budgets of this type are expressed in non-financial terms. They may include hours of direct labour, units of output, or machine hours. Such budgets are generally used by supervisors in controlling workers in the main.

- **Fixed and variable budgets**

Regardless of their purpose, most budgets must account for the three following kinds of costs:

Although fixed-cost and variable-cost budgets are more or less easy to deal with, semi-variable-cost budgets can be tricky.

(a) **Fixed costs:** They are the expenses which the organisation incurs whether it is in operation or not. Salaries of managers may be an example of such cost.

(b) **Variable costs:** Such costs vary according to the scope of operations. The best example may be the raw materials used in production. If Tk. 5 worth of material is used per unit, 10 units would cost Tk. 50, 20 units would cost Tk. 100 and so on.

(c) **Semi-variable costs:** They also vary, but in less direct fashion. Costs for advertising, repairs and maintenance, etc. may fall under this category.

All these categories of cost must be accurately accounted for in developing a budget. Fixed costs are usually the easiest to deal with. Variable costs can also be forecast, although with less precision from projected operations. Semi-variable costs are the most difficult to predict because they are likely to vary, but not in direct relation to operations. For these costs, the manager must often rely on experience and judgement.

Zero-base budgeting (ZBB): ZBB is quite simple. The idea behind is to divide organisation programs into "Packages" and then to calculate costs for each package from the ground up (Zero). By starting the budget of each package from base zero, budgeters calculate costs afresh for each budget period rather than merely the adjustments to an existing conventional budget.

Under ZBB the decision packages, as said earlier, are ranked in order of importance. Then funds are allocated to each decision package according to its relative rank. The higher the rank, the greater the probability of full funding; the lower the rank, the more likely the activity is to be partially funded, or be dropped.

The principal advantage of this technique is, of course, the fact that it forces managers to plan each program package afresh. As managers do so, they review established programs and their costs in their entirety along with newer programs and their costs.[12]

ZBBs divide the organisation's budgets into packages and calculate cost from base zero for each separate package. Decision packages are prioritised in order of their importance.

Advantages and disadvantages of budgeting: As a matter of fact, budgets offer a number of advantages. They have potential drawbacks as well. Both are summarised below (see table: 12.1).

Table: 12.3

Strengths and Weaknesses of Budgeting

Strengths	Weaknesses
1. Budgets facilitate effective control.	1. Budgets may be used too rigidly.
2. Budgets facilitate co-ordination and communication.	2. Budgets may be time-consuming.
3. Budgets facilitate record keeping.	3. Budgets may limit innovation and change.
4. Budgets are a natural complement to planning	

As shown in the table above, budgets facilitate effective control. By placing financial values on operations, managers can monitor operations effectively and pinpoint problem areas. Second, budgets facilitate communication and co-ordination between departments. Budgets also help maintain records of organisational performance. Finally, budgets are a natural complement to planning. As managers first plan and then develop control systems, budgets are often a natural next step.[13]

On the minus side, some managers apply budgets too rigidly. They fail to understand that budget adjustments are necessary to meet the challenges of changing circumstances. Also, the art of developing budgets can most often be time-consuming. Moreover, budgets may limit innovation and change. When all available funds are allocated to specific operating budgets, it may be impossible to get additional funds to take advantage of an unexpected opportunity.[14]

In fact budgets are an important element of an organisation's control system. It is difficult to imagine an organisation functioning without proper budgetary provisions. Despite some drawbacks, budgets generally provide managers with an effective tool for executing the control function.[15]

Making budgetary control cffective

Budgetary control can be made effective if an organisation can ensure the following:

- Effective budgetary control depends on
- appropriate standards;
- support of top management;
- participation of lower level managers in making budgets and allowing them some freedom to change them;
- accurate information about performance under the budgetary provisions.

(1) **Setting appropriate standard:** This is a key to successful budgeting. Many budgets fail for lack of such standards, and some upper-level managers hesitate to allow subordinates to submit budget plans for fear that they may have no logical basis for reviewing budget requests.

(2) **Ensuring top-management support:** Budget making and administration must receive the whole-hearted support of top management. If top management supports budget making, requires departments and divisions to make and defend their budgets, and participate in this review, then budgets encourage alert management throughout the organisation.

(3) **Participation by users in budget preparation:** Besides the support of top management, the concerned managers at lower levels should also participate in its preparation. Real participation in budget preparation is necessary to ensure success. It may also prove worthwhile to give department managers a reasonable degree of latitude in changing their budgets and in shifting funds, as long as they meet their total budgets.

(4) **Providing information to managers about performance under budget:** If budgetary control is to work well, managers need ready information about actual and forecast performance under budgets by their departments. Such information must be so designed as to show them how well they are doing.

*Non-budgetary Control Devices

The following are some control devices which are not related to budget.

Operational/ internal audit reports the actual state of accounts.

1. **Operational audit/internal audit:** It is the regular and independent appraisal of the accounting, financial, and other operations of an enterprise by a staff of internal auditors. In its most usual form operational auditing includes auditing of accounts, appraisal of operations in general and weighing actual results against planned results. Operational auditors, thus, assure that accounts really reflect the fact, appraise procedures, policies, quality of management, effectiveness of methods and other phases of operations.

Milestone budgeting divides a project into segments and then monitors each segment closely.

2. **Milestone budgeting:** Used by an increasing number of companies in recent years in controlling engineering and development, milestone budgeting breaks a project down into controllable pieces and then carefully follows them. In this approach to control, "milestones" are defined as identifiable segments. When a given segment is accomplished, its cost or other results can be determined.

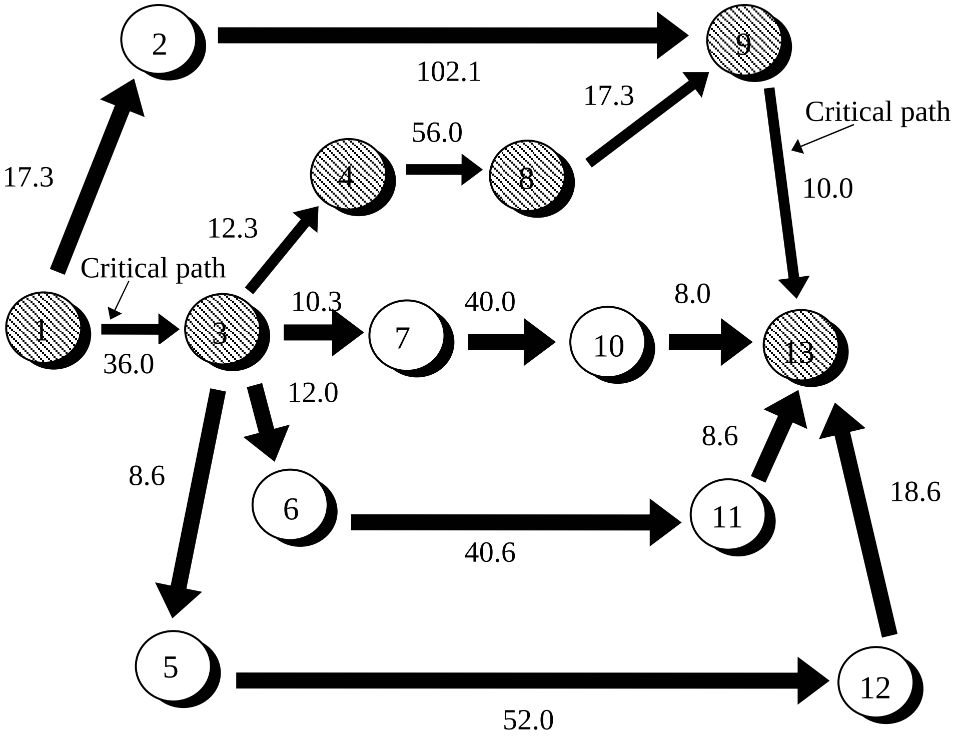
3. Programme evaluation and review technique (PERT)

PERT is a time-event network analysis system in which various events in a programme or project are identified with a planned time established for each. These events are placed in a network showing the relationship of each event to the other events.

In PERT analysis, time cannot be accurately estimated.

Figure 12.4[16] shows a PERT flow chart for the major assembly of an aeroplane. This example illustrates the basic nature of PERT. Each circle of the chart represents an event- a supporting plan whose completion can be measured at a given time. The circles are numbered in the order in which the events occur. Each arrow represents an activity - the time-consuming element of a program, the effort that must be made between events. "Activity time", represented by the numbers beside the arrows, is the elapsed time required to accomplish an event.

Figure 12.4



PERT FLOW CHART: TIME IN WEEKS

Source.: Heinz Weihrich and Harold Koontz, "Management - A Global Perspective", Tenth Edition, pp.613.

It is to be remembered that an accurate estimate of time is difficult. When several estimates are made, they are usually averaged, with special weight given to the most likely estimate; a single estimate is then used for calculations.

The next step is to compute the **Critical Path**, that is, the sequence of events which takes the longest time and which has zero (or the least) slack time. In Figure 10.3, the critical path comprises events 1-3-4-8-9-13. Over this path, the activity time for this sequence of events is 131.6 weeks. If promised delivery is in 135 weeks, even this critical path will have been completed 3.4 weeks ahead of time. Some of the other paths are almost as long as the critical path. For example, the path 1-2-9-13 is 129.4 weeks. This is not unusual in PERT charts, and it is customary to identify several critical paths in order of importance. Although the critical path has a way of changing as key events are delayed in other parts of the program, identifying it at the start makes possible the close monitoring of this particular sequence of events to ensure that the total program is on schedule. A PERT analysis, involving large numbers of events, is usually handled with computers.

Advantages of PERT

1. PERT compels managers to plan, which helps them see how the pieces fit together.
2. Each subordinate manager has to plan the events for which he or she is responsible.
3. It concentrates on critical elements that may need correction.
4. It makes possible a kind of forward-looking control.
5. The network system with its subsystems enables managers to aim reports and pressure for action at the right spot and level in the organisation structure at the right time.

Limitations

1. Because of its emphasis on "activity-time" to its operation, PERT is not useful when no reasonable estimates of time schedule can be made.
2. Another disadvantage has been its emphasis on time only but not on costs.

PERT for us planning and is less expensive.

PERT is useful, but not a cure-all. However, it does not do the planning, although it forces planning. It does not make control automatic, although it establishes an environment when sound control principles can be appreciated and used. And it apparently involves rather less expense than one might expect.[17]

A management control system facilitates management with commanding control over all information regarding both internal and external environment as well as other managerial operations.

4. Management Information (and Control) System: This system has to be tailored to specific needs and may include routine information. The guidelines for designing a management information system are similar to those for designing systems and procedures and other control systems.

The use of the computer can help a lot in this system by processing data towards logical conclusions, classifying them, and making them readily available for the manager's use in controlling. In fact, data do not become information until they are processed into a useable form that informs.[18] Managers need both accounting and non-accounting information about both external and internal environment. The information should be qualitative as well as quantitative. The computer, plus operations research, has led to an enormous expansion of available managerial information regarding production and distribution, labour productivity, product cost etc.

Lesson-end assessment

Essay type questions

1. How can control be made effective?
2. What is budgetary control? Discuss different types of budgets that can be used as control devices.
3. What do you mean by Zero Base Budgeting? Discuss the advantages and disadvantages of budgeting.
4. What are fixed and variable budgets? How can budgetary control be made effective?
5. Describe the non-budgetary control devices, specially PERT with its advantages and disadvantages.
6. Briefly discuss PERT and MIS as non-budgetary control devices.

Multiple choice questions

√ the most appropriate answer:

1. Control system itself should be flexible enough to:
   (a) increase profit.
   (b) improve productivity.
   (c) change plan.
   (d) accommodate change.
2. In order to be effective, controls must be:
   (a) costly.
   (b) worth their cost.
   (c) productive.
   (d) autocratic.
3. Control is justified only if deviations from plans:
   (a) are corrected by an appropriate authority.
   (b) do not occur at all.
   (c) can be ignored.
   (d) are well taken care of.
4. In budgeting "Milestones" are defined as:
   (a) control units.
   (b) standard pieces.
   (c) roadside mile marks.
   (d) identifiable segments.

Exercise

1. Interview two managers about the controls used in their companies. Also ask them to identify standards against which performance can be accurately measured.

CASE 12-1

PLANNING AND CONTROL AT APPLE COMPUTER

Apple Computer, Inc., enjoyed a phenomenal early success after it was founded in 1977 by Steve Wozniak, the technical expert, and Steve Jobs, the marketing genius.

However, success did not last for very long, partly because of the introduction of the IBM Personal Computer. In the early 1980s, in the view of some observers, Apple needed tighter control and a more professional approach to managing. John Sculley was lured from the Pepsi-Cola Company to give Apple a new direction.

To bring the company under control, sculey employed cost-cutting measures to improve its profitability. At the same time, however, research and development expenditures were increased so that the company could remain a technological leader in the field. However, later he was accused of spending enough on research and development and too much on advertising. The firm was also reorganized to reduce duplication of efforts, to lower the break-even point, and to reduce friction among the departments. To improve its effectiveness and efficiency, Apple introduced new reporting procedures. Furthermore, considerable efforts were made to control the inventry level, which is a serious problem in the personal computer industry. These measures, combined with a successful strategy (Apple's Macintosh computer is taking inroads into business corporations that are limited by IBM) and helped by the popularity of desktop publishing, resulted in an increase of over 150 percent in earnings in the 1986 fiscal year.

Questions

1. What is the relationship between planning and controlling?
2. What other types of plans can be used for controlling the organization?

Source: Heinz Weihrich and Harold Koontz, "Management - A Global Perspective", Tenth Edition, p.613.

For further study

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[1] James A. F. Stoner et. al., *Management,(* Delhi: Prentice Hall of India, 1997), p. 560.

[2] Ibid., p. 562.

[3] Ibid., p. 583.

[4] Heinz Weihrich and Harold Koontz, *Management - A Global Perspective, (*McGraw-Hill, International Edition, 1994), p. 586.

[5] Ibid., p. 591.

[6] Ibid., p. 586.

[7] Ibid., p. 594.

[8] See, Robert N. Anthony and John Dearden, *Management Control Systems*, Fourth Edition, (Homewood, Jl. Irwin, 1980).

[10] Weihrich and Koontz, op. cit., p. 601.

[11] Griffin, op. cit., p-545.

[12] Weihrich and Koontz, op. cit., p. 606.

[13] See V. Bruce Irvine, "Budgeting: Functional Analysis and Behavioral Implications", *in Cost and Management*, March-April, 1970, pp. 6-16.

[14] See Henry L. Tosi, Jr., "The Human Effects of Budgeting Systems on Management", in *MSU Business Topics*, Autumn 1974, pp. 53-63.

[15] Griffin, op. cit., p. 549.

[16] Weihrich and Koontz, op. cit., p. 613.

[17] Ibid., p. 618.

[18] Ibid., p. 618.

Comparative Management And Management In Some Selected Countries

13

Unit Highlights

- ❑ Comparative Management: Definition and Nature, Importance of Understanding Comparative Management, Comparative Management Models
- ❑ Management in Japan: Japan and the Japanese - Gradual Evaluation of the Management System in Japan, Organisation Structure and Management of Corporations in Japan, Special Features of Japanese Management , Lessons for Bangladesh
- ❑ Management System of Germany: Germany and Co-determination, Gradual Evaluation of Co-determination, Limitations of Co-determination, Lessons for Bangladesh
- ❑ Management in Bangladesh: Bangladesh and its Management System, Features of Management in Bangladesh, Management Structure of Industries in Bangladesh, Future Prospects of Management in Bangladesh

Unit-13 : Comparative Management and Management in Some Selected Countries

Lesson 1: Comparative Management

Lesson Objectives

Upon completion of this lesson you will be able to:

- understand the meaning of comparative management
- discuss the nature of comparative management
- analyse the importance of understanding comparative management
- explain the models of comparative management with the help of diagram

Definition of Comparative Management

The large-scale emergence of multinational enterprises in the modern world has given rise to a relatively new field of study known as comparative management. R. N. Farmer defines it as the study and analysis of management in different environments and the reasons that enterprises show different results in various countries.[1] Comparative management may also be defined as identifying, measuring, and interpreting similarities and differences among managers' behaviour, techniques, and practices in various countries.[2] In fact, comparative management seeks to solve the problems faced by a multinational company which operates in a foreign environment for reasons such as:

Comparative management is the study and analysis of management in different environments

(i) to gain a share in a foreign market

(ii) to take advantage of economies of scale

(iii) to capitalize on savings gained through fluctuations in the foreign exchange market

(iv) to avoid trade restrictions

(v) to take advantage of low cost government loans that encourage foreign investment

Nature of Comparative Management

The concern for economic growth world over, has made it an important agenda for the social scientists to look for the underlying causes of that growth.[3] They are also eager to know why do productivity increases differ in various countries? or why does one country have a higher per capita national income than another?

Economic development through productivity increase is naturally the primary concern of world leaders and development economists. Even upto the 70's of the last century, the necessities of economic development were thought to be the transfer of technology, education, and capital. But now it is being recognized that advanced managerial know-how is much more important than these are, for economic growth and improved productivity.[4]

Technical knowledge is fairly easy to transfer between countries

Even if it is recognized that pure technical knowledge is necessary for productivity improvement, such knowledge is fairly easy to transfer between countries. Most advances in technology are neither as complex nor as well guarded, and so their transfer is not likely to be difficult, particularly when one realizes that in any country only a few people need to have this knowledge to make it available for use.[5]

In designing a suitable approach or technique of management lessons from other countires are useful.

Also other factors like the level of education, knowledge of skills, availability of capital, fiscal policy, etc. may have important impact upon productivity and economic development but improved management can do much to remove hindrances by designing a managerial approach or technique to take them into account. However, in designing a suitable approach or technique of management, lessons from other countries are often useful. Most scholars, in these days, regard the issue of comparative management as one of transferring American, and perhaps German and Japanese management knowledge and practice to less developed and developing countries. What is needed for economic progress and improved productivity is a way of co-ordinating human resources for achievement of the mission of the enterprise. This demands sound management theory and practice, irrespective of their national origin.[6] Thus while there is still the search for economic solutions to development, the need for managerial know-how becomes evident.

The fundamental functions of management are basically the same but the goals and the means followed differ among countries

The fundamental functions of management such as planning, organizing, actuating and controlling are basically the same throughout the world. But however, what is to be achieved and the means followed can and do differ among countries. They differ because of managers' beliefs, attitudes, experiences, customs, and values. These, in turn, are shaped by the general environment within which the manager operates.

Comparative management, therefore, includes analyzing and comparing each fundamental managerial function with each environmental determinant of the foreign country. The interaction between the environment and the management process conditions the behaviour and the relationship of the manager to work and to subordinates.

The skill and knowledge to manage can vary among various countries

Both management knowledge and skill have similarities and differences. Having the knowledge to mange is always important, and this can vary in both scope and depth among various countries. The same is true for management skill, or the applying of the knowledge.

The relative influence of each environmental factor varies in significance in each country

The figure shows specific environmental factors classified by economic, social, technological, and legal related to several managerial activites. For example, objective setting is conditioned economically by basic needs and fiscal requirements, and legally by government regulations. The relative influences of each environmental factor varies in significance in each country.

Figure 13-1

Selected environmental factor	*Objective setting*	*Planning*	*Organizing*	*Actuating*	*Controlling*
Economic	Basic needs; fiscal requirements	Inflation problems; resource availability; basic policies	Individual or group-oriented; labor specialization	Participation; fringe benefits; wages	Monetary regulations; quotas
Social	Religious influence; view toward contributions to culture	Population size and growth; importance of time	View toward cooperation; attitude toward authority; interpersonal cohesion	Work ethic; strength of family ties; mobility of individual	Importance of achievement; extent of belief in efficiency
Technological ..	Literacy level	Selection of means; attitude toward unemployment; size of demand	Availability of technicians	Willingness to change; scientific orientation; technical training available	Attitude toward machines and research
Legal	Regulation by government	Choice of means; centralized by government; political stability	Political influence; legal actions toward organizations	Bribe tolerance; taxes	Reports required by government; import-export restrictions

Selected Environmental Factors and Their Effect on Managerial Activities

Importance of Understanding Comparative Management

Understanding management in an international context is desirable for a number of reasons:

(a) As increasing number of managers go abroad for overseas assignments, they are faced with the problems of motivating and communicating with the foreign workforce. Understanding and being responsive to local conditions help managers to achieve personal and organisational goals.

(b) Getting to know how managers in foreign countries perform their tasks expedites continued trade and co-operation.

Understanding comparative management is desirable for several reasons

(c) Observing how different cultures solve similar problems provides the multinational with innovative problem solving techniques, which lead to improved management.

(d) The ability to see worthwhile differences and to observe how to act in varying situations is made available.

(e) Awareness of potential conflict between the multinational company and the host country makes for a mutually beneficial relationship. For example, the multinational might have a higher percentage of national for managerial positions or permit more local autonomy as a way of smoothing labour relations.[7]

Comparative Management Models

Farmer and Richman Model of Comparative Management

Environments external to the firm do affect management practices.

Professors Richard N. Farmer and Barry M. Richman were the two pioneers in comparative management. They emphasised that environments external to the firm do affect management practices.[8] They were the first to identify the critical elements in the management process and to evaluate their operation in firms in different cultures. They also described the environmental factors they considered to have a significant impact on the management process and managerial execllence. These factors, viewed as constraints, are classified as -

(a) educational variables

(b) socio-cultural and ethical variables

(c) legal and political variables

(d) economic variables.

How these environmental factors abbreviated as Ed, Sc, Lp and Ec in table may influence the managerial functions abbreviated as Pl, Or, St, Le, Co and enterprise functions abbreviated as En, Pr, Ma, Fi, is illustrated by the arrows in figure 13.2

Exellence in management is indispensable for continued success

It thus appears that enterprises may, for a time, succeed entirely through nonmanagerial factors but excellence in management will ultimately make the difference between continued success and decline.

Modified Koontz Model For Analysing Comparative Management

Both managerial and non-managerial activities affect enterprise excellence and are being affected by the availability of resources and external environment.

This model encompasses two broad categories of enterprise activities — managerial and non-managerial. Either or both can be the causal factors - at least to some degree - for enterprise excellence. Also, nonmanagerial activities will be affected by the relevant underlying science or knowledge, just as managerial activities will be affected by the underlying management science. Both types of activities will be affected by the availability of human and material resources and by the constraints and influences of the external environment, whether these are educational, political and legal, economic, technological, sociocultural or ethical.[9]

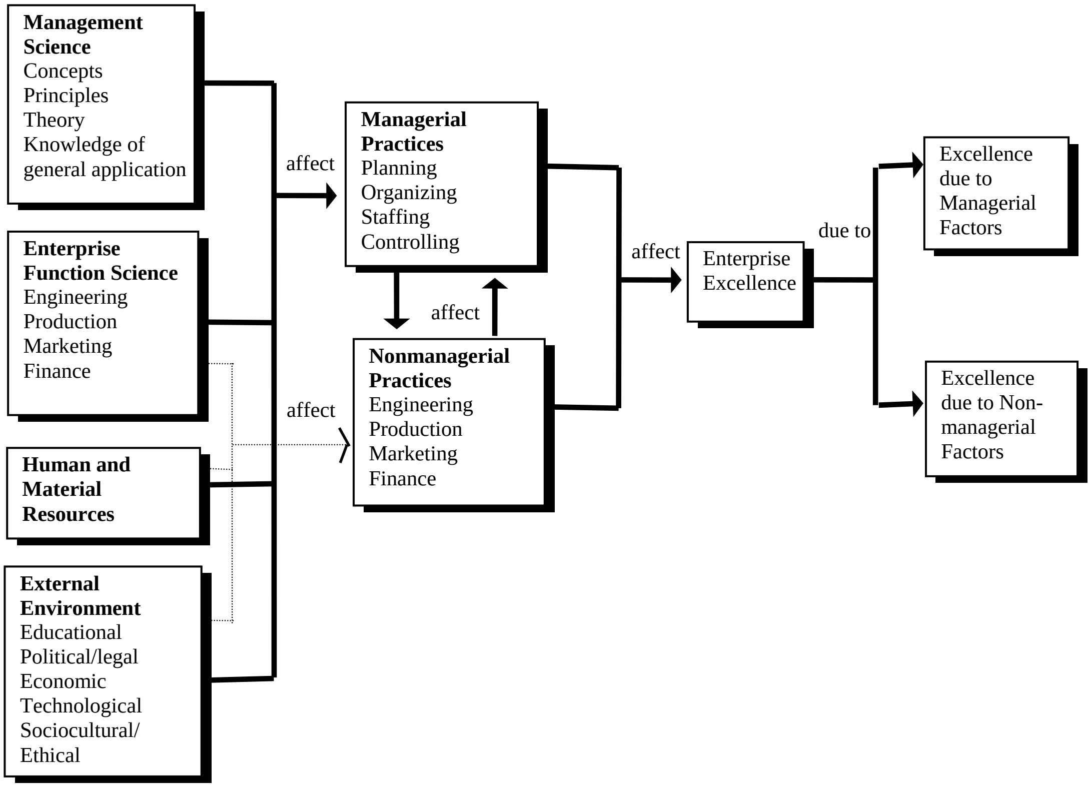
Koontz has shown the factors affecting enterprise excellence and the role of the underlying science through a model which appears on page 8.

Figure 13.2

Functions and activities	Environmental factors Educational (Ed)	Sociocultural-ethical (Sc)	Legal-political (Lp)	Economic (Ec)
Managerial functions				
Planning (Pl) (Objectives, strategies, policies, programs, procedures, decision making)	**Ed → Pl**	**Japan:** Consultation in decision making; upward flow of decisions	**France:** Planning within guidelines by government (Le Plan)	**Ec → Pl**
Organizing (Or) (Structure, roles, grouping of activities, authority and responsibility, coordination)	**Ed → Or**	**Japan:** authority often based on seniority; respect for age	**Germany:** codetermination; worker representation on supervisory board and executive committee	**Ec → Or**
Staffing (St) (Work-force requirements, selection, appraisal, compensation, training)	**Japan:** Education determines career; good schools are essential for success	**Japan:** Lifelong employment	**Germany:** Labor participates in major staffing decisions in major firms	**Ec → St**
Leading (Le) (Motivation, leadership, communication	**Ed → Le**	**Japan:** Loyalty to the firm **Germany:** Benevolent-authoritarian leadership	**Lp → Le** **Germany:** Laws requiring companies to put worker representatives on supervisory board and executive committee	**Ec → Le**
Controlling (Co) (Standards, measurement, correction)	**Ed → Co**	**Japan:** Participation in quality control circles	**Lp → Co**	**Ec → Co**
Enterprise functions				
Engineering, research, and development (En)	**Ed → En**	**Sc → En**	**Lp → En**	**Ec → En**
Production (Pr)	**Ed → Pr**	**Japan:** Group information in quality cirles	**Lp → Pr**	**Japan** and **Germany:** Emphasis on productivity
Marketing (Ma)	**Ed → Ma**	**Sc → Ma**	**Lp → Ma**	**Ec → Ma**
Finance (Fi)	**Ed → Fi**	**Sc → Fi**	**Lp → Fi**	**Japan:** Banks facilitate debt financing

THE IMPACT OF EXTERNAL FACTORS ON MANAGERIAL AND ENTERPRISE FUNCTIONS AND ACTIVITIES

FIGURE 13-3


Management Science
Concepts
Principles
Theory
Knowledge of general application
Enterprise Function Science
Engineering
Production
Marketing
Finance
Human and Material Resources
External Environment
Educational
Political/legal
Economic
Technological
Sociocultural/ Ethical
affect
affect
Managerial Practices
Planning
Organizing
Staffing
Controlling
affect
Nonmanagerial Practices
Engineering
Production
Marketing
Finance
affect
Enterprise Excellence
due to
Excellence due to Managerial Factors
Excellence due to Non-managerial Factors

MODIFIED KOONTZ MODEL FOR ANALYZING COMPARATIVE MANAGEMENT

Source: Harold Koontz, "A Model for Analyzing the Universality and Transferability of Management," *Academy of Management Journal* (December 1969), pp. 415-429

Koontz model, although being complex, is far more accurate and realistic than the ones used by previous researchers in the field of comparative management.

simply as "constraints" - a term that has negative connotation - considers them as environmental factors, be either constraints or opportunities. For example, in the economic category of factor endowments, a country may be short on natural resources but rich in capital. Likewise, some laws of country may be restrictive for conducting business, but others may be favourable. Thus environmental restraints could become opportunities in certain situations.

Infact managers need to adopt a global perspective in leading their enterprises. This requires an understanding of manageral practices in various countries. The Koontz model of comparative management helps identify the factors that contribute to managerial and organisational excellence.

Lesson-end assessment

Essay type questions

1. What has given rise to the development of comparative management?
2. Do you have any idea about comparative management? Of what importance is it to managers?
3. What do you understand by comparative management? State in brief the nature of comparative management.
4. Explain the importance of understanding comparative management. Do you think our managers can be benefitted by studying comparative management?
5. Critically discuss the comparative management models and state why one should study them?
6. What do you understand by multinational company? Explain the reasons for the development of such companies.

Multiple choice questions

√ the most appropriate answer:

1. Large scale emergence of Multinational Companies has given rise to the development of:
   (a) marketing management
   (b) human resource management
   (c) comparative management
   (d) capital resources
2. Comparative management may be defined as the:
   (a) comparison of management of different enterprises
   (b) comparison of management practices in different departments
   (c) study and analysis of management in different environments
   (d) study and analysis of management practices in the private and public enterprises.
3. Awareness of potential conflict between the multinational company and the host country:
   (a) helps develop industrial relations
   (b) makes for an improved human relations
   (c) makes for a mutually beneficial relationship
   (d) helps avoid war among nations
4. Enterprises may, for a time, succeed entirely through non-managerial factors but:
   (a) continued success depends entirely on marketing
   (b) excellence in management will ultimately make the difference between continued success and decline
   (c) ultimately they fail
   (d) gradually decline and diminish

Exercise

1. Contact a foreign firm operating in Bangladesh and interview two managers to know how do the managerial practices in Bangladesh differ from those in the firm's home country?

Lesson 2 : Management in Japan

Lesson Objectives

Upon completion of this lesson you will be able to:

- narrate the evolution of the system of management in Japan
- describe the organization structure and management of corporation in Japan
- highlight the special features of management in Japan
- explain the lessons that we can learn from Japanese System of Management

Japan and the Japanese

It was only an undaunted motivation and national determination that helped Japan to reestablish itself after World War-II.

Japan's economic development in the last century, specially after the World War-II, is spectecular. In fact, the tremendous success of Japan in post-war recovery and national reconstruction, can be compared to that of Germany only. In the World War-II almost half of Japan's national wealth was destroyed. The whole country was engulfed with famine and unemployment, besides being humiliated by the disgrace of defeat and it was only an undaunted motivation and national determination that could help Japan re-establish itself and regain its lost economic strength within three decades only.

Japan is an industrial wonder

As a matter of fact, Japan is an industrial wonder in the contemporary global economy. The rate of economic progress of Japan during almost half a century after World War-II, was unparallel among the industrialised countries of the world. Its GNP is only second to that of the USA.

Japan's per capita contribution in the GDP is the highest in the world.

In the sphere of foreign trade and balance of payment positions Japan re-occupied a very prestigious position within a very short time. By the end of the last century the US economy owed about 50,000 million dollars to Japan. Japan's GNP was also estimated to be over two thousand billion dollars in 1999, thereby making the per capita contribution in the GDP to be the highest in the world.

Defeated, humiliated and destroyed Japan worked under an oath to take revenge of defeat in World War-II.

Perhaps the defeat of Japan in the war front, gave it the determination to win in the economic front. Most probably, the humiliation in World War II made it to work under an oath to take revenge of the defeat before the end of the 20th century. It is thus rightly said, "Things changed when a defeated, humiliated, and almost destroyed Japan began painfully to rebuild and a humiliated Japan started to organize itself to become a modern commercial (and industrial) nation while remaining profoundly Japanese in its culture."[10]

Japanese people and its management are recognised as unique in the Western World.

The great success of Japan in its post-war recovery and development, owes a great deal to the contribution of its people, who worked being self-motivated almost tiredlessly and ceaselessly for their own nation. A system of management also emerged for making use of the contribution of the people. Japanese people and its management are recognised as unique in the western world. We in Bangladesh also need to study the unique system of Japanese management for understanding the possible recovery of its crippled economy.

It is worthwhile at this stage to mention that Japan is blessed with little or no natural resources for industrial development. Although the total land area of Japan is almost three times as that of Bangladesh, its two-thirds are covered by

Japanese are far too conscious of their dependence on import for energy, raw materials and food.

jungle. Only twelve percent of the land is cultiviable. Population is almost as equal as that of Bangladesh. For almost everything it has to depend on import - oil to the extent of 99 percent, natural gas 91 percent, coal 82 percent and lumber 67 percent. This grim picture of Japan's dependence on imports, has in fact, invigorated the Japanese to work more for making Japan wealthier. Thus it is often believed that unlike the Americans, for example, the Japanese are far too conscious of their dependence on imports for energy, raw materials and food ever to shrug off the rest of the world or to push it out of their field of vision altogether.[11]

Japanese give preference to their national interests much above their personal or group interests.

The Japanese give preference to their national interests, much above their personal, group or sectional interests. They work hard for a prestigeous position of Japan in the world economy. It has established itself in the markets world over. Its economic supremacy can well be understood by the fact that even the US economy has become largely indebted to it. For the last few decades Japan has been recognised as the most formidable industrial wonder of the world.

Japanese have used their patriotic motives into industrial endeavours.

Each and every citizen of Japan feels proud of being Japanese. They always try to synchoronize their personal interests with those of national interests. They have used their patriotic motives into industrial endeavours. Social responsibility of businessmen has been given widespread recognition in Japan since Iche Shibushaoa, a Japanese businessman cum philosopher, strongly advocated in its favour in the early 19th century. Thus, infact, the enterprises in both the private and the public sectors are equally committed to the people of Japan. Managers are also equally competent to serve Japan well.

Gradual Evolution of the Management System in Japan

Modern industrial development of Japan is largely indebted to its system of management which relies heavily on patriotism and group endeavour.

Japan's industrial progress in the last century is largely indebted to its system of management which relies heavily on patriotism and group endeovour. During the period of post-war recovery, the government also played a big role. The Meiji leaders took up the issue of industrial development as their number one agenda. Initially, they emphasised upon the utilization of western technologies and concepts of management in Japanese industries. Gradually, they became alert in the borrowing of these concepts and technologies and ultimately put their energies in the development of purely Japanese tradition in management.

Joint-endeavour of Govt. and the Zaibatsus played a big role in the industrial development of Japan.

There is no denying the fact that the Zaibatsus, the national industrialists of Japan, did their best in the development of both industries and industrial management in Japan. As a matter of fact, the joint endeavour of both Government and the Zaibatsus played a big role in making Japan what is now at this moment.

The noted industrialists of Japan are almost self made. Their name and fame owe a great deal to their untiring efforts in industrializing Japan. They emphasised upon the employment of potential executives from among bright graduates of "A-grade" universitities and business schools. Young graduates also felt encouraged to join the better paid executive positions in industries instead of Government service. Business executives have thus occupied a more prestigeous position in the society compared to their counterparts in civil service. Consequently, today's managers are enjoying high social position. Appointments

Business executives occupy a more prestigious position in the society compared to their counterparts in civil service.

in such positions are, therefore, highly competitive. Talent hunting is also popular in Japan through which industrial houses try to lure away talented executives from other enterprises. However, the usual practice is to hire fresh graduates direct from universities and then to train them up for senior positions in the management hierarchy.

Organisation Structure and Management of Corporations in Japan

Organisation structure and management of Japanese enterprises grew up in conformity with Japanese social system and culture.

Some sort of specialities are there in organisation structure and management of industrial enterprises of Japan. In fact they grew up in conformity with Japanese social system and culture and for that the management practices in Japan are quite distinct and different from those of other industrially developed countries of the world.

The main responsibility of management of Japanese corporations rests with board of directors.

Most of the large industrial and commercial enterprises of Japan are managed and controlled by corporations, whose pattern of ownership and management are nearly similar to those of public limited companies of Bangladesh. They have got their separate legal entity and the main responsibility of management rests with board of directors whose members are elected by shareholders. The directors enjoy a wide latitude of autonomy in management under the Commercial Code of Japan. The said code empowers the board to do the following:

1. determining policies relating to production and sale of the corporation,
2. purchasing and selling of valuable properties of the corporation,
3. performing important contracts on behalf of the corporation,
4. settling important organizational and/or personnel matters,
5. defending important litigation in favour of the corporation,
6. doing all other important jobs on behalf of and being empowered by the shareholders.

Chairman of the board is the chief executive of the corporation.

The directors remain accountable to the chairman of the board who performs the duties of the chief executive of the corporation. The final decisions on important matters rest upon the chairman. The image and the prospects of the corporation also depend on the foresightedness and efficiency of the chairman.

In Japanese corporation board there is the existence of a representative director.

The size and composition of board of directors of Japanese corporations are different from those of the USA or UK. In each and every board there is the existance of a representative director who performs all the legal formalities on behalf of the board. He is selected by the board from among its senior members. Moreover, the appointment of an auditor, as one of the top executives, is compulsory. Such auditor may be a shareholder, or even a director of the corporation.

The directors are regarded as the top-most executives of the corporation. The limits to their responsibilities and duties are set by the "Commercial Code" as aforesaid and thus it is difficult for them to avoid their duties and responsibilities. The most senior of them is usually appointed as the chairman.

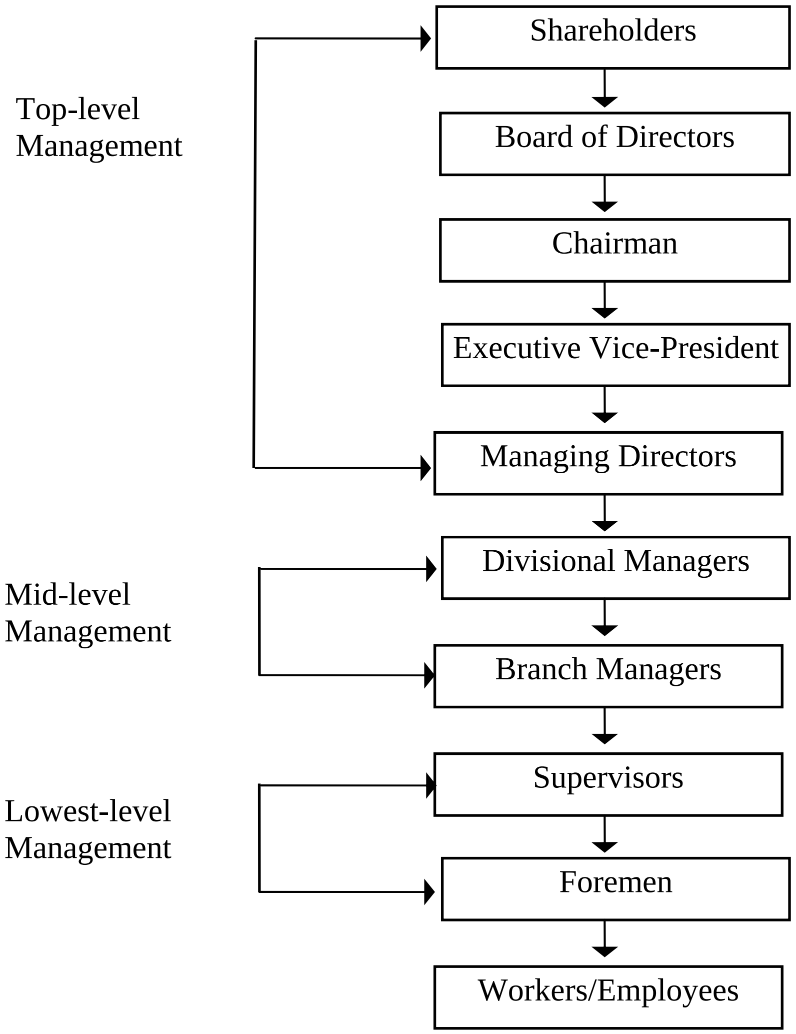
It is difficult f
directors to av
their duties an
responsibilitie

Among the other top executives are - (i) the senior executive vice-president, (ii) the executive vice-presidents; and (iii) the managing directors.

The senior executive vice president and the executive vice presidents (usually-3) remain closely associated with the chairman. Just below them is the position of the managing directors who perform duties in their respective divisions/departments under the direct supervision of executive vice presidents. These top executives are being assisted by advisors, being appointed by the board. They are usually the people from the retired senior executives and they enjoy honorary staff positions.

Top-level management of corporations consists of chairman, sr. executive vice president, vice presidents and the managing directors.

FIGURE 13-4


Top-level Management
Mid-level Management
Lowest-level Management
Shareholders
Board of Directors
Chairman
Executive Vice-President
Managing Directors
Divisional Managers
Branch Managers
Supervisors
Foremen
Workers/Employees

Management Structure of Japanese Corporation

Another feature of management in Japan is the existence of "executive committee" in almost every corporation. Such committee is manned by senior executives and is entrusted with the responsibility of formulating policies and performing important functions.

Divisional and branch managers comprise the mid-level management in Japanese corporations.

Just below the top management are the divisional and branch managers. They are the mid-level executives and do usually perform their duties as per instructions of and policies laid down by the top management. Under each division/branch there may be some sub-divisions or sections. In each section there may be some officers and employees numbering between 12 to 20. Most of the office employees are female while the production workers are mostly male.

Special Features of Japanese Management

Japan's success in industrial development is primarily attributable to its system of management which has certain specific features as under:

The national character of the Japanese of puting national interests over personal interests has been reflected in their system of management.

(1) **Reflection of national character:** The national character of the Japanese has been, by and large, reflected in their system of management. Each and every Japanese tries to put to his or her maximum in industry. The Japanese put their national interests above anything else and feel proud of being Japanese. They are engaged in healthy competition with each other and are determind to take revenge in the economic front of the defeat of World War-II. In fact, the Japanese nurture a deep feeling of mutual interests of serving the nation and thereby serving their own personal interest. Drucker thus rightly remarked, "However, when people or parties must live together, let alone when they must work together, the Japanese make sure that their relationship have at their core a mutuality of interest."[12]

In Japanese industries group, not individuals, are entrusted with jobs and are also evaluated in the same way.

(2) **Joint responsibility:** This is the most prominent feature of Japan's management. Joint responsibility has intimate and direct relation with the determination to the attainment of common objectives. The success and/or failure of managerial decisions of Japanese industries are not attributed to the effort of any single individual; rather they are being shared equally by all the members of the group. Groups, not individuals, are entrusted with jobs and are also evaluated in the same way. Thus when a division or a branch is entrusted with certain tasks, all the people employed therein remain responsible for their accomplishment. The manager acts as the leader and co-ordinator of the group and tries to move ahead through odds and difficulties.

Japanese hardly try to break the chain of command and are respectful to the wishes of superiors.

Although the responsibility of accomplishment lies with the group, no one tries to avoid his or her part in the joint endeavour. The concern for recognition and advancement in the management hierarchy, keeps each and every group member to put to his or her best and thereby making joint endeavour really competetive and successful. They hardly try to break the chain of command and are respectful of the wishes of superiors. This makes the position of Japanese managers easier than that of their western counterparts in motivating their group members in joint endeavour.

Workers' participation in decision making is emphasised.

(3) **Participative management:** Japanese management can rightly be called participative. The formulation and implementation of all major decisions are done by managers in consultation and conjunction with subordinates. Inter-personal relation in Japanese management is very important which the Americans are trying to follow in their business enterprises. Theory Z, which is the outcome of a hybrid of both American and Japanese

management, emphasises upon workers' participation in decision making. There is also an emphasis on informal and democratic relationships based on trust. These tend to reduce industrial conflict, labour turn-over, tardiness and the like.

Although the decision making process is time consuming, the implementation of the decision is quick in Japanese industries.

Japanese management uses decision making by consensus to deal with everyday problems. Lower-level employees initiate an idea and submit it in the form of a proposal called **Ringishu**, to the next higher level, untill it reaches the desk of the top executive. If the proposal is approaved, it is returned to the initiator for implementation. Although the decision-making process is time consuming, the implementation of the decision - because of the general consensus at various levels of management - is swift and does not require additional "selling."[13]

Unlike American counterparts, Japanese managers make a decision only after long discussions of the issue.

An important characteristic of Japanese decision making is the large amount of effort that goes into defining the question or problem; there is a great deal of communication before a decision is actually made. American managers are often accused of making decisions before defining the problem. In contrast, Japanese management makes a decision only after long discussions of the issue. To quote Drucker in American context, "After making a decision we must spend much time 'selling' it to and getting people to act on it. What may be worse, it takes so long to make the decision truly effective that it becomes obsolete if not out-right wrong, by the time the people in the organization actually make it operational ..... the Japanese, by contrast need to spend absolutely no time on selling a decision. Everybody has been pre-sold."[14]

Japanese managers help maintain and develop conjenial relations between employers and workers.

(4) **Harmonious industrial relations:** In Japan, the industrial relations are more harmonious than that of any country of the west. The employers' and workers' organisations are tolerant to each other. The managers, who are professionals themselves, help maintain and develop conjenial relations between employers and workers. The trade unions bargain with employers but they never fight against the company. Thus it is often said that "American unions fight the company but Japanese unions fight the management."[15]

Management not only reports the results but also explains basic policies to trade unions before implementations.

The formation of "Joint Consultative Committees" in industrial enterprises after World War-II made the participation of trade unions in management imparative. Prof. Ichiro Nakyama's remarks is pertinent: "Many enterprises are communicating with trade unions and exchanging views. As a general trend, it may be said that management not only reports the results, but is explaining basic policies or plans to trade unions before implementation and asking for union co-operation"[16]

Joint consultantive communittee has benefitted both management and union.

Japanese industrial relations can well be compared to that of Germany and Sweden. Some researchers call it outstandingly participative and pragmatically reformative.[17] The existence of "Joint Consultative Committee has also provided benefits to both parties in that it has enabled management to maintain its prerogatives within the enterprise, and the union to increase its influence."[18]

Employees are not only highly paid, they are also highly valued as human beings.

In Japanese industries the employees are not only highly paid but are also highly valued as human beings. They enjoy psychological security at their work-place and for these reasons, Japanese industries are almost free from industrial conflicts of unimaginable proportion.

Life long employment provides employees with security and feeling of belonging.

(5) Life long employment (Nenko) and the seniority system: These are the unique features of Japanese management. Typically, employees spend their working life with a single enterprise, which in turn provides employees with security and a feeling of belonging. This practice brings the culturally induced concept "Wa" (harmony) to the enterprise. Closely related to Nenko, is the seniority system, which has provided privileges for older employees who have been with the enterprise for a long time. But there are indications that the seniority system may be superseded by a more open approach that provides opportunities for advancement for young people.

Firms are beginning to question about life long employment since it adds to business costs.

The fact that under 'Nenko' an employee remains in job so long as she/he wishes to continue, adds to business costs, because employees are kept on the payroll even though there may be insufficient work. Consequently, firms are beginning to question about life-long employment which was started in the face of acute scarcity of labour after World War-II. Indeed, changes appear to be very slow. What is often overlooked, however, is that permanent employment practice is used primarily by large firms. In fact, it is estimated that the job security system applies to only about one-third of the Japanese labour force.[19]

Both on-the-job and off-the-job training help to enhance workers' productivity.

(6) Continuous training: For employment in Japanese industries, candidates of younger age are preferred. They are being trained and groomed for appropriate job responsibility. On-the-job training is, of course, an on-going process. Employees are also sent for attending off-the-job training. The main objective of all such training is to enhance productivity. Compared to our training programmes it can well be stated that our training is promotion focused but the Japanese training is performance focused.

Managers act as teachers, not as masters.

Since performance is the main focus of employee training in Japan, each and every employee becomes an asset to the enterprise concerned. Managers in industries do not act as masters, they act as teachers. The subordinates get work-related guidance from them and that is also a good supplement to training.

Japanese industries cnsure quality of products through QCC which acts as a continuous process with workers as members.

(7) Quality control: The consumer products of Japan are noted for their quality. 'High quality at low price' is the slogan of Japanese industries. They have captured world market by making the consumers serve their purpose at low cost. In the field of quality control Japanese follow a peculiar method called "Quality Control Circle (QCC)." The workers work as members of these QCC's and they themselves ensure quality under the guidance of foremen. This ensures quality control as a continuous process. Japanese managers have used the high motivation of workers in ensuring product quality. During the last few decades the quality of Japanese products has gone so high that it has surpassed that of many western countires even. It is a crime on the part of Japanese managers to compromise with quality. In fact, each and every worker is a member of one or the other QCC and thus each and every worker is a quality controller.

(8) Paternal human relations: The Japanese managers act as 'parents' of subordinates and take care of their problems as guardians. They have used the "Confucian" concept, into their management system, which makes it imperative to regard seniors as respectable persons. The seniors, in their turn, also extend all possible help to juniors. This ensures a galaxy of cordial human relations within the industrial enterprise, thereby improving productivity and profitability in almost an automatic manner.

The use of Kamfusian concepts into management has helped develop paternal human relations.

Besides the distinct features of Japanese management as described above, the industrialists also maintain healthy relations with the Government. The strength of Japanese management also lies in its capacity to keep all the relevant parties - workers, employers, consumers and Government - satisfied. The fruits of industrial development are being shared equally by all and this has reduced income inequalities within the socielty.[20] This should not be attributable to any magic, rather it happened because the Japanese have worked hard under their unique system of management and have put their national and organisational interests above their narrow personal gains. As if they are working under an oath to take revenge of the humiliations that they suffered during World War II.

The fruits of industrial development that the Japanese now enjoy are the results of their unique system of management.

Lessons for Bangladesh

Japanese management is no doubt unique and culture-bound but yet we, in Bangladesh, can have the following lessons from it:

(1) In Japan the superiors are regarded as respectable and this fact has helped Japanese managers to command respect and compliance from the workers in the workplace. In Bangladesh also our managers can try to take advantage of our cultural heritage that the senior people are usually respected by their juniors. For this, they need to earn this respect like Japanese superiors.

(2) The strong national feeling of serving Japan through hard work has helped Japanese managers to improve industrial productivity and product quality to a level which caught attention of industrialists and scholars throughout the world. The young Bangalees who fought unitedly for their independence in 1971 could have been used, with proper management, to serve their best to improve both quality and quantity of our industrial products after independence by imbuing them with patriotic fervour.

(3) Group decision making which has been working very successfully and excitingly in Japanese industries, could have been used by our managers to improve the quality and acceptability of managerial decisions. In Japan the employees are also evaluated and appraised jointly with other members of a group. Such group evaluation makes all the members alert and active to conform to group standard and if this could be used in our industries our managers could have successfully checked avoidance of responsibility by the employees.

(4) Quality control circle (QCC), which provides a unique feature of Japanese management can well be practised in our industrial enterprises, where the product quality has fast deteriorated since independence.

(5) As a matter of fact, Japan's post-war reconstruction owes a great deal to its system of management. In Bangladesh too, post-independence reconstruction and development could have been easy with a suitable system of management. Both Japan and Bangladesh lack natural resources and thus Japan's experience in industrial development through proper management, may provide the required incentive and guidance for our managers.

Lesson-end assessment

Essay type questions

1. Is it true that Japan has a unique system of management? Narrate.
2. State in brief the gradual evolution of the Japanese System of Management.
3. Give a diagramatical representation of the organisation structure and management of corporations in Japan. Can you distinguish between the organisation structure of corporations in Japan with that of Bangladesh?
4. What are the special features of Japanese management? Can we have any lesson from Japanese management?
5. It is often said that the post-war recovery of Japan owes a great deal to its system of management, which is unique in the world. Do you agree? Justify,
6. (a) "Japanese System of Management is unique" - Do you agree with this statement? Explain.

   (b) What lessons we can learn from Japanese System of Management?

Multiple choice questions

√ the most appropriate answer:

1. Japan's GNP is:
   (a) second to that of Germany only
   (b) second to that of the USA
   (c) the higest in the world
   (d) third in the world

2. In Japan just below the top management are the:
   (a) vice presidents
   (b) senior vice presidents
   (c) divisional and branch managers
   (d) managing directors

3. In Japanese management the responsibility of accomplishment lies mainly with the:
   - (a) manager
   - (b) work group
   - (c) director
   - (d) individual

4. (a) Meiji leaders played a big role in industrial development in Japan
   - (b) Zaibatsus tried to develop their own fortune only
   - (c) In the World War-II nearly one-tenth of Japan's national wealth was destroyed
   - (d) Japan'a management depends on technical expertise alone

Lesson 3 : Management System of Germany

Lesson Objectives

Upon completion of this lesson you will be able to:

- give a brief account of the gradual evolution of the system of management in Germany, known as Co-determination.
- describe the structure of management under Co-determination.
- explain the special features of Co-determination.
- narrate the limitations of Co-determination.
- examine whether we can have any lesson from Co-determination.

Germany and Co-determination

Germany enjoys a very prestigeous position in the world economy.

Modern Germany is the biggest industrial nation in Europe and the second only to the USA on earth. As regards GDP the position of unified Germany moves between the second and the third in the world. It enjoys the sixth position among the industrialized countries regarding per capita income. Moreover, this country has been enjoying a very strong balance of payment position during the last three decades. Unemployment problem is also the lowest, while the German companies have excess capital awaiting investment to the extent of over 700 billion Marks. Price level has also been the most satisfactory during the last few decades.

The great success of post-war reconstruction and development in Germany owes a great deal to Co-determination.

German success in post-war reconstruction and development can be compared to that of Japan only. There is widespread interest among western scholars to find out the secret behind the grand success of Germany in this regard. Many of them attribute it to the unique system of German management, called "Co-determination." The name itself indicates that it is participative in nature. In fact it ensures the extreme form of workers' participation in management. Important decisions are being taken jointly.

Under Co-determination workers need little supervision and are allowed maximum participation in decision making.

Technical efficiency and experience of German workers have made Co-determination successful. Workers need little or no supervision and the managers act as initiators, not as their bosses. Labour-management relation in Germany is thus of a relation of mutual co-existence and co-determination. This relation is the speciality of German management. Managers give due weight to the opinion, efforts and judgement of their subordinates. Different research studies indicate that the extent of workers' participation that is being allowed under Co-determination is unparallel in Western Europe.[21] Nevertheless the fact remains that in the past, and to a lesser extent today, the German cultural environment favoured reliance on authority in directing the workforce, although it was often benevolent authoritarianism. Even today, while managers are required to show concern for subordinates, they also expect obedience.[22]

It is almost a paradox that on the one hand, the managerial style of Germany is characterised by considerable use of authority, while on the other hand, labour, by law, is represented by and actively involved in managing large corporations. In 1951 a law was passed that provided for co-determination, which requires labour membership in the supervisory board and the executive committee of certain large corporations. Furthermore, a labour director is elected as a member of the executive committee. This position is a difficult one. Labour director supposedly must represent the interests of the employees and, at the same time, must make managerial decisions that are in the best interest of the enterprise.

Although the managerial style of Germany is characterised by considerable use of authority, labour membership in the board makes it participative.

Gradual Evaluation of Co-determination

Co-determination is the most important of all the factors that played important roles in the post-war reconstruction and rehabilitation of German industries. It is believed that Germany has been successful to regain its lost supremacy in industrialization only through Co-determination.

Germany was defeated in both the first and the second world war. Destruction of German industries was unparallel and no industrial enterprise worth the name could survive bomb attacks by the Allied Forces. Completely destroyed industrial enterprises numbered around seven hundred. The most affected were the steel and chemical industries. Other industries were also heavily affected and remained closed for a long time even after the war was over. Unemployment problem engulfed the whole economy. Almost one crore people became homeless. Food and water became so scarce that life became endangered in the whole of Germany.

Germany was defeated and destroyed both in the first and the second world war.

But what a wonder! The German people, thanks to their technical expertise, hard labour and unique system of management, became successful, within a short period, to rebuild the economy. The defeated and humiliated soldiers in the battlefield became undaunted captains of industry. They did the wonder without any foreign aid. They re-organised their industries and management in a way that amazed the US or the British people who won the war. The Germans soon became successful to emerge as economic super power and to reteliate.

Thanks to their technical expertise, hard labour and co-determination German people became successful to rebuild their economy.

The conflict between the USA and the Soviet Union also helped Germany to flourish. The more fortunate was West Germany which was fortified by the western big powers in order to encounter possible Soviet aggression. American and British capital found increasing inroad into West German industries. Research and development activities also helped the invention of much improved machine and technology, thereby enhancing productivity to such an extent that it was unparallel in the world.

Western big powers came to rescue West German economy.

Undoubtedly, political stability is one of the pre-requisites for industrial development. After the establishment of the Federal Republic in 1949 political stability in West Germany became so pervasive that it helped establish Co-determination on a solid foundation. However, the initial inroad to Co-determination started during World War-I when a boost in industrial production became a hard reality. Gradually the workers and their unions were brought closer to management. The formation of "Works Council" in industrial enterprises with representatives of workers laid the foundation of Co-determination in Germany.

Political stability in West-Germany helped develop Co-determination on a solid foundation.

Finally the passage of a special piece of law called "Workers' Co-determination" in German legislative assembly, gave co-determination the legal foundation. According to that law, the formation of 11-member "supervisory board", having equal number of members (5+5) from among workers and shareholders and one neutral member was made compulsory. The passage of another law in 1952 called "Constitution of the Enterprise" also helped Co-determination by requiring the formation of "Works Council" with 50% of workers' membership mandatory. In the opinion of some scholars, "Works Council is the heart of Co-determination."

The passage of two pieces of law in German legis-lative Assembly gave Co-determination a foundation.

After 1952 the powers and functions of 'Works Council' were extended and they were compulsorily introduced in all industries except iron, steel and coal. Ultimately the Co-determination Act of 1976 (implemented in 1978) was passed which still remains in full force throughout German industries. In modern Germany jobs in industrial management are considered much more prestigeous than those in civil or military bureaucracy. Co-determination offers the opportunity for young graduates to brighten their career and at the same time to serve the nation by ensuring quality and higher productivity in industry. The industrialists, managers and workers, are all working together in the same direction, thereby ensuring the best possible industrial relations in the world.

In post-war Germany jobs in industrial management are considered much more prestigeous than those in civil or military bureaucracy

Structure of Co-determination

Co-determination is composed primarily of "Superisory Board" and "Works Council" as mentioned before. Besides, there is the existence of management board in almost all industrial enterprises, being appointed by the Supervisory Board and entrusted with the executive functions on its behalf. The position of the Management Board is in between the Supervisory Board and Works Council. Thus Co-determination is composed of — Supervisory Board, Management Board and Works Council.

Supervisory Board, Management Board and Works Council comprise Co-determination.

Supervisory Board: Like the board of directors of Bangladeshi companies, this board is entrusted with the top-level managerial functions of the industrial enterprises in Japan. It is entrusted with the responsibility to formulate policies, plans and objectives for the enterprise and also remains responsible for its successes and failures. It is usually composed of 11-members - 5 (five) each from among workers and shareholders and one neutral member to be elected by majority votes of these ten members. This neutral member is usually very respectable and acts as chairman of the board.

Supervisory Board is entrusted with the top-level managerial functions.

Management Board: It is composed of 3 (three) members and is appointed by and remains responsible to the Supervisory Board. It is entrusted with the responsibility to execute the plans, policies and objectives set by the Supervisory Board. In fact, this is the executive organ of the enterprise and makes sure that the managers do their jobs well.

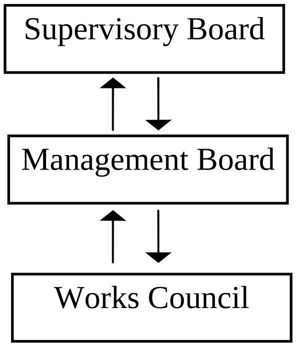
Management Board is entrusted with the responsibility to execute the plans, policies etc. set by the Supervisory Board.

Works Council: Just below the Management Board remains the Works Council, through which direct representation of workers in management is ensured. Based on the number of workers employed, there may be upto 35 members of Works Council of which more than 50% is to be from among workers. The range of functions of Works Council is very big. According to Adolf Strumthal, Works

Direct representation of workers in management is ensured through Works Council.

Council is empowered to participate in the making of major decisions regarding expansion, working environment, salary and wages, factory discipline, selection, promotion, training and dismissal.[23] This Council, in fact, forms the core of Co-determination and no important function within the enterprise can be performed without its approval. Thus the flow of communication under Co-determination is a two-way one and ensures participation of workers in management in the real sense of the term.

Figure 13.5



Structure of Co-determination - Communication is two-way

Features of Co-determination

The unique features of Co-determination are:

(1) **Ensures participation and cordial industrial relations:** Co-determination ensures workers' participation in management to the extent which is unparallel in the whole of Europe. Workers feel themselves an integral part of management and put to their best in the workplace. This has helped reduce the age-old authoritarian attitude of managers and has turned German industrial relation to be one of the best in the world. The occurance of industrial conflict is almost at its lowest level and the loss of man-days on account of strike is almost nil. Research studies indicate that within the 16 West European countries, during the eighties, the loss of production due to industrial dispute has been the lowest.[24]

Co-determination has helped reduce the authoritarian attitude of managers and improve industrial relations.

(2) **Product quality and productivity at a high level:** German industrial productivity has been the highest in the world during the last few decades. It has been possible due to whole-hearted co-operation of workers, who feel themselves as active partners in a system, often referred to as "productivity qualition" among share-holders, managers and workers. This qualition has not only ensured quantity but also quality and it is well known that quality and German products go together.

Co-determination through productivity qualition has not only ensured quantity but also quality.

(3) **Bigger span of supervision due to technical efficiency of workers and managers:** Technical efficiency is the yardstick of promotion of German workers. They are trained and evaluated regularly and therefore, are competent to work with little supervision from managers who consider themselves not as boss but as guide to fellow workers. Such managers are

Workers are highly skilled and are competent to work with little supervision.

mostly engineers and/or economists and receive extensive work-related training before they are assigned with the job as managers.

Management courses offered by German business schools are work related.

(4) **German managers think about the functionally specific rather than the managerially general:** The management courses offered by German business schools are more work related than those of American business schools. Moreover, apprenticeship for potential executives is essential which makes managers technically efficient and competent to lead the work team and help the workers in their work related problems.

Industrial jobs since World War-II are much more prestigeous and paying than the jobs in either civil or military bureaucracy.

(5) **Industrial jobs are considered most prestigeous and respectable:** In modern Germany, industrial jobs are much more prestigeous than the jobs in either civil or military bureaucracy. Before World War-II, the young generation in Germany preferred jobs in defense services but the situation has changed after the war. Management positions in industries have been considered doubly rewarded by university graduates since such jobs allowed them to work for national reconstruction on one hand and also to ensure bright career prospects for themselves.

Unlike American, British or French emphasis on marketing management, German emphasis is on production management.

(6) **Emphasis on production management:** Co-determination emphasises upon production. The managers consider themselves as production managers. The most of workers are also engaged in production. The industrialisits think that the marketing of products would be automatic if the wheels of production run well. Thus unlike American, British or French emphasis on marketing management, German emphasis is on production management. In any factory, production manager is the most respectable man and often earns much more than anyone else in the factory.

Each and every German worker can be called an engineer.

(7) **No seperate engineering division:** German workers are technical experts and can take care of their machinery well. Each and every worker can be called an engineer and the result is the non-existence of any separate engineering division within the factory.

Limitations of Co-determination

Co-determination is not without critisism. It suffers from certain drawbacks as under:

(1) The system is not democratic as it should have been. The workers do not enjoy direct participation in decision making. They have only indirect stake in management through labour membership in Works Council and Supervisory Board.

(2) It is not uncommon that the election of worker representatives in the board is influenced by employers so that their "yes-men" are being elected to serve their purpose.

(3) Too much emphasis on technical skill makes Co-determination weak in human relation and conceptual skill. Moreover, the German managers are not quite competent to make plans and/or take decisions appropriate to situations.

(4) German industries lack diversification and the products are stereotyped by nature. Co-determination could help a little to add variety to German

consumer goods and to help German goods to retain supremacy in the world market.

(5) The principle of delegation of authority is hardly effectively followed under co-determination. Moreover, the decision-making process is slow. Co-determination also lacks modern techniques of management such as risk analysis, decision theory, linear programming, simulation and the like.

Despite these limitations the success story of Co-determination attracts research interests from both developed and developing societies. Americans are amazed by the rate of German industrial progress after World War-II. It was infact, unbelieveable that the German economy, which was completely shattered and destroyed, would regain its lost position within a couple of decades only. Co-determination made it possible by showing a clear vision to the Germans that the defeat in the war front could only be remedied by a victory in the economic front.

Co-determination helped German economy, which was shattered and destroyed in World War-II, to regain its lost position within a couple of decades only.

Lessons for Bangladesh

It is beyond exaggeration that the German economy was rebuilt through the untiring efforts of German people but what is being recognised as the driving force behind these efforts is Co-determination. Germany was defeated and humiliated in the war but still it could regain its position within two decades. In contrast to it, Bangladesh won the war but it could not make up its war destructions even during the following three decades.

Co-determination was introduced formally within the first six years of the end of World War-II. The whole of German industrial efforts were directed towards the achievement of the national goal of reconstruction and development. German managers provided the leadership to achieve the goal. But the Bangladesh nation appeared to have no set national goal to achieve. The managers failed to provide proper leadership in the newly created vast public sector after liberation.

The management structure of Bangladesh industries did not work well. Absence of co-ordination and a sense of dedication towards the nation turned the whole management set-up corrupt and inefficient. Lack of determination and direction also caused demotivation to workers who suffered regressively from a rapid degradation of their wages and living conditions. The state-power threw the public sector at bay and sponsored a class of lumpen capitalists in the name of privatisation who became owners of earstwhile public industrial enterprises at nominal prices.

The regimes that followed the military coup on August 15, 1975 became responsible for the elimination of democratic norms in the society. Industrial democracy, in that situation, could not be thought of. Now, with the re-emergence of democratic Government in the country, it is expected that the ground for industrial democracy would soon be prepared and the management structure of industrial enterprises in Bangladesh may have Supervisory Board and Works Council having worker membership as in German Co-determination.

Lesson-end assessment

Essay type questions

1. What is Co-determination? Give a brief account of its gradual evolution.
2. Can you narrate the structure of Co-determination with a brief critical appreciation? How does it differ from the structure of management of our industrial enterprises?
3. How do you justify that Co-determination is a unique system of management and deserves special attention? Is there any limitation of Co-determination? Discuss.
4. Do you think that we in Bangladesh can be benefitted from Co-determination? Explain.

Multiple choice questions

√ the most appropriate answer:

1. As regards GDP the position of unified Germany moves between the
   (a) first and the second in the world
   (b) first and the second in Europe
   (c) second and the third in the world
   (d) third and the fourth in the world
2. While the German managers usually are
   (a) required to show concern for subordinates, they also expect obedience
   (b) democratic, they are also autocratic
   (c) autocratic, they sometimes become democratic
   (d) participative, they do not help increase productivity
3. The most important factor that helped establish Co-determination on a sound footing is:
   (a) the establishment of works council in industrial enterprises with representatives of workers
   (b) the authoritarian attitude of German managers
   (c) the high productivity of German workers
   (d) the technical expertise of both workers and managers
4. Supervisory Board is composed of:
   (a) 11 members - 5 each from workers and employers; and the rest one a Government representative
   (b) 13 members - 7 from workers and 6 from employees
   (c) 11 members - 5 from workers and 5 from employees and the rest 1 a neutral member
   (d) 14 members - 7 each from workers and employers

5. Co-determination emphasises upon:
   (a) financial management
   (b) office work
   (c) production management
   (d) marketing management

Lesson 4 : Management in Bangladesh

Lesson Objectives

Upon completion of this unit you will be able to:

- describe the features of management in Bangladesh
- explain the management structure of industries in both the public and the private sectors
- understand the hindrances to sound management practices in the country
- hint at the future prospects of management in Bangladesh

Bangladesh and its Management System

Bangladesh became independent and sovereign in 1971. Before that it was ruled by others. The British and the Pakistani rulers had exploited the resources of this soil and enriched themselves. They did not allow the development of industries here and for that matter we remained industrially backward. It was only in the late sixties that the then West-Pakistan based central government allowed a few Bangalees to set-up industrial undertakings with state patronisation. This was a political decision of the Pakistani rulers to create a class of sponsored capitalists to serve their purpose. These industrialists, like the pure Pakistani capitalists, did not have any commitment for the people of this soil. Their only goal was to "get rich quick" and to serve their West-Pakistani masters well. They did not try to develop any system of management. Rather employed only their own people in managerial jobs and depended on the exploitation of labour (Bangalees) than on the development of managerial skill and efficiency.

Long colonial rule remained the prime cause for industrial backwardness of the area now forming Bangladesh since 1971.

Thus, consequent upon the nationalization of large industries in Bangladesh after liberation, the responsibility to build its managerial capability was entirely vested upon the Government. A three tier system of management - the controlling ministry → the corporation and → the enterprise management - was introduced without prior preparation, training and commitment to run it effectively. Consequently, the three-lier system failed to yield the desired result and the post-1975 regimes found it a plea for large-scale sale of public enterprises at nominal prices to a new rich class of businessmen who cared for only to get rich quick and not to develop an efficient system of management. Thus the private sector, as also the public sector, remains ill managed. This accounts for the ever-increasing inefficiency of Bangladesh industries.

The vast public sector of industries created after liberation also suffered due to wrong attitude of post 1975 regimes.

Features of Management in Bangladesh

(1) **Non-professional management:** In Bangladesh management has not been developed as a profession. Managers are not professionally oriented to serve their country as those of Japan or Germany. They do not feel that they do have a social responsibility to perform. In the private sector, managers are mostly the relations and family members of owners and a distinct type of management called "family management" has developed which is basically against professionalism.

Managers are basically the relations of employers and this fact has hindered development of professionalism in management.

There is a severe shortage of skilled workers in industries.

(2) **Unskilled labour:** Bangladesh suffers from an accute shortage of skilled labour. Large-scale export of manpower over the years since independence has caused a severe shortage of skilled workers in our industries.

Democratic practices are absent in industrial management.

(3) **Autocracy:** Democracy is almost absent in our industrial management. Owners/managers consider workers as a mere factor of production. Thus a master-servant relationship prevails in between the managers and workers. This demotivates the workers in our industrial enterprises.

Productivity is so low that it does not justify the existence of management.

(4) **Productivity and profitability at the lowest:** Because mainly of a lack of commitment and of skill on the part of both managers and workers, the productivity and profitability of Bangladesh industries is one of the lowest in the world. In most cases productivity is so low that it does not justify the existance of management at all. This is the most significant sign of ill management and explains why Bangladesh is industrially backward.

Strained industrial relations cause frequent strikes and lockouts.

(5) **Strained industrial relations:** Neither the owners nor the workers are happy in our industries. The results are frequent strikes and/or lockouts. Interferences by the Government and the political parties in the internal affairs of trade unions also cause some problems which management finds too much difficult to solve.

Management is characterised by the absence of a code of discipline.

(6) **Indiscipline:** Management means discipline and indiscipline indicates mismanagement. Our industrial management is characterised by indiscipline. Neither the managers, nor the workers have been used to industrial discipline. Absence of a code of discipline and a set principle of accountability have allowed the workers and also the managers to avoid discipline.

Management lacks modern techniques and appropriate technologies.

(7) **Backward technique and technology:** These are inherent in mismanagement. But the use of modern technique and technology can hardly be avoided for ensuring competitiveness of modern industries both in the home and the foreign markets. Management techniques such as Simulation, PERT, Decision Tree etc. are essential now-a-days. Computer and information technologies have revolutionised management in advanced societies and no business worth the name can exist without their use these days. Bangladesh industries can survive and prosper only through their use. The logic of adopting appropriate technology in our context, however, holds good for the time being but not for all time to come.

Unhealthy working environment causes various diseases to works.

(8) **Unhealthy working environment:** Working environment of our industrial enterprises are not appropriate and healthy. Workers have to work under unhygienic environment. They do not even get pure drinking water and these cause them to suffer from various diseases, thereby making them physically weak.

Insecurity in jobs tends to lower the morale of employees.

(9) **Insecurity of job and low morale:** Workers and even managers suffer from a sense of insecurity in their jobs. This insecurity is the highest in the private sector. Even collective bargaining has not been established on a sound basis. Employers are at their free-will to hire and fire and this tends to lower the morale of employees to work more.

These features of management in Bangladesh may also be treated as hindrances to sound management practices in the country.

Management Structure of Industries in Bangladesh

Management structure in Bangladesh industries varies in between public & private sectors. In the **public sector** the system is a three tier one which may be shown as under:

The **controlling ministry** exercises general supervision and control and acts as owner on behalf of the people. It appoints the chairman and board members of the corporation. It is also authorised to approve budgets, major investments and appointments of the corporation.

Acts as owner on behalf of the people

The corporation acts as the controlling body of the enterprises under it. The chief executive of the enterprise is appointed by the corporation. The budgets, investments, appointments, expenses, pricing, procurement, sales etc., require approval of the corporation concerned. It is often complained by enterprise management that corporation exercises autocratic control which hampers local autonomy of public enterprises as commercial units.

Acts as the controlling body of the enterprises under it.

Enterprise management is the grass-root level management which is entrusted with the task of managing the human and non-human resources of the enterprise concerned and remains responsible for its successes and failures. Management in the public sector industrial enterprises is often constrained by the absence of autonomy. For petty expenses even, the enterprise management has to seek approval of the corporation concerned. The chief executive of the corporation is appointed by the Government. Other executives are appointed by the corporation but in such appointment the consent of the chief executive is usually being taken.

Entrusted with the task of managing the enterprise concerned

In the **private sector** the management structure is a simple one. In most cases the owner/ owners exercise direct control over enterprise management. In case of companies, however, there is separation of ownership from control. The owners (shareholders) maintain indirect control through board of directors. In proprietorship or partnership concerns, the control of owner/owners is direct. Management is usually of familiar type.

In proprietorship concern the owner is usually the manager

Irrespective of whether the enterprise is in the public or in the private sector, there are three levels of management within it - top level, mid level and lower level as under:

The **top-level** management is comprised of general managers, deputy general managers etc. in the public sector while in the private sector owners/directors also come to exercise control over the affairs of the enterprise. In the public sector the top-level management at the enterprise level is subject to outside control (by the corporation and ministry) but such outside control is absent in the case of private sector. The owners/directors take decisions, formulate plans, set objectives etc. which the mid-level and lower-level management try to implement/achieve.

Takes decisions, formulate plans, set objectives etc.

Remains responsible to top-level management and exercises control over lower-level managers

The **mid-level** management comprises departmental managers, asstt. managers etc. who remains responsible to top-level management and exercise control over lower-level managers. In fact, the managers at this level are the prime movers and provide the vital link between the top level and the lower-level managers.

Provides link between the managers at the mid-level on one hand and workers on the other

The **lower-level** managers are the supervisors and/or the foremen, who remain in direct touch with the workers at the floor level. Workers get guidance from and remain responsible to them. Matters relating to workers' productivity, motivation and commitment are their direct concern. They provide link between the managers at the mid-level on one hand and workers on the other.

Prospects of Management in Bangladesh

Nationalization of industries opened up the possibility of improvement in management

It is often said that the standard of management in Bangladesh is at least fifty years backward to that of western countries. Again, this standard, whatever is there at the moment, has been falling by the day. Nationalization of industries after independence in 1972 opened up the possibility of a revolutionary improvement in the management practice of hitherto private sector enterprises under the non-Bangalee owners.

In the public sector Govt. could have improved quality and quantity of produces

Before independence, most of the industrial enterprises were owned and managed by non-Bangalee capitalists who were devoid of any sense of social responsibility. They were after making quick profits and cared a little to improve management, which was by and large familiar. State ownership and management of industries after independence gave a chance to the Governments to improve both the quality and quantity of products by developing resources - both human and non-human, under the corporation.

Military regimes did a great harm to public enterprise

The military regimes that captured state power in August 1975 destroyed the aspirations of the people by waging a virtual war against the public sector enterprises under sector corporations. They plundered the resources of these enterprises in a meticulous manner and started selling them to private parties at nominal prices. Management efficiency, be it either in production or in marketing, was given little or no attention at all.

Management efficiency remained absent even in the garment industry

Thus whaterver virtue the public enterprises could have achieved, soon vanished. The industrial enterprises, both in the private and the public sector, continued to suffer from low productivity and low profitability. They failed to compete in the market and ultimately stagnated. The type of management efficiency that could help overcome this problem remained absent. The emerging garment industry also failed to develop a suitable system of management. The owner-managers started making money through the exploitation of labour and in no way through improved management.

Professionalism and the use of modern techniques and technology remained absent

Professionalization of management suffered and the bright graduates from universities could not be attracted in industrial management. Moreover, the technology and the techniques of management used in our industries are out-dated. The use of information technology and computers, critical path analysis and simulation, break-even analysis and cash flow analysis etc., have been neglected.

Management in general is autocratic in style and does not care for the establishment of democratic values within the enterprise. Decisions are taken at the top level without any consultation with the workers/employees at the grass root level. Workers' participation in decision making, as is practised in Japan and Germany, is totally absent. This has, in fact, widened the gap between labour and management and has resulted in huge loss of mandays and production due to turbulant industrial relations.

Absence of participative management account for negative industrial relations

In order to get rid of this situation the immediate task of the Government should be to remove obstacles for industrial investment. The potential entrepreneurs should be encouraged to grow as industrialists, who in turn would develop a system of management most suited to our environment.

Polential entrepreneurs are to be encouraged to grow

Business schools and training institutes should be developed to meet the requirements of human resources, without which the establishment of a sound system of management would remain a dream.

Lesson-end assessment

Essay type questions

1. Is it true that the industrial management in Bangladesh is backward? Justify.
2. Give a brief description of the management levels of Bangladesh industries.
3. Critically discuss the features of management in Bangladesh.
4. State in brief the present status and future prospects of management in Bangladesh.

Multiple choice questions

√ the most appropriate answer:

1. The West-Pakistan based central govt. sponsored the development of a class of Bangalee capitalists in order to:
    - (a) develop the industrial base of the then East Pakistan
    - (b) serve their own political end
    - (c) develop managers from among Bangalees
    - (d) render social service in the eastern wing of Pakistan
2. The West-Pakistani industrialists made huge profits by way of:
    - (a) superior managerial ability
    - (b) employing huge capital
    - (c) exploitation of Bangalee workers
    - (d) training workers
3. The mid-level management in our industrial enterprises is composed of:
    - (a) owners, directors
    - (b) general managers, deputy general managers
    - (c) departmental managers
    - (d) supervisors, foremen

Exercise

1. From your knowledge of any foreign country, outline the major elements of its culture that would, in your judgment, influence managerial practices in that country.

CASE 13-1

PIER 1 EXPORTS SUCCESS TO FOREIGN MARKETS

Numerous companies have confronted the challenge of exporting American retail shops abroad and have failed. Pier 1, though, plans on succeeding. With a well thought out, rational strategy, the 31-year-old, $700 million novelty store has ventured overseas with The Pier in the United Kingdom. It is planning more international expansion during the next few years.

At the heart of Pier 1's overseas strategy lies a strong customer focus, which guides the company's domestic strategy as well. According to director of merchandising Adrian Long, Pier 1 has a tradition of "moving with the customers." As the customer has matured, so has Pier 1.

Opportunities in the United States appear to be dwindling, though. Sales were up only 7 percent from 1991 to 1992, contrasted with double-digit growth rates during the late 1980s. Pier 1 is not abandoning its domestic efforts - actually, the company plans to open 300 new outlets during the next ten years - but it is keenly looking abroad for more exciting opportunities. The Pier in the United Kingdom is merely a first step, followed by two stores in Puerto Rico opened in 1993. Next on the list are stores in Mexico and Central and South America. At the same time, the company is looking eagerly toward the Far East for additional possibilities. By the year 2000, Pier 1 hopes to have about 250 stores abroad, outside the United States and Canada.

Pier 1 is not expanding overseas blindly. To hedge its risk, the company is working primarily through mechanisms, such as joint ventures and licensing arrangements, that minimize the risk to which it is exposed. Pier 1 owns only 50 percent of United Kingdom-based The Pier.

In order to be competitive in foreign markets, Pier 1 has made several significant changes in its international strategy, particularly with regard to product mix. In the United Kingdom, Pier 1 is offering products more in line with local tastes. The size and layout of European homes tend to dictate different needs. For example, since built-in and walk-in closets are rare in the United Kingdom, closet wardrobes tend to sell well there. Similarly, since European homes tend to be smaller than American homes, furniture items sold in the US market, such as bedside tables, are too large and must either be modified or discontinued.

Color preferences also vary overseas as a result of the quality of outdoor light. In the United Kingdom, warm colors tend to prevail, such as pale yellows, warm greens, and peaches. In warmer climates such as Spain and Greece, however, whites, azure blues, bright yellows, and reds tend to be preferred.

With regard to other goods, Pier 1 is finding it necessary to accommodate a variety of cultural appetites. In the United Kingdom, Indian goods sell well as a result of the trading history between the two countries.

Even with its attention to cultural details, what Pier 1 recognizes is that the company is not about the specific goods that lines the shelves; rather, the company is about the shopping experience it provides, buoyed by colorful, exotic merchandise. Pier 1 can thus remain true to its central role without offering the same goods in every store around the globe. "You can live the rest of your life and never go into a Pier 1 store, because we don't sell anything that you have to have," says President Marvin J. Girouard. But the goods are so enticing that the customer often cannot help but make a purchase.

The key to Pier 1's international success lies in getting close to customers abroad, an ambition that falls squarely in line with its domestic strategy. Pier 1 must become acclimated into the cultures in which new stores are located to be able to determine what those customers consider exotic and clever, so that the new Pier 1 outlets can stock items unusual in those cultures, sold at moderate prices and displayed in an integrated fashion - as the outlets in the United States successfully do with goods that Americans consider unique.

Questions

1. What risks did Pier 1 face in going international?
2. How were the risks managed?
3. What problems may arise if Pier 1 were to decide to open stores in Japan?

Source: James, A. F., Freeman, R. Edward, and Gilbert, Jr. Danies R. "*Management*" Sixth Edition, P. 152.

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