

# **Business Organization And Management**

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## **DEMGN101**

**Edited by  
Dr. Mridula Mishra**



**L** OVELY  
**P** ROFESSIONAL  
**U** NIVERSITY

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## **Unit 01: Foundation of Indian Business**

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### **Objectives**

After studying this chapter, you will be able to:

- understand the concept of business
- understand the emergence of MSMEs
- differentiate between different types of MSMEs
- explore the problems faced by MSMEs
- identify role of MSMEs
- understand concept and meaning of globalization and liberalization

- analyze New economic policy of 1991 (LPG)
- understand the Impact of globalization and liberalization on Indian business
- describe the concept of innovation
- Explain the types of innovation
- Describe the meaning of technological innovation
- Explain the government initiatives for skill development
- To understand the concept of MAKE IN INDIA scheme.
- To analyze the scope and implications of MAKE IN INDIA scheme.
- Understand the meaning of CSR
- Learn the different types of CSR
- Understand the Models of CSR
- analyze various emerging opportunities in business
- apply these opportunities in the field of business management

### **Introduction**

In our day-to-day life, words like business, commerce, trade, industry, etc. quite often. These words have a definite meaning in 'Business Organization'.

Business is an ongoing economic activity, which is related with continuous and regular production and distribution of goods and services for satisfying human wants. Business activities can comprise of commercial aspects, the service aspects or both. However, business is carried out with a motive to earn profit and therefore social services without any profit motive do not come under business activities.

The economy of India had undergone significant policy shifts in the beginning of the 1990s. This new model of economic reforms is commonly known as the LPG or Liberalization, Privatization and Globalization model. The primary objective of this model has been to liberalize the economy and integrate it with other economies in order to increase share in external trade.

## **1.1 Meaning of Business**

Business is an economic activity which involves Regular production or exchange of goods and services for the purpose of earning profits through satisfaction of human wants.

### **Definition of Business**

Stephenson defines business as, "The regular production or purchase and sale of goods undertaken with an objective of earning profit and acquiring wealth through the satisfaction of human wants."

According to *Dicksee*, "Business refers to a form of activity conducted with an objective of earning profits for the benefit of those on whose behalf the activity is conducted."

### **Elements of Business:**

There comes out the three main elements of business from the meaning and definition shared above: Exchange of goods and services, satisfy human wants and aim to earn profit.

#### **1.Exchange of Goods and Services-**

An economic activity will be referred as a 'business' only when there is production or transfer or exchange or sale of goods or services for value.

#### **2.Satisfy Human Wants-**

Business has an essential element of satisfying the human needs and wants. If in case, it doesn't satisfy this component then it cannot be called as business.

### 3. Profit Motive-

Earning profit is the primary motive of business. This is not to undermine the importance of the element of service in business activity. In fact, a business will flourish only when it is able to serve its customers to their satisfaction. Profits are essential to enable the business to survive, to grow, expand, and to get recognition.

## 1.2 Meaning of Business Activity

Any activity carried primarily with the object of earning profit can be called a business activity.

This objective of earning profit is achieved by production and/or exchange of want satisfying goods and services. Therefore, we can define business as “any activity concerned with the production and/or exchange of want satisfying goods and services carried with a view of earning profit”.

Business Activity is an activity undertaken by individuals or companies, such as buying, selling, marketing, or investing, for the purpose of generating profits or developing economic opportunities.

### Why is business activity needed?

There are few reasons on the basis of which it can be clearly stated that why there is a need of any business activity.

1. Provides goods and services from limited resources to satisfy unlimited wants.
2. Scarcity results from limited resources and unlimited wants.
3. Choice is necessary for scarce resources. This leads to opportunity costs.
4. Specialization is required to make the most out of resources.

## 1.3 Characteristics of Business

Let's discuss few of the features of business:

### 1. Economic Activity-

Business is an economic activity of production and distribution of goods and services. All business activities are directly or indirectly concerned with the exchange of goods or services for money or money's worth. It provides employment opportunities in different sectors like banking, insurance, transport, industries, trade etc. It is an economic activity which creates utilities for the satisfaction of human wants. Business results into generation of employment opportunities thereby leading to growth of the economy. It brings about industrial and economic development of the country.

### 2. Profit Earning-

Profit is an indicator of success and failure of business. It is the difference between income and expenses of the business. The business is carried on with the intention of earning a profit. The profit is a reward for the services of a businessman. The primary goal of a business is usually to obtain the highest possible level of profit through the production and sale of goods and services. It is a return on investment. Profit acts as a driving force behind all business activities. Profit is required for survival, growth and expansion of the business. It is clear that every business operates to earn profit. Business has many goals but profit making is the primary goal of every business. It is required to create economic growth.

### 3. Element of Risk-

Risk means some sort of uncertainty in the business. Risk is defined as the effect of uncertainty arising on the objectives of the business. Risk is associated with every business. If the risk can be predicted it is known as predictable risk and measures can be taken to overcome the risk. However, where the risk cannot be predicted are said to be non-predictable risk. Some risks, such as risks of loss due to fire and theft can be insured. There are also uncertainties, such as loss due to change in demand or fall in price cannot be insured and must be borne by the businessman.

**4. Selling of goods and services-**

Business deals with goods and services. The goods may be consumer goods such as sweets, breads, clothes, shoes, etc. They may be producer's goods such as machinery, equipment, etc., which are used to produce further goods for consumption. Business also deals with services such as transport, warehousing, banking, insurance, etc., which are intangible and invisible.

**5. Social Activity-**

Business is a socio-economic activity. Modern business is service oriented. Modern businessmen are conscious of their social responsibility. Today's business is service-oriented rather than profit-oriented. Both business and society are interdependent. Modern business runs in the area of social responsibility. Business has some responsibility towards the society and in turn it needs the support of various social groups like investors, employees, customers, creditors etc. by making goods available to various sections of the society, business performs an important social function and meets social needs. Business needs support of different section of the society for its proper functioning.

**6. Customer Satisfaction-**

Business has shifted to consumer-oriented approach. Customer satisfaction is the ultimate aim of all economic activities. The businessman also desires to satisfy human wants through conduct of business activities systematically and delivering quality products. Modern business believes in satisfying the customers by providing quality product at a reasonable price. Consumers are satisfied only when they get 'value for money' for their purchase. The purpose of the business is to create and retain the customers. The ability to identify and satisfy the customers is the prime ingredient for the business success.

**1.4 Objectives of Business**

The objectives of business could be listed under three broad headings: Let us learn them.

**1. Economic Objectives:** The primary objective of business is economic. Some of the main economic objectives are:

1. Earning of satisfactory profits.
2. Exploring new markets and creation of more customers.
3. Growth and expansion of business operations of the firm
4. Making innovations and improvements in goods and services so that customers get improved and more economic goods and services.

**2. Social Objectives:** Business, being a part of the society, has obligations towards the society also. Some major social objectives are:

1. Providing more and more employment opportunities to the people in the country
2. Supply of quality goods to the community
3. Providing goods at reasonable price
4. Ensure fair returns to investors
5. Avoidance of profiteering and unfair practices
6. Production of goods in accordance with national interests and priorities.

**3. Human Objectives:** Business activity is, generally, carried out through the human objectives of business and may thus take account of economic well-being and the employees, social and psychological satisfaction of employees as well as development of human resources.

**1.5 Sectors of Business Activity**

Industries can be classified in a variety of ways. At the top level, industry is often classified into sectors: Primary or extractive, secondary or manufacturing, and tertiary or services.

They are:

### 1.Primary-

This involves the extraction of resources (natural products) directly from the Earth; this includes farming, forestry, mining and fishing. They do not process the products at all. They send it off to factories to make a profit.

### 2.Secondary-

This involves the extraction of resources (natural products) directly from the Earth; this includes farming, forestry, mining and fishing. They do not process the products at all. They send it off to factories to make a profit.

### 3.Tertiary-

Neither produces a raw material nor makes a product. Instead they provide services to other people and industries. Tertiary industries can include doctors, dentists, refuse collection and banks.

### 4.Quaternary-

Neither produces a raw material nor makes a product. Instead they provide services to other people and industries. Tertiary industries can include doctors, dentists, refuse collection and banks.

## 1.6 Difference between Business, Profession and Employment

Although business, profession and employment are distinguished from each other, they are also inter-dependent. Business enterprises provide employment to a large number of people in the country. Similarly, professionals like engineers, chartered accountants, cost accountants, management consultants, legal experts, doctors, etc., work with the business firms for tackling complicated technical problems. Thus, business enterprises provide employment opportunities to professionals and general public. At the same time the success of the business is dependent on its employees and professionals working with it.

Basic	Business	Profession	Employment
Mode of Establishment	Entrepreneur's decision and other legal formalities, if necessary	Members of a professional body and certificate of practice	Appointment letter and service agreement
Nature of work	Provision of goods and services to the public	Rendering of personalized, expert services	Performing work as per service contract or rules of service
Qualification	No minimum qualification is necessary	Expertise and training in a field is a must	Qualification and training as prescribed by the employer
Reward or return	Profit earned	Professional fee	Salary or wages
Capital Investment	Capital investment required as per size and	Limited capital needed for establishment	No capital required

	nature of business	t	
Risk	Profits are uncertain and irregular, risk is present	Fee is generally regular and certain; some risk	Fixed and regular pay; no risk
Transfer of interest	Transfer possible with some formalities	Not possible	Not possible
Code of conduct	No code of conduct is prescribed	Professional code of conduct is to be followed	Norms of behavior laid down by the employer are to be followed.

**Case Study:**

Ram's father gifted him a wrist watch on his birthday. The cost of the wrist watch was 3000. Few months later, Ram sold it to Sham (classmate) for RS 3600. He was happy to earn a profit of Rs 600. He was motivated with his idea of dealing and decided to start his business of selling wrist watch after his graduation. He started his business as 'M/S Ram Wrist Stores' and generated huge profits in two years.

**Question for discussion:**

1. Can the transaction between Ram and Shyam be termed as business transaction?
2. Can the transaction between M/S Ram Wrist Stores' and other persons be termed as business transaction?

**Answer:**

1. No, Single transaction of sale or purchase does not constitute business. It should be done on regular basis.
2. Yes, because these are the regular transactions undertaken with the intention of making profit.

**1.7 What is MSMEs?**

The full form of MSME is Micro, Small, Medium and Enterprises. In accordance with the micro, small, and medium enterprises development (MSMED) act in 2006, the enterprises are classified into two divisions.

1. Manufacturing Enterprises: Engaged in the manufacturing or production of goods in any industry
2. Service Enterprises: engaged in providing or rendering services.

<b>Nature of activity of the Enterprise</b>	<b>Investment in plant and machinery excluding land and building for enterprises engaged in manufacturing or production, processing or preservation of goods</b>	<b>Investment in equipment excluding land and building for enterprises engaged in providing or rendering of services (loans up to Rs 1 crore)</b>
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Micro	Not exceeding Rs 25.00 lakhs	Not exceeding Rs 10.00 lakhs
Small	More than Rs 25.00 lakhs but does not exceed Rs 5 crore	More than Rs 10.00 lakhs but does not exceed Rs. 5crores
Medium	More than Rs. 5 crores but does not exceed Rs.10 crore	More than Rs. 2 crores but does not exceed Rs. 5 crores

### Problems in MSMEs in India:

- Most of MSMEs are not registered anywhere.
- Lack of financing-biggesthurdle:the formal banking system supplies less than one-third (or about Rs 11 lakh crore) of the credit MSME credit need that it can potentially fund
- Delays in payments to MSMEs

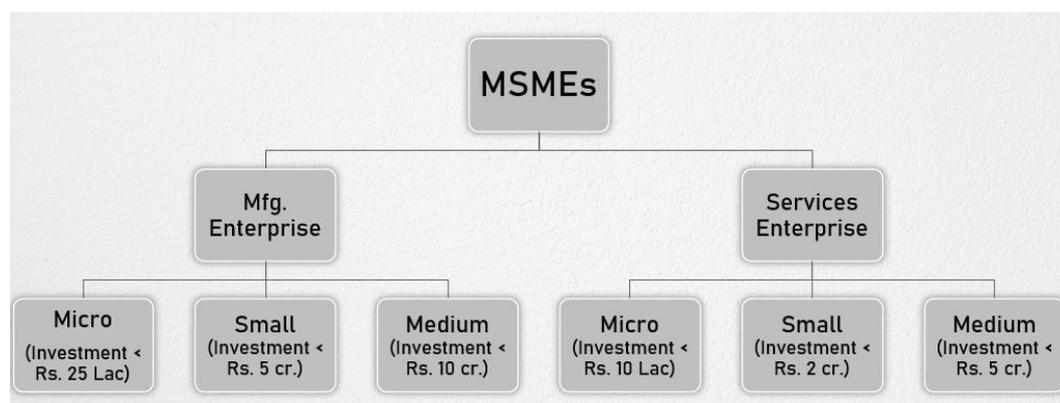
### Importance of MSME sector

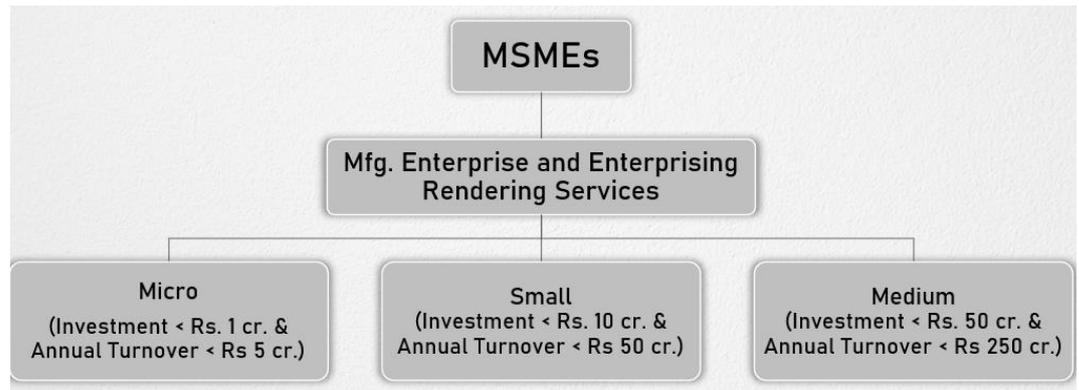
1. Small & medium Enterprises are the backbone of Industrial Development.
2. Ministry of Micro Small & Medium Enterprises Contributes Nearly 30% in GDP, 40% in Manufacturing output & 45% in Exports.
3. They provide the largest share of employment (110 million) after agriculture.
4. They have emerged as a dynamic and vibrant sector of economy.

### Classification of MSMEs:

There are two different criteria to classify MSMEs: "Investment in Plant & Machinery or Equipment" and "Investment in Plant & Machinery/Equipment and annual turnover"

#### 1.Investment in Plant & Machinery or Equipment



**2. Investment in Plant & Machinery/Equipment and annual turnover****1.8 Initiatives by Government of India**

Let us discuss some of the initiatives by the Government of India.

**1.UDYAM**

- i. Aadhaar number is mandatory for obtaining the Udyam registration application.
- ii. Government departments and public sector companies are mandated to procure 25% of their requirement from MSMEs
- iii. collateral / guarantee-free loans, Interest subvention scheme

**2.Solar charkha mission**

The Solar Charkha Mission is a program that aims to contribute towards India's rural unemployment issue

**3.No global tenders up to 200 crore**

The government has amended the General Financial Rules 2017 to disallow global tenders in government procurement up to 200 crore.

**4.Launch of CHAMPIONS portal**

Launch of a new portal entirely dedicated to MSME sector is another positive step. The underlying objective is to help the MSMEs in terms of finance, raw materials, labor etc.

**5.Subordinate Debt Scheme**

The subordinate debt scheme seeks to extend support to the promoters by providing a debt facility of up to 15% of the promoter contribution or 75 lakh, whichever is lower.

**1.9 Nature of Indian Economy in the Pre-reform area**

Indian economic policy after independence was influenced by the colonial experience, which emphasized on industrialization under state monitoring, state intervention in labour and financial markets, a large public sector, business regulation, and central planning.

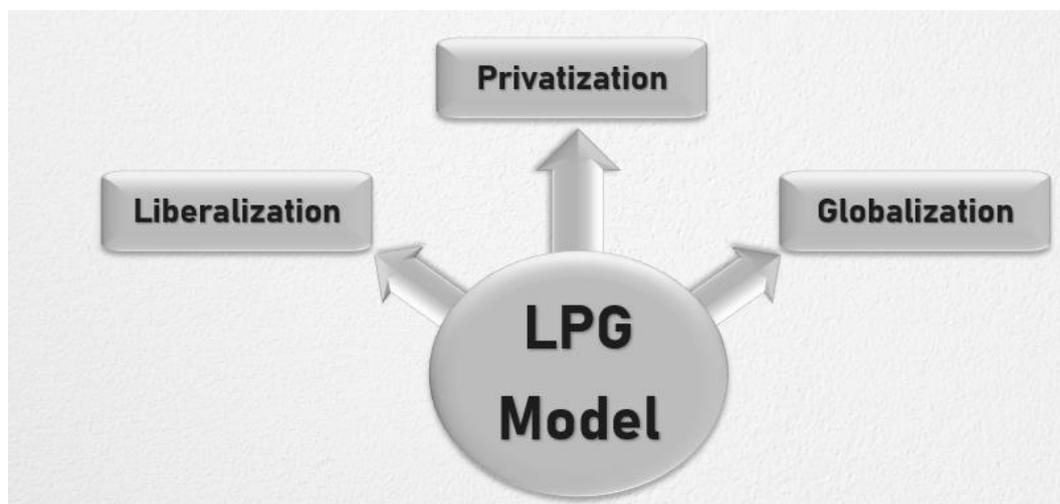
- Indian economy was a closed one.
- **License Raj** was prevalent to set up business in India.
- The Indian rupee was unconvertible
- The central pillar of the policy was **import substitution**.
- PSUs were considered as the engine of growth. There were restrictions on Foreign Direct Investment (**FDI**) and Multinational corporations (**MNCs**).

### Factors which lead to 1991 economic reforms

1. **Rise in prices:** The inflation rate increased from 6.7% to 16.7% due to rapid increase in money supply and the country's economic position became worse.
2. **Increase in adverse balance of payments:** In 1980-81 it was Rs. 2214 crore and rose in 1990- 91 to Rs. 17,367 crores. In 1991 interest liability became 36.4% of total government expenditure.
3. **Rise in fiscal deficit:** Due to increase in non-development expenditure fiscal deficit of the government increased. Due to rise in fiscal deficit there was a rise in public debt and interest.
4. **Iraq War:** In 1990-91, war in Iraq broke, which led to a rise in petrol prices. The flow of foreign currency from Gulf countries stopped and this further aggravated the problem.
5. **Dismal Performance of PSUs:** These were not performing well due to political interference and became big liability for government.

### 1.10 New Economic Policy

India's New Economic Policy was announced on July 24, 1991, known as the LPG or Liberalization, Privatization and Globalization Model.



#### 1.Liberalization-

It refers to the process of making policies less constraining of economic activity and also reduction of tariff or removal of non-tariff barriers.

#### 2.Privatization-

It refers to the transfer of ownership of property or business from a government to a privately owned entity.

#### 3.Globalization-

It refers to the expansion of economic activities across political boundaries of nation states.

### Main features of New Economic Policy

There are few main features of New Economic policy: De-licensing, public sector, Opening up of Foreign Firms, Foreign technology agreement, MRTP Act.

#### 1.De-licensing-

Abolishment of industrial licensing for all except 18 industries. Licensing requirements further reduced as the time passed. Only 5 industries require licensing as of today. No government approval required in respect of de-licensed industries.

**2.Public Sector-**

Industries reserved for public sector were REDUCED from “17” to just “8”. These are Arms & Ammunition, Atomic Energy, Coal, Lignite, Mineral Oils, Ore Mining, Mineral Mining and Rail Transport. Today, only “2” industries reserved for public sector – Atomic Energy (A.E.), and Rail Transport. Government also decided to give away its shareholdings in the PSEs.

**3.Opening up of foreign firms-**

FDI was allowed up to 51 % under automatic route for high technology firms. FDI was allowed in Capital goods, metallurgical, electronics and food processing industries. Presently FDI is allowed up to 100 percent in large number of industries under automatic route. The government w.e.f. 2016 has abolished the FIPB route in order to improve ease of doing business.

**4.Foreign Technology Agreement-**

Automatic approvals for technology related agreements.

**5.MRTP Act-**

It was amended to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings. MRTP Act was replaced by the Competition Act 2002.

**1.11 Concept of Liberalization**

Liberalization refers to relaxation of government restrictions in areas of economic policies. Thus, when government liberalizes trade, it means it has removed the tariff, subsidies and other restrictions on the flow of goods and service between countries.

**Objectives of Liberalization:**

The main objectives of liberalization are as under:

1. To boost competition between domestic businesses
2. To promote foreign trade and regulate imports and exports
3. Improvement of technology and foreign capital
4. To develop a global market of a country
5. To reduce the debt burden of a country
6. To unlock the economic potential of the country by encouraging the private sector and multinational corporations to invest and expand.
7. To encourage the private sector to take an active part in the development process.
8. To reduce the role of the public sector in future industrial development.
9. To introduce more competition into the economy with the aim of increasing efficiency.

**Advantages of Liberalization**

1. Free Trade -Liberalization leads to free trade by removing obstacles such as tariffs and subsidies. The same has been done with the onset of New Industrial Policy 1991 wherein the tariffs have been continuously reduced.
2. Specialisation -Countries learn to specialize in what they can do best and yield maximum returns.
3. Optimum use of resources -Local industries focus on optimal use of land, labour, and physical and human capital.
4. Domestic Production - The total domestic production of goods and services is boosted this way. Also, the industry can get the raw material and other inputs from other markets at economic prices.
5. Accesses to low-cost funds -Exporters are able to access expensive markets for their products.

## Disadvantages of Liberalization

1. Removal of trade barriers often subjects the domestic economy to the effects of international events.
2. Economic recession in one trading partner's economy can spiral into another's economy.
3. It can hurt employees and consumers of affected economies.
4. International competition may hurt local industries, especially when importers are able to find cheaper alternatives from abroad and dump them in domestic markets.
5. It's best for governments to prop up young local industries by restricting foreign participation, according to opponents of liberalization.

### 1.12 Privatization

Privatisation, also spelled as privatization, may have several meanings. Primarily, it is the process of transferring ownership of a business, enterprise, agency, public service or public property from the public sector (a government) to the private sector, either to a business that operates for a profit or to a non-profit organization.

#### Advantages of Privatization

1. Risk Involved - Privatisation places the risk in the hands of business or Private Enterprise since there is no role of Government. Since the policy and business environment is dynamic and keeps on changing which in turn increases the risk for business. Example: risk of exchange rate, risk of technology, interest rate etc.
2. Customer Oriented - Private enterprise is more responsive to customer complaints and innovation. Therefore, private organisation works closely with the needs of customer and satisfaction. Customer plays a vital role and therefore customer care is given importance in business.
3. Govt Intervention - The Govt. should not be a player and an umpire. The reason is plethora of Government norms are there that is Environmental norms, Industrial law, labour law etc
4. Lower Prices - Privatisation leads to lower prices and greater supply. Due to open market and competition the prices are generally lower.
5. Differentiation - Competition in privatization increases differentiation.

#### Disadvantages of Privatization

1. Privatisation is expensive and generates a lot of income in fees for specialist advisers such as banks.
2. Public monopolies have been turned into private monopolies with too little competition, so consumers have not benefited as much as had been hoped. This is the main reason why it has been necessary to create regulators. This is an important point. It partly depends on how the privatisation took place.
3. The nationalized industries were sold off too quickly and too cheaply. With patience a better price could have been had with more beneficial results on the government's revenue. In almost all cases the share prices rose sharply as soon as dealing began after privatization.
4. The privatized businesses have sold off or closed down unprofitable parts of the business (as businesses normally do) and so services for example transport in rural areas have got worse.
5. Wider share ownership did not really happen as many small investors took their profits and didn't buy anything else.

### 1.13 What is Globalization?

“The growing economic interdependence of countries worldwide through increasing volume and variety of cross border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology.”

Globalization is the integration of the world economy and exchanging the ideas, products, technologies etc.

**Advantages of Globalization****1) Increase in Employment:**

With the opportunity of Special Economic Zones (SEZ), there is an increase in the number of new jobs availability.

**2) Increase in Compensation:**

After Globalization, the level of compensation has increased as compared to domestic companies due to the skill and knowledge a foreign company offers.

**3) High Standard of Living:**

With the outbreak of Globalization, Indian economy and the standard of living of an individual has increased. This change is notified with the purchasing behavior of a person.

**4) Development of healthy competition:**

Integration of global markets reduces manufacturing costs, improves quality, reduces processing time, and business becomes dominant drivers.

**Threats of Globalization in India**

1. MNCs are exploiting resources by setting business in developing countries. The large Multi-National Companies are producing at low cost and therefore are exploiting the SMEs (Small and Medium Enterprises). Moreover, the MNCs are also exploiting the resources e.g., water resources, human resources etc.
2. Income gap between high-income and low-income countries has grown. The richer are becoming rich and the poorer are becoming poor that is the rich people are getting the benefit of globalisation.
3. Increase Poverty and inequality – Richer are becoming rich and poor are becoming poorer. Globalisation has not been able to address the problem of Poverty.
4. Displaces workers from high-wage jobs and decreases the demand for less skilled workers. That is the brain drain is taking place and therefore displaces workers.
5. Globalization is deepening food insecurity the world over.
6. With greater volatility of financial markets and increased risk, real interest rates have risen substantially
7. Exploitation of SMEs that is can effect domestic enterprise of developing countries.

**1.14 Meaning of Innovation**

Can a bright idea be used only once? The answer to this question is 'No'. there are many ideas which have been used for centuries and can be revised with a new thought process and more flexibility.

Innovation is new idea, creative thoughts, and new imaginations in the form of mechanism or technique. Application of better solutions that meet new necessities, tactic needs, or existing market needs.

**Example: Toothbrush**

We all have been using it since our childhood. If we go back a little and try to think, we will see that our ancestors used neem sticks (datoon) for cleaning their teeth. The 'idea' was to clean teeth and over the period the neem stick has evolved into a toothbrush. The same idea is now used in the form of battery-operated toothbrushes where you do not have to manually clean the teeth. If we see the whole process, we find that at different ages and at different stages the same idea was used in different innovative ways.

**Importance of Innovation**

Innovation helps in solving problems e.g., providing customer services virtually (using online complaints, suggestions etc.). It also in new ways, for example helps in adapting to change to the situations where rapid changes are happening like in technological arena. This also helps the business to remain relevant. The opportunities available to businesses

worldwide due to globalization can be tapped using innovation. It is important for the businesses to innovate so as to enter the foreign markets with new products. Innovation helps organizations to face the competition. We all know that the world is becoming more and more competitive. To sustain in the global market, one must make strategic and innovative moves. Innovation is important and critical to ensure smooth running of organizations due to evolving work place dynamics. As you are aware that the tastes and preferences of customers keep on changing, therefore, innovation facilitates in satisfying the consumers in new ways.

### Challenges of Innovation

It is true that innovation is important but it also has certain challenges and risks associated with it. Technological failure is one of the major challenges of innovation. To overcome this challenge, it is important for the organizations to carry out number of trials for the new product before it is implemented. The other risk is the financial burden on the organization. Innovation comes with a cost. Usually, an innovative product gives the returns in the long run, therefore the organization face a major challenge of finance. The organizations, therefore, are required to assess their financial position before taking up any innovative procedure. The other challenge is the market failure. It is very much possible that an innovative product despite many trials does not give the returns as expected. Redundancy is another challenge for an innovative product. The market changes constantly with new technology coming up every now and then. By the time the innovative product is launched in the market, it becomes redundant due to technological upgradation. Therefore, it is imperative for the organizations to keep abreast with the technology to avoid such risks. Lack of structural and financial capacity of implementation is another challenge for organizations. This challenge is usually for the start-ups as they do not have a sound base. In this case they can look for the partners who are sound. Organizational risks are associated with innovation. Usually, an organization tend to focus all its attention on the innovation. This hinders day to day activities of the organization.

#### Think upon

Is IT related only to computers and electronics?

Answer: No, It is a Myth.

## 1.15 Meaning of Technological Innovation

Technological innovation is to create or produce a new solution for a real or perceived need (invention) which is viable and can be produced (realization and then successfully introduce the product in the market i.e., implementation).

In simple terms,

INVENTION: Generate or create a new idea which is based on technology, capability or knowledge.

REALISATION: Develop the idea into a reality leading to building of a product.

IMPLEMENTATION: Implement the new idea.

### Types of Innovation

There are mainly four types of innovation:

1. **Incremental Innovation:** This is the most popular type of innovation which utilizes the existing technology thereby increasing the value to the customer. Usually, all types of organizations at one point of time engage in incremental innovation. For example, Facebook. This social network company since its inception in 2004 has used incremental innovation in different forms.
2. **Disruptive Innovation:** This type of innovation is also known as stealth(secret) innovation. This uses new technology processes to the organizations current market. It is secretive in nature as this technology tend to be inferior than the existing technology in the market and is more expensive. The new technology initially is quite hard to use till it surpasses the old technology and disrupts all existing organizations. In this case the

organization going in for new technology gains a competitive advantage. Apple's iPhone is an example of disruptive innovation wherein it disrupted the mobile phone market.

- 3) **Architectural Innovation:** This type of innovation takes the lessons, skills and overall technology and applying the same in the different market. Organizations in computer business like IBM, Dell etc. have been using sustaining technologies with little modification to suit the design. This type of innovation is less risky.
- 4) **Radical Innovation:** This kind of innovation usually gives birth to new ideas consuming the old ones thereby creating a revolutionary technology. A good example of the same is crowd funding as a mode of financing being used by entrepreneurs.

## 1.16 Skill Development

Skill India is an initiative which has been launched with the aims of empowering the youth of the country ([www.msde.gov.in](http://www.msde.gov.in)) so as to increase their employability and create a more productive work environment.

### Skill Development Initiatives

New age skills in the area of big analytics, Artificial intelligence, Internet of things, 3D printing etc. are being harnessed amongst the youth through various courses offered by different ITIs across the nation. A national policy on Skill Development and Entrepreneurship 2015 and National Skill Development Policy 2009 has charted out the do's and don'ts of the skill India mission. The National Skill Development Mission's emphasis is on developing the skills of the 500 million youth of the country by 2020. Though this is an ambitious programme, still it holds prospects for the youth of the country. The main initiatives of the MSDE are as follows:

#### 1. Setting up of first -ever Indian Institute of Skills:

In 2016 at Kanpur. The proposal for setting up 6 such institutes across the country has been planned.

#### 2. Pradhan Mantri Kaushal Vikas Yojna (PMKVY):

This is the flagship scheme of skill training of MSDE and is the largest skill certification scheme in India.

3. MSDE also recognizes and certifies the skills acquired through informal training centers through its **Recognition of Prior Learning (RPL)** programmes under PMKVY.

4. **National Apprenticeship Promotion Scheme (NAPS):** This scheme was launched in 2016 with the aim to promote apprenticeship training.

5. **Dual System of Training:** This scheme provides an opportunity for training in dual mode i.e. through face-to-face teaching (ITI) and in industries. This will increase the employability of the trainees.

6. **Space -based Distance Learning Programme (SDLP) for MSDE:** This programme aims at providing the vocational training facilities to the masses.

## 1.17 National Skill Development Corporation (NSDC)

The National Skill Development Corporation (NSDC) was set up as a part of National Skill Development Mission of MSDE as a public private partnership company. The aim of NSDC is to facilitate the skills landscape in India. The concept of NSDC is based on three pillars.

These are:

- 1) **Create:** To facilitate in establishing quality vocational training institutions.
- 2) **Fund:** To provide funds in form of grants and equality.
- 3) **Enable:** To ensure the sustainability of support systems required for skill development which includes industry operated sector skill councils (SSCS).

### Main Objective of NSDC

To contribute significantly to the overall target of skilling up of people in India, mainly by fostering private sector initiatives in programmes and to provide funding.

## Vision of NSDC

To fulfill the growing need in India for skilled manpower across the existing gap between the demand and supply of skills.

## Mission of NSDC

- i. Upgrade skills to international standards through significant industry involvement and develop necessary frameworks for standards, curricular and quality assurance.
- ii. Enhance, support and coordinate private sector initiatives for skill development through appropriate Public-Private Partnership (PPP) models; strive for significant operational and financial involvement from the private sector.
- iii. Play the role of a “Market-maker” by bringing financing particularly in sectors where market mechanism is ineffective or missing.
- iv. Prioritize initiative that can have a multiplier or catalytic effect as opposed to one-off impact.

## 1.18 Make in India

‘Make in India’ is the initiative of Government of India and was launched in 2014. The concept of this initiative dates back to 1901 in the pre-independent India. Dadabhai Nauroji is considered to be the brain behind this concept when he disagreed with the export of raw materials as part of British Economic Policy. The basic concept of ‘Make in India’ encourages the industrialists to setup their manufacturing units in India through Foreign Direct Investment (FDI) so as to put India on the global map with respect to manufacturing. The objective of this programme are as follows:

1. To solve the problem of employment;
2. To improve the GDP growth rate.

These objectives tend to be highly ambitious but if implemented well will give a boost to Indian economy and help build a solid infrastructure of the nation. This policy has some drawbacks also. The plan to invite FDIs for utilising India’s potential places India in a vulnerable position. The risk is high as the expenditures in terms of licensing costs etc. are high. This may also result in the capital outflow. This will lead to unemployment and thereby adversely affecting the GDP which is against the objectives of ‘Make in India’ programme. The highlights of ‘ Make in India’ programme are:

1. FDI to invest in the manufacturing sector;
2. FDI to invest in the defense sector;
3. Licensed manufacturing of foreign defense equipment under defense procurement (DPP).
4. Despite drawbacks this scheme can be advantageous. To overcome the drawbacks of this scheme ‘Made in India’ can be an alternative.

## 1.19 Corporate Social Responsibility

### Meaning:

Corporate social responsibility is a gesture of showing the company’s concern & commitment towards society’s sustainability & development. CSR is the ethical behavior of a company towards society.

### Definition of CSR

CSR is viewed in different ways in different societies across the world. Following are some examples of different definitions in different countries: “CSR is about capacity building for sustainable livelihoods. It respects cultural differences and finds the business opportunities in building the skills of the employees, the community and the government” ..... Ghana

“CSR is about business giving back to society.” .....Philippines

### **Basic Constituents of CSR**

In order to understand the meaning of Corporate Social Responsibility in much better way then try to understand the basic constituents of CSR:

1. Contribute towards a sustainable economic development
2. Make desirable social changes
3. Improvement of social environment

Leads toward Business & Society

### **Types of Social Security**

Let us discuss different types of social security:

1. Responsibility towards Society
2. Responsibility towards Government
3. Responsibility towards Shareholders
4. Responsibility towards Employee
5. Responsibility towards Consumers

#### **Responsibility towards Society:**

- Carrying on business with moral & ethical standards.
- Prevention of environmental pollution.
- Minimizing ecological imbalance.
- Contributing towards the development of social health, education
- Making use of appropriate technology.
- Overall development of locality.

#### **Responsibility towards Government:**

- Obey rules & regulations.
- Regular payment of taxes.
- Cooperating with the Govt to promote social values.
- Not to take advantage of
- loopholes in business laws.
- Cooperating with the Govt for economic growth & development

#### **Responsibility towards shareholders:**

- To ensure a reasonable rate of return over time.
- To work for the survival & the growth of the concern.
- To build reputation & goodwill of the company.
- To remain transparent & accountable.

#### **Responsibility towards Employee:**

- To provide a healthy working environment.
- To grant regular & fair wages.

- To provide welfare services.
- To provide training & promotion facilities.
- To provide reasonable working standard & norms.
- To provide efficient mechanism to redress worker's grievances.
- Proper recognition of efficiency & hard work

### Responsibility towards Consumers

- Supplying socially harmless products.
- Supplying the quality, standards, as promised.
- Adopt fair pricing.
- Provide after sales services.
- Resisting black-marketing & profiteering.
- Maintaining consumer's grievances cell.
- Fair competition.

### Models of CSR

The few models of CSR are Friedman model, Ackerman Model, Carroll Model, Environmental Integrity & Community Model, Corporate Citizenship Model, Stockholders & Stakeholders Model, New Model of CSR.

#### 1. Friedman model (1962-73)

A businessman should perform his duty well; he is performing a social as well as a moral duty. A businessman has no other social responsibility to perform except to serve his shareholders & stakeholders.

#### 2. Ackerman Model (1976)

The model has emphasized on the internal policy goals & their relation to the CSR. Four stages involved in CSR.

- Managers of the company get to know the most common social problem & then express a willingness to take a particular project which will solve some social problems.
- Intensive study of the problem by hiring experts & getting their suggestions to make it operational.
- Managers take up the project actively & work hard.
- Evaluating of the project by addressing the issues.
- Environmental Integrity & Community Health Model

This model developed by Redman. Many corporate in US adopted this model. Corporate contribution towards environmental integrity & human health, there will be greater expansion opportunities. Healthy people can work more & earn more. CSR is beneficial for the corporate sector. CSR in a particular form is welcome.

#### 3. Corporate Citizenship Model

To be a corporate citizen, a corporate firm has to satisfy four conditions:

1. Consistently satisfactory
2. Sustainable economic performance
3. Ethical actions

## 4. Behaviour.

A particular firm's commitment to corporate citizenship requires the fulfilment of certain social responsibility.

**5. Stockholders & Stakeholders Model**

Productivity believe that the only mission of a firm is to maximize the profit. Philanthropists who entertain the stockholders. CSR is dominated by moral obligations & not self-interest. Progressivists believes the corporate behaviour basically motivated by self-interest & should have ability to transform the society for good. Ethical Idealism concern with sharing of corporate profits for humanitarian activities.

**6. New Model of CSR**

		Ethical Rooting	
		Strong	Poor
Financial Capability	Strong	CSR (+)	CSR(-)
	Poor	CSR(-)	CSR(-)

**1.20 Emerging trends in Business**

A new idea of entrepreneurs coupled with advances in technology has led to a changing business environment.

Various forms of business organization have emerged

1. Network Marketing
2. Franchising
3. Business Process Outsourcing
4. E-Commerce
5. Electronics

**1. Network Marketing**

A business model in which a distributor network is needed to build business. Multilevel Marketing -pay-outs occur at more than one level. Independent business persons act as a distributor of company's products. Each distributor can further engage sub-distributors who can further add other distributors and so on. Thus, a network of distributors is formed who operate at various levels.

Example: Amway and Tupperware

## Advantages of Network Marketing

Network grows continuously- distributor manage their own sales force. Network companies can maintain higher margins on their products. No Advertisement expenditure & retailer margin. Lower overheads costs as no infrastructure are required. Opportunity to earn unlimited income in form of commission & sales revenue of recruits.

## Disadvantages of Network Marketing

As sales forecasting is difficult, under stocking or overstocking of various products occur. Manufacturer do not have effective control over his sales team as distributor take over the control of the company.

## 2. Franchising

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

## Advantages of Franchising

The advantages of franchising can be for both: franchiser and franchisee

### *To the Franchiser:*

- a) Expansion
- b) Feedback of local customer preference from franchisee
- c) Increased Reputation & Goodwill by expanding the network
- d) Rights are protected- only franchisee can use it

### *To the Franchisee:*

- a) Ground work check out can be done before committing.
- b) Full assistance in staff training, product promotion & designing store layout.
- c) Brand Advantage
- d) Can satisfy customers by supplying quality products.
- e) Exclusive rights

## Disadvantages of Franchising

The disadvantages of franchising can be for both: franchiser and franchisee

### *To the Franchiser:*

- a) Franchisee may start a similar business
- b) Image can be tarnished if standards are not maintained
- c) Initial assistance has to be provided
- d) Trade secrets are leaked out
- e) There are ongoing costs of supporting the franchise & national advertising.

### *To the Franchisee:*

- a) Restrictions
- b) Payment of Royalty
- c) Conflicts may arise in maintenance of accounts, payment of royalty, violation of quality norms
- d) Business cannot be sold without Franchiser permission.

## 3. Business Process Outsourcing (BPO)

Business Process Outsourcing, popularly known as BPO, is the business strategy where one company hires another company to perform a certain task for them, i.e., they outsource a certain job

Example-

Coca-Cola outsourced large segments of its supply chain.

### **Advantages of BPO**

- Ensuring Smooth operations
- Expansion of Business
- Specialized Performance
- Getting Better Results
- Cost Effectiveness- Outsourcing IT requirement save 30% of company's expenditure
- Skilled Manpower

### **Disadvantages of BPO**

- Communication Challenges & Different Standards
- Time Zone in off shore bpos can create problems for online meetings
- Loss of control in case of loss of transparency
- Dependence- Reduces the flexibility

### **4.E-commerce**

- Comprehensive system of trading that uses networks of computers for buying and selling of goods, information & services.
- E-commerce includes buying & selling of-
  - Goods e.g., Digital cameras, music systems, clothes, accessories.
  - Information e.g., Subscription to a site & get access to information.
  - Services e.g., shaadi.com, naukri.com

#### *Classification of E-commerce*

Based on the type of entities involved in transaction, e-commerce has been classified into the following category-

1. Business to Business (B2B)
2. Business to Consumer (B2C)
3. Consumer to Business (C2B)
4. Consumer to Consumer (C2C)

### **5.Electronics**

Indian Electronics System Design and Manufacturing (ESDM) industry is one of the fastest growing sectors in the country. Electronics imports, are currently the 3rd highest, next to crude and gold.

### **Summary**

Business is concerned with production and/or exchange of goods and services carried with the primary objective of earning profits.

Micro, Small and Medium Enterprises (MSME) are classified in two Classes: Manufacturing Enterprises and Service Enterprises.

Innovation is the process of translating an idea or invention into a good or service that creates value for which customers will pay.

Innovations are different types such as Incremental innovation, Disruptive innovation, Architectural innovation and Radical innovation.

Innovations are different types such as Incremental innovation, Disruptive innovation, Architectural innovation and Radical innovation.

Startup India is a flagship programme launched in 2016, with the aim of building a strong ecosystem that is favorable for the growth of startup business.

Corporate social responsibility (CSR) is how companies conduct their business activities to have an overall positive impact on society. It covers sustainability, social impact and ethics.

E-Commerce refers to the conduct of business on the internet that includes customers service and other business tasks.

### **Keywords**

Franchising, E-commerce, Corporate Social Responsibility, Innovation, Technological Innovation, Make in India, Start-up, Secondary Sector, Tertiary Sector, Business, MSMEs.

### **Self Assessment**

1. \_\_\_\_\_ is an economic activity which involves Regular production or exchange of goods and services for the purpose of earning profits through satisfaction of human wants.
  - A. Business
  - B. Organization
  - C. Management
  - D. All of the above
  
2. Which is not a factor of production?
  - A. Human
  - B. Land
  - C. Capital
  - D. Goods
  
3. What is the full form of MSME?
  - A. Micro, Small, Medium Enterprises
  - B. Macro, Small, Medium Enterprises
  - C. Medium, Small, Macro Enterprises
  - D. Management, Small, Medium Enterprises
  
4. Which is not a factor leading to 1991 economic reforms?
  - A. Rise in prices
  - B. Rise in fiscal deficit
  - C. Increase in foreign exchange reserves
  - D. Increase in adverse balance of payments

5. \_\_\_\_\_refers to the transfer of ownership of property or business from a government to a privately owned entity.
- A. Liberalization
  - B. Privatization
  - C. Globalization
  - D. All of the above
6. \_\_\_\_\_refers to relaxation of government restrictions in areas of economic policies.
- A. Liberalization
  - B. Privatization
  - C. Globalization
  - D. All of the above
7. What are the challenges of innovation?
- A. Financial burden on the organization.
  - B. Redundancy
  - C. Organizational risks
  - D. All of the above
8. \_\_\_\_\_type of innovation takes the lessons, skills and overall technology and applying the same in the different market.
- A. Incremental Innovation
  - B. Disruptive Innovation
  - C. Architectural Innovation
  - D. Radical Innovation
9. \_\_\_\_\_is an initiative which has been launched with the aims of empowering the youth of the country so as to increase their employability and create a more productive work environment.
- A. Skill India
  - B. Made in India
  - C. Innovation
  - D. All of the above
10. Make in India is an international marketing campaigning slogan coined by the Prime Minister of India, on \_\_\_\_\_ to attract businesses from around the world to invest and manufacture in India.
- A. September 25, 2014
  - B. September 25, 2015

- C. September 25, 2016  
D. September 25, 2013
11. Which is not a Make in India initiative?
- A. Foster Innovation
  - B. Enhance Skill Development
  - C. Facilitate investment
  - D. To promote India as the least preferred global manufacturing destination to propel sustainable growth
12. Tupperware is an example of \_\_\_\_\_ form of business.
- A. Network Marketing
  - B. Franchising
  - C. Business Process Outsourcing
  - D. E-Commerce
13. \_\_\_\_\_ is the business strategy where one company hires another company to perform a certain task for them, i.e., they outsource a certain job.
- A. Business Process Outsourcing
  - B. E-commerce
  - C. Network Marketing
  - D. Franchising
14. Which is not a type of Social Responsibility?
- A. Responsibility towards Society
  - B. Responsibility towards Government
  - C. Responsibility towards Shareholders
  - D. Responsibility towards Employer
15. What is the full form of CSR?
- A. Corporate Social Responsibility
  - B. Company Social Responsibility
  - C. Current Social Responsibility
  - D. Corporate Society Responsibility

**Answers for Self Assessment**

- |       |       |       |       |       |
|-------|-------|-------|-------|-------|
| 1. A  | 2. D  | 3. A  | 4. C  | 5. B  |
| 6. A  | 7. D  | 8. C  | 9. A  | 10. A |
| 11. D | 12. A | 13. A | 14. D | 15. A |

**Review Questions**

1. What are the emerging trends in business?
2. What are the features of e-commerce?
3. Explain the term corporate social responsibility? Who are responsible for doing social responsibility?
4. What is technological innovation?
5. Discuss the action plan of start-up India.
6. What are the different types of Innovation?
7. What is Business? Explain its features and objectives.
8. What are the different types of industries on various basis.



**Further Readings**

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## Unit 02: Business Enterprises

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### Objectives

After studying this chapter, you will be able to:

- analyse different forms of business
- evaluate the choice of business organization
- Analyze the concept of Sole Proprietorship.
- Analyze the concept of HUF.
- understand Joint Stock Company.
- analyse the incorporation of public and private companies.
- understand the concept of partnership firm and cooperative societies,
- evaluate the best form of business organization
- analyze the concept of Cooperative societies and MNC
- evaluate the best form of organization as per characteristics
- Understand the Government Business interface

### Introduction

If one is planning to start a business or is interested in expanding an existing one, an important decision relates to the choice of the form of organization. The most appropriate form is determined by weighing the advantages and disadvantages of each type of organization against one's own requirements.

#### 2.1 Types of ownership

Various forms of business organizations from which one can choose the right one include:

- (a) Sole proprietorship,

- (b) Joint Hindu family business,
- (c) Partnership,
- (d) Cooperative societies, and
- (e) Joint stock company

## **2.2 Sole Proprietorship:**

A sole proprietorship in India is a form of a business entity where a single individual handles the entire business organization. The individual is the sole recipient of all profits and bearer of all losses to the business. The liability of the owner is unlimited.

### **Characteristics/ Features:**

- (i) Formation and closure: There is no separate law that governs sole proprietorship. Hardly any legal formalities are required to start a sole proprietary business, though in some cases one may require a license. Closure of the business can also be done easily. Thus, there is ease in formation as well as closure of business.
- (ii) Liability: Sole proprietors have unlimited liability. This implies that have to bring in Rs. 20,000 from her personal sources even if she has to sell her personal property to repay the firm's debts.
- (iii) Sole risk bearer and profit recipient: The risk of failure of business is borne all alone by the sole proprietor. However, if the business is successful, the proprietor enjoys all the benefits. He receives all the business profits which become a direct reward for his risk bearing.
- (iv) Control: The right to run the business and make all decisions lies absolutely with the sole proprietor. He can carry out his plans without any interference from others.
- (v) No separate entity: In the eyes of the law, no distinction is made between the sole trader and his business, as business does not have an identity separate from the owner. The owner is, therefore, held responsible for all the activities of the business.
- (vi) Lack of business continuity: The sale proprietorship business is owned and controlled by one person, therefore death, insanity, imprisonment, physical ailment or bankruptcy of the sole proprietor will have a direct and detrimental effect on the business and may even cause closure of the business.

### **Advantages:**

Sole proprietorship offers many advantages. Some of the important ones are as follows

- (i) Quick decision making: A sole proprietor enjoys considerable degree of freedom in making business decisions. Further the decision making is prompt because there is no need to consult others. This may lead to timely capitalization of market opportunities as and when they arise.
- (ii) Confidentiality of information: Sole decision-making authority enables the proprietor to keep all the information related to business operations confidential and maintain secrecy. A sole trader is also not bound by law to publish firm's accounts.
- (iii) Direct incentive: A sole proprietor directly reaps the benefits of his/her efforts as he/she is the sole recipient of all the profit. The need to share profits does not arise as he/she is the single owner. This provides maximum incentive to the sole trader to work hard.
- (iv) Sense of accomplishment: There is a personal satisfaction involved in working for oneself. The knowledge that one is responsible for the success of the business not only contributes to self-satisfaction but also instils in the individual a sense of accomplishment and confidence in one's abilities.
- (v) Ease of formation and closure: An important merit of sole proprietorship is the possibility of entering into business with minimal legal formalities. There is no separate law that governs sole proprietorship. As sole proprietorship is the least regulated form of business, it is easy to start and close the business as per the wish of the owner.

### **Disadvantage:**

Not with standing various advantages, the sole proprietorship form of organization is not free from limitations. Some of the major limitations of sole proprietorship are as follows:

(i) Limited resources: Resources of a sole proprietor are limited to his/ her personal savings and borrowings from others. Banks and other lending institutions may hesitate to extend a long-term loan to a sole proprietor. Lack of resources is one of the major reasons why the size of the business rarely grows much and generally remains small.

(ii) Limited life of a business concern: The sole proprietorship business is owned and controlled by one person, so death, insanity, imprisonment, physical ailment or bankruptcy of a proprietor affects the business and can lead to its closure.

(iii) Unlimited liability: A major disadvantage of sole proprietorship is that the owner has unlimited liability. If the business fails, the creditors can recover their dues not merely from the business assets, but also from the personal assets of the proprietor. A poor decision or an unfavorable circumstance can create serious financial burden on the owner. That is why a sole proprietor is less inclined to take risks in the form of innovation or expansion.

(iv) Limited managerial ability: The owner has to assume the responsibility of varied managerial tasks such as purchasing, selling, financing, etc. It is rare to find an individual who excels in all these areas. Thus, decision making may not be balanced in all the cases. Also, due to limited resources, sole proprietor may not be able to employ and retain talented and ambitious employees.

## 2.3 Partnership firm

A partnership is "the relation between people who have agreed to share the profits of the business carried on by them or any of them acting for all". A minimum of two people is required to start a partnership business. The maximum number of partners is ten. The partners have unlimited liability and can share profits in any mutually agreed ratio. The registration of a partnership firm is not compulsory.

### Characteristics:

Following are the characteristics of Partnership Firm:

**1. Number of Partners:** Minimum number of person required to start a partnership firm is two and maximum limit is 10 in case of banking business and 20 in case of all other types of business.

**2. Contractual relationship:** A written agreement known as partnership deed, which is signed by all the partners, binds them in a contractual relationship.

**3. Voluntary Registration:** Registration of partnership firm is not compulsory. Since the registration provides various benefits to the firm thus it is desirable.

**4. Competence of Partners:** Every partner must be competent enough to enter into the partnership agreement. He should not be minor (in some cases minor can be admitted only to the benefits of the partnership), lunatic or insolvent.

**5. Sharing of Profit and Loss:** In partnership firm all the profits and losses are shared by the partners in any ratio as agreed. If it is not given, then they share it equally.

**6. Unlimited Liability:** Liability of partners of a partnership firm is unlimited. They are jointly held liable for the debts and losses of the firm.

**7. Legal Status:** Partnership firm has no distinct legal status separate from its partners.

**8. Transfer of Interest:** No partner can transfer its interest in the firm to anybody without the consent of other partners.

**9. Principal - Agent Relationship:** This relationship is based on mutual trust and faith among the partners in the interest of the firm. Business of the firm may be carried on by all the partners or any one of them acting for all. According to this, every partner is an agent when he is working on behalf of other partners, and he is the principal when other partners act on his behalf.

### Types of Partnership

**1. General partnership:** A general partnership is a partnership with only general partners. Each general partner must actively participate in managing the business and any partner may sign a contract on behalf of the partnership. General partners have unlimited liability.

2. **Limited partnership:** A limited partnership includes both general partners and at least one limited partner. In many cases, there is one general partner who manages the business and a number of limited partners. A limited partner does not participate in the day-to-day management of the partnership and their liability is limited to their investment in the business.

3. **Limited liability partnership:** A limited liability partnership, or LLP, is a type of partnership where owners aren't held personally responsible for the business's debts or other partners' actions.

- LLP act 2008
- Registration with ROC
- Min-2partnes, Max-no limit
- Foreign partners allowed
- Perpetual Succession



4. **Public-private partnership (PPP):** Partnership between an agency of the government and the private sector in the delivery of goods or services to the public. Areas of public policy in which public-private partnerships (PPPs) have been implemented include a wide range of social services, public and environmental and waste-disposal services.

*Example: Mumbai Metro*

First MRTS project in India being implemented on Public Private Partnership (PPP) format. DMRC (Delhi Metro Rail Corporation) prepared the master plan for Mumbai Metro. The Private party involved was- Reliance Energy Ltd.

Total Project cost- Rs. 2356 crores

### **Types of partners**

1. **Active/Managing Partner:** An active partner mainly takes part in the day-to-day running of the business and also takes active participation in the conduct and management of the business firm. He carries the daily business activities on behalf of other partners. He may act in different capacities such as manager, advisor, organizer and controller of affairs of the firm. Agent of all the other partners in order to run the active partner can withdraw remuneration from the firm.

2. **Sleeping Partner:** A sleeping partner is also known as a "dormant partner". This partner does not participate in the day-to-day functioning activities of the partnership firm. A person who has sufficient money or interest in the firm, but cannot devote his time to the business, can act as a sleeping partner in the firm. However, he is bound by all the acts of the other partners.

3. **Nominal Partner:** A nominal partner does not have any real or significant interest in the partnership firm. In simple words, he is only lending his name to the firm and does not have a voice in the management of the firm. On the strength of his name, the firm can promote its sales in the market or can get more credit from the market.

4. **Partner by Estoppel:** A partner by estoppel is a partner who displays by his words, actions or conduct that he is the partner of the firm. In simple words, even though he is not the partner in the firm but he has represented himself in such a manner which depicts that he has become a partner by estoppel or partner by holding out. It is pertinent to note that, though he does contribute in capital or management of the firm but on the basis of his representation in the firm he is liable for the credits and loans obtained by the firm.

5. **Partner in Profits only:** This partner of a firm will only share the profits of the firm and won't be liable for any losses of the firm. He is not allowed to take part in management of the firm. Such kinds of partners are associated with the firm for their goodwill and money.

6. **Minor Partner:** A minor is a person who is yet to attain the age of majority in the law of the land. According to section 3 of the Indian Majority Act 1874 a person is deemed to have attained the age of majority when he attains 18 years of age. However, a minor can also be appointed to claim the benefits of the partnership

## 2.4 Joint Hindu Family Business

Joint Hindu family business is a specific form of business organization found only in India. It is one of the oldest forms of business organization in the country. It refers to a form of organization wherein the business is owned and carried on by the members of the Hindu Undivided Family (HUF). It is governed by the Hindu Law. The basis of membership in the business is birth in a particular family and three successive generations can be members in the business.

### **Characteristics:**

The following points highlight the essential characteristics of the joint Hindu family business.

- (i) Formation: For a joint Hindu family business, there should be at least two members in the family and ancestral property to be inherited by them. The business does not require any agreement as membership is by birth. It is governed by the Hindu Succession Act, 1956.
- (ii) Liability: The liability of all members except the karta is limited to their share of co-parcenary property of the business. The karta, however, has unlimited liability.
- (iii) Control: The control of the family business lies with the karta. He takes all the decisions and is authorised to manage the business. His decisions are binding on the other members.
- (iv) Continuity: The business continues even after the death of the karta as the next eldest member takes up the position of karta, leaving the business stable. The business can, however, be terminated with the mutual consent of the members.
- (v) Minor Members: The inclusion of an individual into the business occurs due to birth in a Hindu Undivided Family. Hence, minors can also be members of the business.

### **Advantages:**

- (i) Effective control: The karta has absolute decision-making power. This avoids conflicts among members as no one can interfere with his right to decide. This also leads to prompt and flexible decision making.
- (ii) Continued business existence: The death of the karta will not affect the business as the next eldest member will then take up the position. Hence, operations are not terminated, and continuity of business is not threatened.
- (iii) Limited liability of members: The liability of all the co-parceners except the karta is limited to their share in the business, and consequently their risk is well-defined and precise.
- (iv) Increased loyalty and cooperation: Since the business is run by the members of a family, there is a greater sense of loyalty towards one other. Pride in the growth of business is linked to the achievements of the family. This helps in securing better cooperation from all the members.

### **Disadvantages:**

The following are some of the limitations of a joint Hindu family business.

- (i) Limited resources: The joint Hindu family business faces the problem of limited capital as it depends mainly on ancestral property. This limits the scope for expansion of business.
- (ii) Unlimited liability of karta: The karta is burdened not only with the responsibility of decision making and management of business, but also suffers from the disadvantage of having unlimited liability. His personal property can be used to repay business debts.
- (iii) Dominance of karta: The karta individually manages the business which may at times not be acceptable to other members. This may cause conflict amongst them and may even lead to break down of the family unit.
- (iv) Limited managerial skills: Since the karta cannot be an expert in all areas of management, the business may suffer because of his unwise decisions. His inability to decide effectively may result into poor profits or even losses for the organisation.

## 2.5 Co-operative Society

The cooperative society is a voluntary association of persons, who join with the motive of welfare of the members. They are driven by the need to protect their economic interests in the face of possible exploitation at the hands of middlemen obsessed with the desire to earn greater profits.

**Characteristics:**

(i) Voluntary membership: The membership of a cooperative society is voluntary. A person is free to join a cooperative society and can also leave anytime as per his desire. There cannot be any compulsion for him to join or quit a society. Although procedurally a member is required to serve a notice before leaving the society, there is no compulsion to remain a member. Membership is open to all, irrespective of their religion, caste, and gender.

(ii) Legal status: Registration of a cooperative society is compulsory. This accords a separate identity to the society which is distinct from its members. The society can enter into contracts and hold property in its name, sue and be sued by others. As a result of being a separate legal entity, it is not affected by the entry or exit of its members.

(iii) Limited liability: The liability of the members of a cooperative society is limited to the extent of the amount contributed by them as capital. This defines the maximum risk that a member can be asked to bear.

(iv) Control: In a cooperative society, the power to take decisions lies in the hands of an elected managing committee. The right to vote gives the members a chance to choose the members who will constitute the managing committee, and this lends the cooperative society a democratic character.

(v) Service motive: The cooperative society through its purpose lays emphasis on the values of mutual help and welfare. Hence, the motive of service dominates its working. If any surplus is generated as a result of its operations, it is distributed amongst the members as dividend in conformity with the byelaws of the society.

**Advantages:**

The cooperative society offers many benefits to its members. Some of the advantages of the cooperative form of organisation are as follows.

- (i) **Equality in voting status:** The principle of 'one man one vote' governs the cooperative society. Irrespective of the amount of capital contribution by a member, each member is entitled to equal voting rights.
- (ii) **Limited liability:** The liability of members of a cooperative society is limited to the extent of their capital contribution. The personal assets of the members are, therefore, safe from being used to repay business debts.
- (iii) **Stable existence:** Death, bankruptcy or insanity of the members do not affect continuity of a cooperative society. A society, therefore, operates unaffected by any change in the membership.
- (iv) **Economy in operations:** The members generally offer honorary services to the society. As the focus is on elimination of middlemen, this helps in reducing costs. The customers or producers themselves are members of the society, and hence the risk of bad debts is lower.
- (v) **Support from government:** The cooperative society exemplifies the idea of democracy and hence finds support from the Government in the form of low taxes, subsidies, and low interest rates on loans.
- (vi) **Ease of formation:** The cooperative society can be started with a minimum of ten members. The registration procedure is simple involving a few legal formalities. Its formation is governed by the provisions of Cooperative Societies Act 1912.

**Disadvantages:**

The cooperative form of organisation suffers from the following limitations:

- (i) Limited resources: Resources of a cooperative society consist of capital contributions of the members with limited means. The low rate of dividend offered on investment also acts as a deterrent in attracting membership or more capital from the members.
- (ii) Inefficiency in management: Cooperative societies are unable to attract and employ expert managers because of their inability to pay them high salaries. The members who offer honorary services on a voluntary basis are generally not professionally equipped to handle the management functions effectively.

(iii) Lack of secrecy: As a result of open discussions in the meetings of members as well as disclosure obligations as per the Societies Act (7), it is difficult to maintain secrecy about the operations of a cooperative society.

(iv) Government control: In return of the privileges offered by the government, cooperative societies have to comply with several rules and regulations related to auditing of accounts, submission of accounts, etc. Interference in the functioning of the cooperative organisation through the control exercised by the state cooperative departments also negatively affects its freedom of operation.

(v) Differences of opinion: Internal quarrels arising as a result of contrary viewpoints may lead to difficulties in decision making. Personal interests may start to dominate the welfare motive and the benefit of other members may take a backseat if personal gain is given preference by certain member

## 2.6 Joint Stock Company:

A company is an association of persons formed for carrying out business activities and has a legal status independent of its members. A company can be described as an artificial person having a separate legal entity, perpetual succession and a common seal. The shareholders are the owners of the company while the Board of Directors is the chief managing body elected by the shareholders. Usually, the owners exercise an indirect control over the business. The capital of the company is divided into smaller parts called 'shares' which can be transferred freely from one shareholder to another person.

### Characteristics:

(i) **Artificial person:** A company is a creation of law and exists independent of its members. Like natural persons, a company can own property, incur debts, borrow money, enter into contracts, sue and be sued but unlike them it cannot breathe, eat, run, talk and so on. It is, therefore, called an artificial person.

(ii) **Separate legal entity:** From the day of its incorporation, a company acquires an identity, distinct from its members. Its assets and liabilities are separate from those of its owners. The law does not recognize the business and owners to be one and the same.

(iii) **Formation:** The formation of a company is a time consuming, expensive and complicated process. It involves the preparation of several documents and compliance with several legal requirements before it can start functioning. Incorporation of companies is compulsory under The Companies Act 2013 or any of the previous company law, as state earlier. Such companies which are incorporated under companies Act 1956 or any company law shall be included in the list of companies.

(iv) **Perpetual succession:** A company being a creation of the law, can be brought to an end only by law. It will only cease to exist when a specific procedure for its closure, called winding up, is completed. Members may come and members may go, but the company continues to exist.

(v) **Control:** The management and control of the affairs of the company is undertaken by the Board of Directors, which appoints the top management officials for running the business. The directors hold a position of immense significance as they are directly accountable to the shareholders for the working of the company. The shareholders, however, do not have the right to be involved in the day-to-day running of the business.

### Advantages:

The company form of organization offers a multitude of advantages, some of which are discussed below.

(i) **Limited liability:** The shareholders are liable to the extent of the amount unpaid on the shares held by them. Also, only the assets of the company can be used to settle the debts, leaving the owner's personal property free from any charge. This reduces the degree of risk borne by an investor.

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(ii) **Transfer of interest:** The ease of transfer of ownership adds to the advantage of investing in a company as the share of a public limited company can be sold in the market and as such can be easily converted into cash in case the need arises. This avoids blockage of investment and presents the company as a favorable avenue for investment purposes.

(iii) **Perpetual existence:** Existence of a company is not affected by the death, retirement, resignation, insolvency or insanity of its members as it has a separate entity from its members. A company will continue to exist even if all the members die. It can be liquidated only as per the provisions of the Companies Act, 2013.

(iv) **Scope for expansion:** As compared to the sole proprietorship and partnership forms of organization, a company has large financial resources. Further, capital can be attracted from the public as well as through loans from banks and financial institutions. Thus, there is greater scope for expansion. The investors are inclined to invest in shares because of the limited liability, transferable ownership and possibility of high returns in a company.

(v) **Professional management:** A company can afford to pay higher salaries to specialists and professionals. It can, therefore, employ people who are experts in their area of specializations. The scale of operations in a company leads to division of work. Each department deals with a particular activity and is headed by an expert. This leads to balanced decision making as well as greater efficiency in the company's operations.

#### **Disadvantages:**

The major limitations of a company form of organization are as follows:

(i) **Complexity information:** The formation of a company requires greater time, effort and extensive knowledge of legal requirements and the procedures involved. As compared to sole proprietorship and partnership form of organizations, formation of a company is more complex.

(ii) **Lack of secrecy:** The Companies Act requires each public company to provide from time-to-time a lot of information to the office of the registrar of companies. Such information is available to the general public also. It is, therefore, difficult to maintain complete secrecy about the operations of company.

(iii) **Impersonal work environment:** Separation of ownership and management leads to situations in which there is lack of effort as well as personal involvement on the part of the officers of a company. The large size of a company further makes it difficult for the owners and top management to maintain personal contact with the employees, customers and creditors.

(iv) **Numerous regulations:** The functioning of a company is subject to many legal provisions and compulsions. A company is burdened with numerous restrictions in respect of aspects including audit, voting, filing of reports and preparation of documents, and is required to obtain various certificates from different agencies, viz., registrar, SEBI, etc. This reduces the freedom of operations of a company and takes away a lot of time, effort and money.

(v) **Delay in decision making:** Companies are democratically managed through the Board of Directors which is followed by the top management, middle management and lower level management. Communication as well as approval of various proposals may cause delays not only in taking decisions but also in acting upon them.

(vi) **Oligarchic management:** In theory, a company is a democratic institution wherein the Board of Directors are representatives of the shareholders who are the owners. In practice, however, in most large sized organizations having a multitude of shareholders; the owners have minimal influence in terms of controlling or running the business. It is so because the shareholders are spread all over the country and a very small percentage attend the general meetings. The Board of Directors as such enjoy considerable freedom in exercising their power which they sometimes use even contrary to the interests of the shareholders. Dissatisfied shareholders in such a situation have no option but to sell their shares and exit the company. As the directors virtually enjoy the rights to take all major decisions, it leads to rule by a few.

(vii) **Conflict in interests:** There may be conflict of interest amongst various stakeholders of a company. The employees, for example, may be interested in higher salaries, consumers desire higher quality products at lower prices, and the shareholders want higher returns in the form of dividends and increase in the intrinsic value of their shares. These demands pose problems in managing the company as it often becomes difficult to satisfy such diverse interests.

## 2.7 Multinational Company

A multinational corporation (MNC) is transnational co-operation. It can also be referred to as an international corporation. A MNC is a business which owns or controls production or service facilities outside the country in which it is based. This means that they do not just export their products but make them abroad.

### **MNC's Alternatives to Organize Their Operations**

- 1.Branches: The simplest form of extending business is to set up branches in developing countries.
- 2.Subsidiaries: Multinationals also operate by setting up affiliates as subsidiary companies
- 3.Joint Venture Company: The establishment of a firm that is jointly owned two or more independent firms.
- 4.Franchise Holders: An arrangement by which an affiliate firm produces or markets the products of a multinational firm.
- 5.Turn-key projects: The multinational attempts to sell or turn over buy in a ready-to-use condition.

### **Advantages:**

- 1.Increase in the investment level and thus, the income and employment in the host country.
- 2.Greater availability of products for local consumers.
- 3.Increase in exports and decrease in imports.
- 4.Transfer of technology, capital and entrepreneurship.
- 5.Acquisition of raw materials from abroad.
- 6.Technology and management expertise acquired from competing in global markets.
- 7.Export of components and finished goods for assembly or distribution in.

### **Disadvantages:**

- They are very powerful and can influence the government of a country.
- Local employment can be dependent on one large employer.
- They may use up natural resources which may not be renewable.
- They can force local firms out of business.
- The profit they make goes back to the 'home' country.
- They can be 'footloose' and may move to another country if better incentives offered.
- MNC's create monopolies in the market and eliminate local competitors.

### **Caselet**

Doreen is the sole owner of Doreen's Flowers, a local floral shop. While one of Doreen's drivers is delivering flowers in the business van to the local hospital, he hits a pedestrian at an intersection, severely injuring the pedestrian. Doreen is sued for the personal injury damages suffered by the pedestrian (medical expenses, pain and suffering, etc.). A jury awards the injured pedestrian \$250,000.00, due from Doreen's Flowers. Doreen's Flowers has no insurance to cover the jury verdict.

Who is responsible for paying the \$250,000.00?

Answer: Doreen. Sole proprietors are personally liable for the debts and obligations of their businesses.

## **Summary**

Forms of business organisation refers to the types of organisations which differ in terms of ownership and management.

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The major forms of organisation include proprietorship, partnership, joint Hindu family business, cooperative society and company.

Sole proprietorship refers to a form of organisation where business is owned, managed and controlled by a single individual who bears all the risks and is the only recipient of all the profits.

Partnership is defined as an association of two or more persons who agree to carry on a business together and share the profits as well as bear risks collectively.

Joint Hindu family business is a business owned and carried on by the members of a Hindu Undivided Family, which is governed by the Hindu law.

A cooperative society is a voluntary association of persons who get together to protect their economic interests.

### **Keywords**

Sole proprietorship, Partnership, Joint Hindu Family, Cooperative Societies, Joint Stock Company, Perpetual succession.

### **Self Assessment**

1. What are the different types of ownership?
  - A. Private Enterprises
  - B. Public Sector Enterprises
  - C. Co-operative Sector Enterprises
  - D. All of the above
  
2. The company in which at least 51% of the paid-up share capital is held by the central or state government or partly by central or state government is known as \_\_\_\_\_
  - A. State company
  - B. Government company
  - C. Departmental undertaking
  - D. Statutory Corporation
  
3. \_\_\_\_\_ is a form of a business entity where a single individual handles the entire business organization.
  - A. Sole Proprietorship
  - B. Partnership Firm
  - C. Joint Stock Company
  - D. Joint Hindu Family Business
  
4. Owner is the only source of Capital in Sole proprietorship.
  - A. True
  - B. False
  
5. In Joint Hindu family business, outsider can become the member.
  - A. True

- B. False
6. In Joint Hindu family business, the affairs of the business are managed by head of the family called \_\_\_\_\_
- A. Karta  
B. Coparceners  
C. Proprietor  
D. None of the above
7. Shares are transferable under Joint Stock Company.
- A. True  
B. False
8. What are the necessary documents required for the formation of joint stock company?
- A. Memorandum of Association  
B. Article of Association  
C. Prospectus for Registration  
D. All of the above
9. People who join together with the aim to start a company are called \_\_\_\_\_
- A. Promoters  
B. Shareholders  
C. Owners  
D. None of the above
10. \_\_\_\_\_ is a form of business entity where two or more persons come together to provide the requisite resources and share the profits in an agreed ratio.
- A. Partnership  
B. Joint stock company  
C. Sole Proprietorship  
D. HUF
11. A sleeping partner is also known as \_\_\_\_\_
- A. Active partner  
B. Managing partner  
C. Dormant partner  
D. Nominal Partner

**Business Organisation and Management**

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12. Partnership deed is a written agreement between two or more persons for managing the affairs of a partnership firm.
- A. True  
B. False
13. Which is not a classification of cooperatives?
- A. Worker Cooperatives  
B. Consumer Cooperatives  
C. Producer Cooperatives  
D. All of the above
14. Which is not MNC's alternatives to organize their operations?
- A. Joint stock company  
B. Joint Venture company  
C. Subsidiaries  
D. Franchise holders
15. Which is not a role of government as regulator in business?
- A. Protecting Competition  
B. Protecting Creative Property  
C. Protecting Business Agreements  
D. Public Services

**Answers for Assessment**

- |       |       |       |       |       |
|-------|-------|-------|-------|-------|
| 1. D  | 2. B  | 3. A  | 4. A  | 5. B  |
| 6. A  | 7. A  | 8. D  | 9. A  | 10. A |
| 11. C | 12. A | 13. D | 14. A | 15. D |

**Review Questions**

1. What do you understand by a sole proprietorship firm? Explain its merits and limitation?
2. Why is partnership considered by some to be a relatively unpopular form of business ownership? Explain the merits and limitations of partnership.
3. Discuss the characteristics, merits and limitation of cooperative form of organisation. Also describe briefly different types of cooperative societies.
4. Distinguish between a Joint Hindu family business and partnership.
5. Despite limitations of size and resources, many people continue to prefer sole proprietorship over other forms of organisation? Why?

6. What is meant by 'partner by estoppel'? Explain



### **Further Readings**

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## **Unit 03: Management and Organization**

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### **Objectives**

After studying this chapter, you will be able to:

- get awareness about basic concepts of management.
- understand need of management in organization.
- understand the concept of planning.
- discuss the need of planning in organization.
- explore the stages of planning process.
- understand the concept of organizing.
- classify different organizational structures.

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- test level of understanding about organizational structures.
- understand the concept of authority & responsibility.
- differentiate between authority & responsibility.
- learn about the concept of group
- learn the concept of team.
- understand the stages of group development and team development.
- understand the different types of group and team.

### Introduction

Everybody manages their life. You must have managed time, studies, finances, relationships, and careers even. Do you consider yourself as a manager after managing the said activities in day-to-day life? We do not think of these activities as “Managing” and therefore we don’t feel like that we are inbuilt “Managers”.

Even if you think of our ancestors, this practice of management already existing in human society. There has always been a need for some degree of management to organize the efforts of individuals for the common good, for instance, gathering food; caring for the younger ones, and protecting against predators.

The activities which have been just discussed are very simple in context but when the concept of managing is applied to organizations, the need arises to understand the theoretical concept of management.

Managers are playing a crucial role in getting things done by modeling appropriate behavior in the organization. Because it has been researched that high-performing organizations have a value system that furthers the organization’s goals. And these values are expressed implicitly and explicitly by managers in the organization.



Do it by yourself

List out the various activities which you do in your daily life and managed properly.

### 3.1 Meaning of Management

The basic meaning of management is extracting work from others in an integrated and coordinated manner for realizing the specific objectives through the productive use of material resources.

Management= Manage + Men + T (tactfully)

Management is the act of getting people together to accomplish desired goals and objectives using available resources efficiently and effectively.

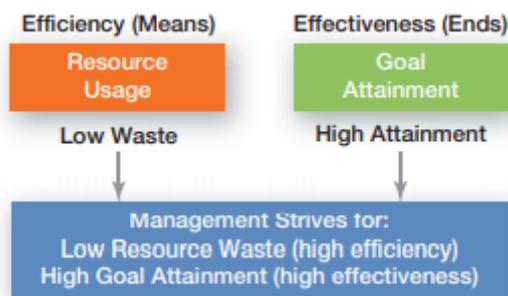
Management involves ensuring that work activities are completed efficiently and effectively by the people responsible for doing them.

### Efficiency

Efficiency refers to getting the most output from the least number of inputs. Because managers deal with scarce inputs – including resources such as people, money, and equipment – they’re concerned with the efficient use of those resources. It’s often referred to as “doing things right” – that is, not wasting resources.

## Effectiveness

Effectiveness is often described as “doing the right things” – that is, doing those work activities that will help the organization reach its goals.



## 3.2 Definition of Management

According to Harold Koontz "Management is the art of getting things done through others and with formally organized groups."

According to George R. Terry "Management Is a distinct process consisting of planning, organizing, actuating and controlling; utilizing in each both science and art, and followed to accomplish pre-determined objectives."

According to Massie & Douglas "Management is the process by which co-operative group directs actions towards common goals."



Think of a situation:

1. Have you ever get frustrated when you have to spend two hours in a state government office to get your driver's license renewed?
2. Will you be irritated when none of the salespeople in a retail store seems interested in helping you?

## 3.3 Need for Management

Management is needed in all sizes of organizations whether it is small in size or large in size; required in even all types of organizations whether it is profitable or not-for-profit organizations. If we discuss the different levels existing in the organization then management is required from the top-level employees to the bottom-level employees for achieving efficiency and effectiveness in work.

And further on considering the functional areas of an organization i.e. manufacturing, marketing, human resources, and many more; the concept of management is required for better usage of resources and productivity.

### Achievement of the objectives

Management plays a vital role in the accomplishment of organizational objectives & goals. The coordination & integration of material & human resources helps in achieving the pre-determined goals effectively & efficiently.

### Efficient use of resources

Efficient management can lead a business towards growth & prosperity. Management reduces wastage of human, material & financial resources through proper planning & control.

**Creates dynamic organization**

Management helps the employees to overcome their resistance to change & adapt as per changing situation to ensure its survival & growth.

**Encourages motivation**

Management encourages innovation in the organization. Innovation brings new ideas, new methods, new products & makes the organization more competitive.



Imagine that you have no particular destination in your mind than any road will do. But, if you have someplace, in particular, you want to go, then you have to work on a plan to find the best way to go there.

So, what you are going to do now in this situation?

**3.4 Management Functions**

In this situation, a person needs to work on the functions of management to find out the best way to reach a particular destination. It means a person has to do the planning, organizing, leading, and controlling in the situation.

1. Planning: Setting goals, establishing strategies, and developing plans to coordinate activities.
2. Organizing: Determining what needs to be done, how it will be done, and who is to do it.
3. Leading: Motivating, leading, and any other actions involved in dealing with people
4. Controlling: Monitoring activities to ensure that they are accomplished as planned.

**Planning**

Planning is the function of management that involves setting objectives and determining a course of action for achieving those objectives. Planning requires that managers be aware of environmental conditions facing their organization and forecast future conditions.

**Organizing**

Organizing is the function of management that involves developing an organizational structure and allocating human resources to ensure the accomplishment of objectives. The structure of the organization is the framework within which effort is coordinated. The structure is usually represented by an organization chart, which provides a graphic representation of the chain of command within an organization. Organizing also involves the design of individual jobs within the organization.

**Leading**

Leading involves the social and informal sources of influence that you use to inspire action taken by others. If managers are effective leaders, their subordinates will be enthusiastic about exerting effort to attain organizational objectives.

**Controlling**

Controlling involves ensuring that performance does not deviate from standards. Controlling consists of three steps, which include (1) establishing performance standards, (2) comparing actual performance against standards, and (3) taking corrective action when necessary.

**3.5 Characteristics of Management**

Based on the above discussion about the management concept, we can derive a few salient features of management.

**Universal**

Management does not apply to business undertakings only. It applies to political, social, religious, and educational institutions also. Management is necessary when group effort is required.

**Continuous process**

The management process continues till the objectives set by the administration are achieved. "Management is a social process involving coordination of human and material resources through the functions of planning, organizing, staffing, leading and controlling to accomplish stated objectives".

**Goal-oriented**

Management is a purposeful activity. It is concerned with the achievement of pre-determined objectives of an organization.

**Multi-dimensional**

Management is an interdisciplinary study. It draws ideas and concepts from various disciplines like economics, statistics, mathematics, psychology, sociology, anthropology, etc.

**Intangible**

It cannot be seen with the eyes. It is evidenced only by the quality of the organization and the results i.e., profits, increased productivity, etc.

**3.6 Concept of Planning**

Primary of all managerial functions as it involves deciding of future course of action. Planning involves defining the organization's goals, establishing overall strategy for achieving goals, and developing a comprehensive set of plans to integrate, coordinate organizational work.

So, Planning is

1. Thinking Before Doing
2. Deciding in Advance: What to do, how to do it, when to do it and Who has to do it.

**Why do Managers Plan?****1. Planning provides Direction**

By stating in advance how work is to be done planning provides direction for action. Planning ensures that the goals or objectives are clearly stated so that they act as a guide for deciding what action should be taken and in which direction. If goals are well defined, employees are aware of what the organization has to do and what they must do to achieve those goals. Departments and individuals in the organization are able to work in coordination. If there was no planning, employees would be working in different directions and the organization would not be able to achieve its desired goals.

**2. Planning reduces uncertainty**

Planning is an activity which enables a manager to look ahead and anticipate changes. By deciding in advance, the tasks to be performed, planning shows the way to deal with changes and uncertain events. Changes or events cannot be eliminated but they can be anticipated and managerial responses to them can be developed.

**3. Planning minimizes waste and redundancy**

Planning serves as the basis of coordinating the activities and efforts of different divisions, departments and individuals. It helps in avoiding confusion and misunderstanding. Since planning ensures clarity in thought and action, work is carried on smoothly without interruptions. Useless and redundant activities are minimized or eliminated. It is easier to detect inefficiencies and take corrective measures to deal with them.

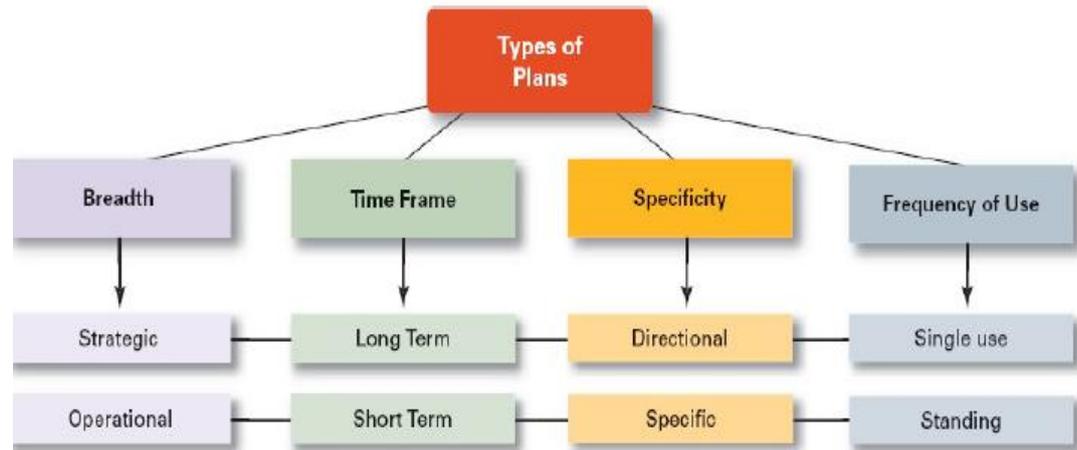
**4. Establishes standard or goal used in controlling**

Planning involves setting of goals. The entire managerial process is concerned with accomplishing predetermined goals through planning, organizing, staffing, directing and controlling. Planning provides the goals or standards against which actual performance is measured. By comparing actual performance with some standard, managers can know whether they have actually been able to attain the goals. If there is any deviation it can be corrected. Therefore, we can say that planning is a prerequisite for controlling.



“One plan can be used at every place.” Is this statement correct or need modification?

### 3.7 Types of Plans



#### 1. On the basis of Breadth:

Strategic Planning is about being **different**. Operational Planning is about being **better**.

A strategic plan is an outline of steps designed with the goals of the entire organization as a whole in mind, rather than with the goals of specific divisions or departments. Strategic planning begins with an organization mission. The specific results expected from departments, work groups, and individuals are the operational goals.

#### 2. On the basis of Time Frame:

Short term plan is for specific departments or specific functions. Long-term plan is for organization as a whole.

Short-term planning evaluates your progress in the present and creates an action plan to improve performance daily. However, long-term planning is a comprehensive framework that comprises of goals to be met within a four- to five-year period.

#### 3. On the basis of specificity:

Specific plans are plans that are clearly defined and leave no room for interpretation. Directional plans are flexible plans that set out general guidelines.

#### 4. On the basis of frequency of use:

A single-use plan is a one-time plan specifically designed to meet the needs of a unique situation. Standing plans are ongoing plans that provide guidance for activities performed repeatedly.

### 3.8 How does a Manager Plan: Process of Planning?

Since planning is an activity there are certain logical steps for every manager to follow. These are as follows:

- Setting objectives

- Developing planning premises
- Identifying alternative course of action
- Evaluating alternative course of action
- Selecting one best Alternative
- Implementing the plan
- Follow up action

Let's explain each step one by one.

### 1. *Setting Objectives:*

The first step in the planning process is to identify the goals of the organization. The internal as well as external conditions affecting the organization must be thoroughly examined before setting objectives. The objectives so derived must clearly indicate what is to be achieved, where action should take place, who is to perform it, how it is to be undertaken and when is it to be accomplished.

### 2. *Developing Premises:*

Premises are assumptions about the environment in which plans are made and implemented. Thus, assumptions about the likely impact of important environmental factors such as market demand for goods, cost of raw materials, technology to be used, population growth, government policy, etc. on the future plans are made.

### 3. *Evaluating alternatives and selection:*

After establishing the objectives and planning premises, the alternative courses of action have to be considered. The alternatives have to be carefully evaluated against factors like costs, associated risks involved, benefits likely to arise, availability of spare capacity, etc. The pros and cons as well as the consequences of each alternative course of action must be examined thoroughly before a choice is made.

### 4. *Formulating Derivative plans:*

The plans derived for various departments, units, activities, etc., in a detailed manner are known as 'derivative plans. For example, the basic production plan requires a number of things such as availability of plant and machinery, training of employees, provision of adequate finance, etc. To ensure the success of a basic plan, the derivative plans must indicate the time schedule and sequence of performing various tasks.

### 5. *Securing cooperation and participation:*

The successful implementation of a plan depends, to a large extent, on the whole-hearted cooperation of the employees. Involvement of subordinates in planning has the unique advantage of getting a practical view of those closer to the scene of operations. Participation enables employees to give their best to plans. They are also motivated to carry out the plan to the best of their ability.

### 6. *Providing for follow-up:*

A continuous evaluation of plans also helps to develop sound plans in future, avoiding mistakes that have surfaced while implementing the previous plans.



#### Case study: Boeing 787 Dreamliner

- Boeing called its new 787 aircraft the **Dreamliner**, but the project turned into more of a nightmare for managers. The new plane was the company's most popular product ever, mostly because of its innovations, especially in fuel efficiency. However, the plane was two and a half years behind schedule. Boeing admitted that the project's timeline was way too ambitious even though every detail had been meticulously planned. Some customers (the airlines who ordered the jets) – around 60 in total – got tired of waiting or responded to the changing economic environment and canceled their orders.

Question for discussion: Could Boeing's managers have planned better?



Does Goal setting fit your management style?

Get an answer of two questions on the basis of this exercise:

- Are you a good planner?
- Do you set goals and identify ways to accomplish them?

S. No.	Statement	Mostly True	Mostly False
1.	I have clear specific goals in several areas of my life.		
2.	I have a define outcome in life I want to achieve.		
3.	I prefer general to specific goals.		
4.	I work better without specific deadlines.		
5.	I set aside time each day or week to plan my work.		
6.	I am clear about the measures that indicate when I have achieved a goal.		
7.	I work better when I set more challenging goals for myself.		
8.	I help other people clarify and define their goals.		

**Scoring:**

- Give 1 point for Mostly True for 1, 2, 5, 6, 7, 8 Except 3, 4 statements.
- Give 1 point for Mostly False for 3, 4 statements.

**Interpretation:**

Score	Interpretation
5 or higher	Positive Level of Goal Setting Behaviour
4 or less	Evaluate and begin to change your goal setting behaviour

### 3.9 Concept of Organizing

To understand the concept of organizing, firstly get an awareness about organization.

**Meaning of Organization:** A social unit of people, systematically structured and managed to meet a need or to pursue collective goals on a continuing basis.

Now what is organizing? Organizing can be defined as a process that initiates implementation of plans by clarifying jobs and working relationships and effectively deploying resources for attainment of identified and desired results (goals).

**Why do we need organizing: Importance?**

The significance of the organizing function mainly arises from the fact that it helps in the survival and growth of an enterprise and equips it to meet various challenges. Following points will describe the importance of organizing in any business:

1. Divides work to be done in specific jobs & department:

Organizing leads to a systematic allocation of jobs amongst the work force. This reduces the workload as well as enhances productivity because of the specific workers performing a specific job on a regular basis.

2. Establishes relationship b/w individuals, groups and departments.

The establishment of working relationships clarifies lines of communication and specifies who is to report to whom. This removes ambiguity in transfer of information and instructions. It helps in creating a hierarchical order thereby enabling the fixation of responsibility and specification of the extent of authority to be exercised by an individual.

3. Allocates organizational resources.

Organizing leads to the proper usage of all material, financial and human resources. The proper assignment of jobs avoids overlapping of work and also makes possible the best use of resources. Avoidance of duplication of work helps in preventing confusion and minimizing the wastage of resources and efforts.

4. Establishes formal lines of authority.

Clarity in working relationships enables proper execution of work. Management of an enterprise thereby becomes easy, and this brings effectiveness in administration.

### 3.10 Organizational Structure

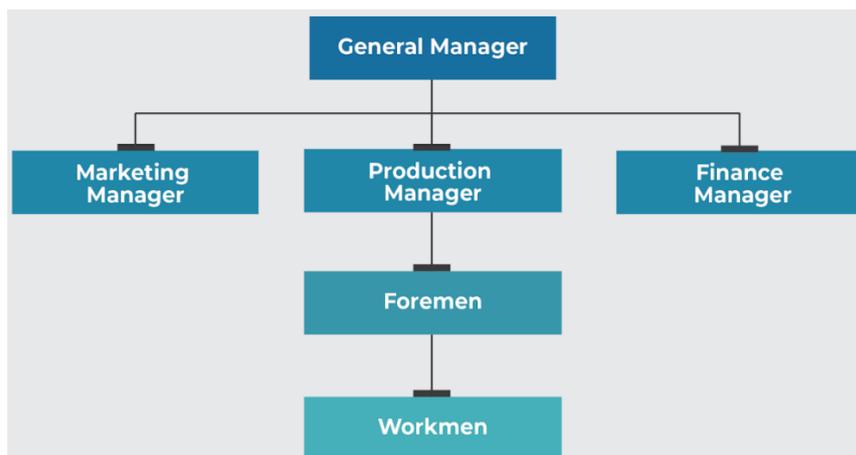
It is a framework within which an organization arranges its lines of authorities and communications and allocates rights and duties. It is the outcome of the organizing process. An effective structure will result in increased profitability of the enterprise. A proper organization structure is essential to ensure a smooth flow of communication and better control over the operations of a business enterprise.

#### Significance of Organizational Structure:

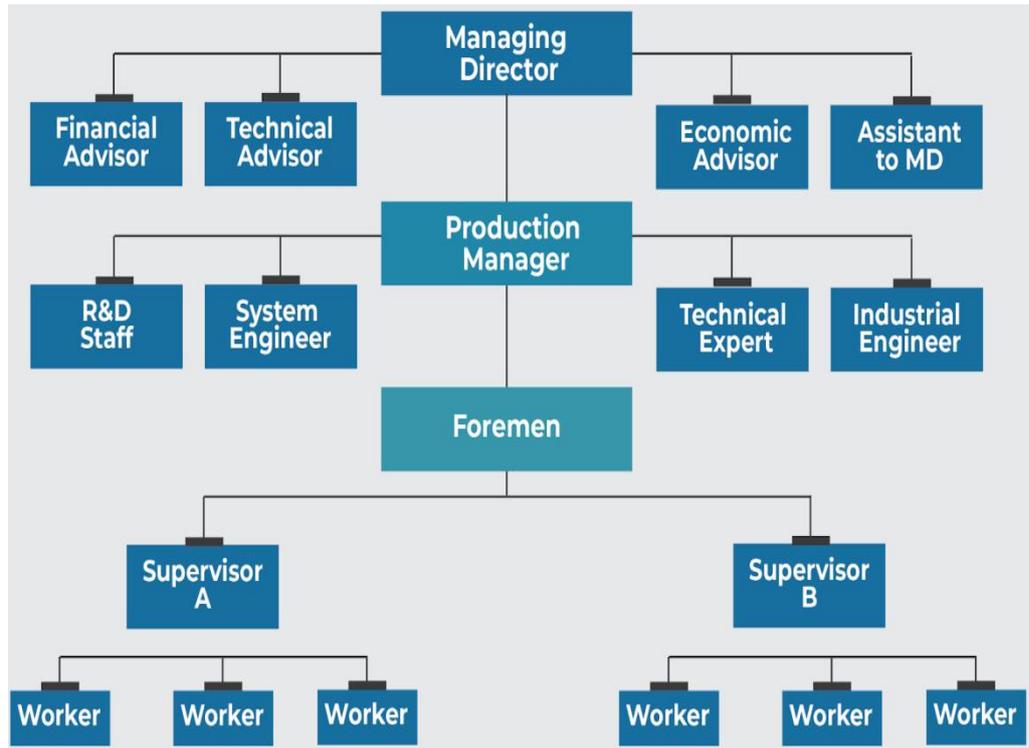
- Impacts effectiveness and efficiency.
- Reduces redundant actions.
- Promotes teamwork.
- Improves communication.
- Contributes to success or failure.

#### Types of Organizational Structure

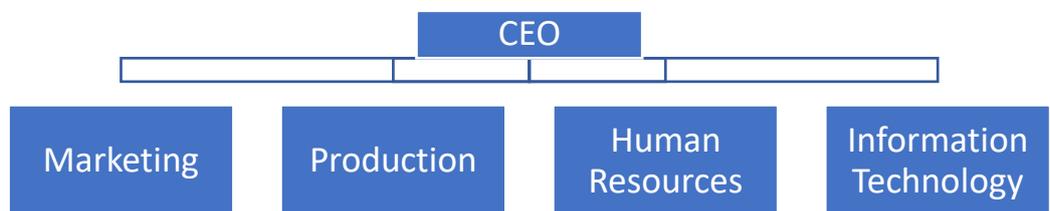
**1. Line Structure:** It has been adopted by small companies. Authority and responsibility are transparent in this structure and communication is very fast. Moreover, power flows from top to bottom.



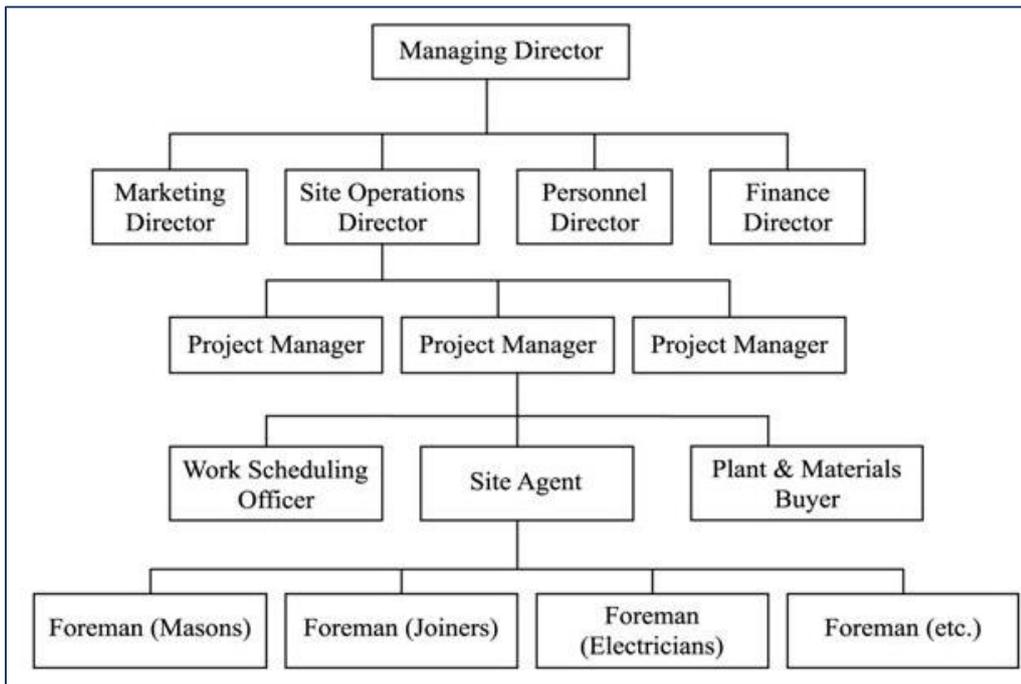
**2.Line & Staff Structure:** This structure is a modification of line organization. Most of the larger organizations adopt this type of structure. Functional specialists work with line managers to guide and advise them.



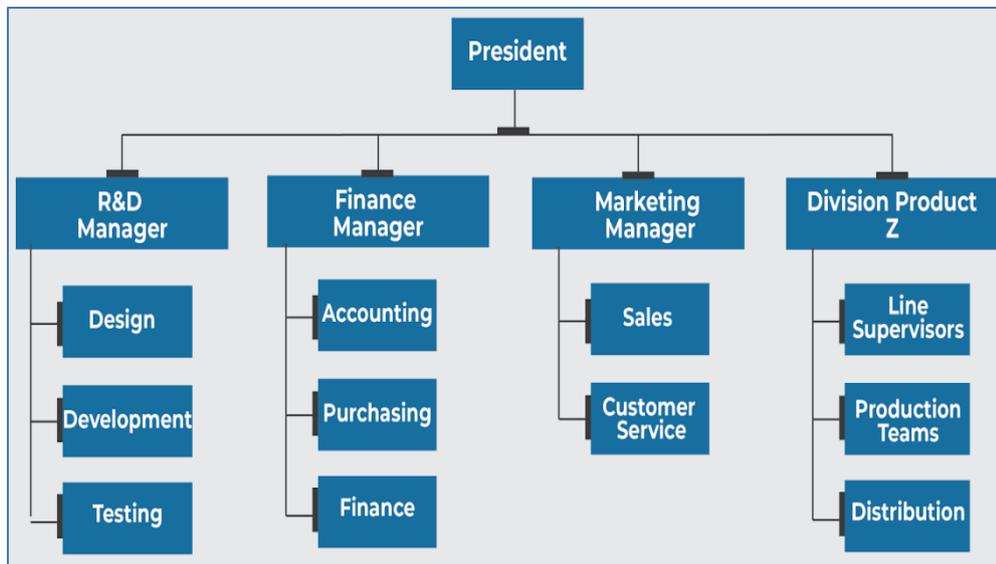
**3.Flat Structure:** This structure is usually adopted by small business firms. And the span of control is wide. Organizations that require more autonomy and self-control have flat organizational structure.



**4.Tall Structure:** In this type of structure, span of control is narrow and decision-making authority is the top -level management. Organizations that require close monitoring of all its business activities opt for tall organization.

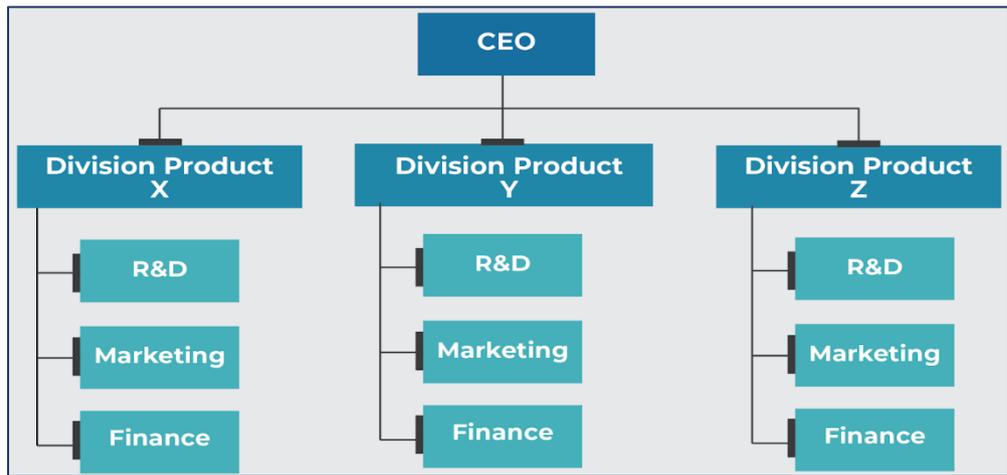


**5.Functional Structure:**This structure is based on their employee’s area of specialization.Functional manager leads the team and manages all operations.This structure positions departments vertically and disconnected from others.More suitable for Manufacturing and Engineering companies.

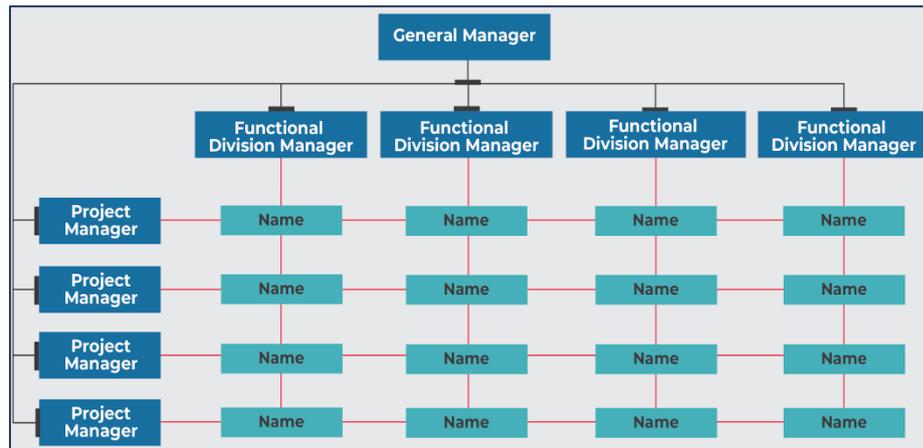


**6.Divisional Structure:** In the functional structure team members work in different departments.This structure splits the employees into segments based on products, markets or services.This type of organization is suitable for companies that

- i. Operate in different geographical locations,
- ii. Have chain stores with subsidiaries, and
- iii. Banking and insurance business



**7. Matrix Structure:** This type of organization is most useful when workers must share available resources. The combination achieves high efficiency and better usage of available resources. The dual reporting structure add confusion and results in conflicts. Create issues when there is no coordination between functional and project managers.



**8. Virtual Structure:** This structure is faster and cost-effective as there are no boundaries to work and communication. Lower operating costs as no permanent set up required (no need for office premises) Have several options like flexi time, part-time work, job-sharing, and home-based working.



### 3.11 Authority and Responsibility

Let’s start with understanding about authority and responsibility from a simple question which you can ask to yourself.

*Have you ever been truly trusted to act on behalf of someone?*

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You need to think any incident or situation of your life in which you can get an answer of the above question. That answer will raise a curiosity in your mind to better understand authority and responsibility.

**What is Authority?**

An authority is a power to give orders and ask your subordinates to perform certain duties. An authority is a legitimate power to influence people to compel them to perform the task given to them. In an organization, the authority lies in the hands of a manager to get organizational tasks accomplished by his subordinates.

Authority is the consequence of the position of an individual in an organization. The degree of authority is highest at the top level, and its degree keeps on decreasing the levels of the organization.

**What is responsibility?**

Responsibility is a moral duty or an obligation of an employee, whether he is a manager or subordinate to fulfill the task given to them. A manager is responsible for the accomplishment of the task. The responsibility moves upwards in the organization from a lower level of employees to the upper level of management.



Think upon

Does a manager need to have balance between Authority and Responsibility?

**Balancing between Authority and Responsibility**

There is a huge need to have a balance between authority and responsibility because any manager who has been assigned responsibility without the proper level of authority to accomplish the expected objectives often ends up stressed out and frustrated.

**Comparison between authority and responsibility**

Basis for Comparison	Authority	Responsibility
Meaning	The power or right, that is attached to a particular job or designation, to give orders, enforce rules, make decisions, and exact obedience.	The duty or obligation to undertake and/or accomplish a task successfully, as assigned by the senior or determined by the individual's commitment or circumstances.
Results From...	A formal position in a company.	A superior-subordinate relationship.
Task of the Manager	To delegate authority	To assume responsibility
Requires...	The ability to give orders.	The ability to follow orders.
Direction of Flow	Downward.	Forward
Objective	To make decisions and implement them effectively	To execute duties and responsibilities, as assigned by a superior
Duration	Continues over a long period of time.	Ends once the task is accomplished.

### 3.12 Delegation of Authority

Delegation is the transfer of authority to subordinates to enable them to make decisions and use resources.

#### Process of Delegation of Authority

There are four stages in the process of delegation of authority: Assignment, Transfer, Acceptance and Accountability.

**Stage 1:** For starting the process of delegation of authority, firstly assignment of tasks needs to be done by managers and team leaders.

**Stage 2:** After that, not only task but there has to be a transfer of authority to accomplish the task assigned to subordinates.

**Stage 3:** The third step describes about acceptance of both task and authority by the subordinate because without this step the whole process ends with zero.

**Stage 4:** Accountability is the last stage in which both supervisor or manager as well as subordinate will be responsible for completing the task successfully.

### 3.13 What is Group?

A group is a collection of individuals who interact with each other such that one person's actions have an impact on the others.

In simple terms, Groups are where people get along, feel the desire to contribute to the team, and are capable of coordinating their efforts for achieving high performance levels.



Think of the various groups to which you belong since your childhood till now.

And then try to find the answer of a question "Does each group satisfy the four criteria?"

### Why do People Join Groups?

There are many reasons due to which people join groups in any organization which can be explained as under:

#### 1. Group represent power:

What mostly cannot be achieved individually becomes possible with group effort. Power might be aimed to protect themselves from unreasonable demands.

#### 2. People may join a group for goal achievement:

There are times when it takes more than one person to accomplish a particular task - there is a need to pool talents, knowledge, or power in order to get a job completed. In such instances, management will rely on the use of a formal group.

#### 3. Affiliation with groups can meet one's social needs:

Work groups significantly contribute to meet the need for friendships and social relations.

#### 4. Self-esteem transmits people's feelings of self-worth:

Membership can sometimes raise feelings of self-esteem like being accepted into a highly valued group.

#### 5. Status and Recognition:

Status pinpoints a prestige that comes from belonging to a specific group. Inclusion in a group is considered as important because it provides recognition and status.

### 3.14 Types of Groups

Groups can be divided on different bases like interaction between parties, purpose of the group, need for official registration of the members, on number of members and many other. Let's discuss each one by one.

#### 1. Primary and Secondary Groups

This classification is based on interaction between the parties.

##### *Primary Groups-*

The group where an individual directly interacts with other members is termed as the primary group. It is responsible for the initial learning and social behavior of an individual.

##### *Secondary Groups-*

When a person in a group is indirectly associated with or influenced by other members, he/she is said to be in a secondary group.

#### 2. Formal and Informal Groups

This classification is based on the purpose group serves.

##### *Formal Groups-*

When people collaborate to attain the organizational goals or objectives, they are said to form a formal group.

##### **Types of Formal Groups:**

##### **1. Command Groups**

A command group is made of the superiors and their subordinates representing the flow of command or orders from top to bottom level.

##### **2. Task Groups**

A group which includes individuals with different skills and knowledge, to successfully carry out the assigned project, is called as a task group.

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

For the special assignments or projects, a group is formed by appointing the specialists or people with superior knowledge; which is termed as a committee.

##### *Informal Groups-*

When the individuals associate with one another to serve their common interest or for self-satisfaction, they are known to form an informal group.

##### **Types of Informal Groups:**

##### **1. Interest Groups**

The individuals who join hands for a common purpose (related to self-interest) create an interest group.

##### **2. Friendship Groups**

The group which is formed as a result of personal choice by the individuals who are already familiar and feel comfortable with one another, is called a friendship group.

##### **3. Cliques**

In a workplace, few colleagues join hands to form a small group (usually with two to six members) to share ideas and thoughts on their mutual interest.

##### **4. Sub-cliques**

When a clique comprises of few organizational employees along with some non-employees (who are associated with the other members in either way), it termed as a sub-clique.

### **3.Membership and Reference Groups**

This classification is based on need for official registration of the members.

#### ***Membership Group-***

A group in which the members must get themselves registered and acquire a membership card or certificate for becoming a part of it, is termed as a membership group.

#### ***Reference Group-***

It may not be a real association of individuals, an illusionary group to which an individual relates himself/herself due to the same profession or other similar attributes is called a reference group.

### **4.Small and Large Groups**

This classification is based on number of members.

#### ***Small Group-***

Small groups consist of as little as three to ten members. Such groups are usually well managed and organized.

#### ***Large Group-***

The groups made up of more than ten members are considered to be large groups. These massive groups are challenging to handle and unsystematic at times.

### **5.Organized and Unorganized Groups**

This classification is based on structure and bonding among the group members.

#### ***Organized Group-***

When the individuals belonging to a particular discipline work together systematically as a team by supporting each other, they are said to be in an organized group.

#### ***Unorganized Group-***

The disorganized group is not formed purposefully. Instead, the individuals just happened to fall into a single group where they neither have any attachment to one another nor have any belongingness.

### **6.In and Out-going Groups**

This classification is based on belongingness and involvement of individuals.

#### ***In-group-***

A group where an individual is socially active and adopts strong values from the other members is termed as an in-group.

#### ***Out-group-***

The other groups, except the prevalent in-group, where no inter-group exchange of values is facilitated is termed as out-going groups.

### **7.Open and Closed Groups**

This classification is based on scope for entry and exit of the members.

#### ***Open groups-***

The group where the new individuals can freely enter and old members can exit anytime, is known as an open group.

#### ***Closed groups-***

The restricted group where no further entries are entertained, is called as a closed group.

### **8.Temporary and Permanent Groups**

This classification is based on period of time.

#### ***Temporary Group-***

When the individuals come together for a particular project or task accomplishment, they are known to be in a temporary group. Such a group disintegrates after the successful performance of the task.

#### ***Permanent Group-***

Such groups represent a long-term association of the group members. Here, people belonging to a particular organization are known to be in a single group.

### **9.Nominal and Non-performing Groups**

This classification is based on need for action.

#### ***Nominal Group-***

The group in which the members are involved in problem-solving, take up challenges and carry out operations, is termed as a nominal group.

#### ***Non-performing Group-***

Whenever the individuals are put together in a single group, just on a sheet of paper; however, they need not carry out any task, they tend to be in a non-performing group.

### **3.15 Group Development**

Group Development means, forming the association of people to work as a group and direct their actions towards the accomplishment of a common goal. The jobs of each group member are interdependent and hence the performance of one will affect the entire group's performance.

#### **Stages of Group Development:**

In interpreting behavior of a particular group, it is important to recognize not only a broad pattern of development but also the unique characteristics of the particular group and the circumstances that contribute to (or detract from) its development. The way in which a particular group develops, depends in part on such variables as the frequency with which group members interact and personal characteristics of group members.

#### **Five stages of Tuckman of Group Development:**

- 1.Forming
- 2.Storming
- 3.Norming
- 4.Performing
- 5.Adjourning

#### **1.Forming Stage:**

At this stage, the formation of a new group begins, wherein the members come together and get to know each other through the interactions. Here the individuals are excited and anxious to know about the scope of the task and the ways to approach it. Generally, the individuals come with a desire to get accepted by others and avoid controversy or conflicts.

#### **2.Storming Stage:**

The individuals will start interacting with each other in the context of the task to be achieved. The conflict and competition among the group members will be highest at this stage. The issues related to the leadership, responsibility, strategies, rules, authority, evaluation, reward system, etc. arises at the storming stage.

#### **3.Norming Stage:**

Once the role of every member is cleared along with the authority and responsibility of each, the team members start settling in a group. Here, everybody works cohesively towards the target and appreciate each other's experience and skills.

**4.Performing Stage:**

At this stage, synergy gets created between the team members, where everyone works towards the accomplishment of a goal. This stage is characterized by flexibility and interdependence. The team members know each other so well that they can handle any complex problem that comes before the team.

**5.Adjourning Stage:**

This is the last stage of group development, where the group is terminated, and the group members are separated from each other. Every group is created for a purpose, and once the purpose is fulfilled the group is adjourned.

**Features of each stage of Group Development**

*i.Forming* - Little agreement, Unclear purpose, Guidance and direction

*ii.Storming*- Conflict, Increased clarity of purpose, Power struggles, Coaching

*iii.Norming*- Agreement and Consensus, Clear Roles and responsibilities

*iv.Performing*- Clear vision and purpose, Focus on goal achievement, Delegation

*v.Adjourning*- Task completion, good feeling about achievements, Recognition

**3.16 What is Team?**

A team is a small number of employees with complementary competencies who are committed to common performance goals and working relationships for which they hold themselves mutually accountable.



Boeing's C-17 Stuffed Tailcone Team recently set forth a set of goals, three of which included

- (1) employee satisfaction with having a safe work environment as measured by a yearly employee survey and other metrics,
- (2) a 10 percent increase in quality, and
- (3) a two-day reduction in the time required to complete tailcone tasks.

**3.17 Types of Teams**

Few of the possible teams in an organization are:

- 1.Functional Teams
- 2.Problem-solving teams
- 3.Cross-functional teams
- 4.Self-managed teams
- 5.Virtual teams

**1.Functional Teams:**

A functional team usually includes employees who work together daily on similar tasks and must coordinate their efforts. These teams often exist within functional departments: marketing, purchasing, production, engineering, finance, auditing, human resources, and the like.

Within a human resource department, one or more functional teams could perform recruiting, compensation, benefits, safety, training and development, affirmative action, industrial relations, and similar functions.

**2.Problem-solving Teams:**

A problem-solving team is a team that has members who focus on a specific issue, develop a potential solution, and can often take action within defined limits. These teams often address quality or cost problems.

### 3. Cross-functional teams:

A cross-functional team is a team that has members drawn from various work areas whose goal is to identify and solve mutual problems. Cross-functional teams draw members from several areas to deal with problems that cut across departmental and functional lines.

### 4. Self-managed teams:

A self-managed team refers to a team with highly interdependent members who work together effectively on a daily basis to manufacture an entire product (or major identifiable component) or provide an entire service to a set of customers.

### 5. Virtual teams:

Teams that use computer technology to tie together physically dispersed members in order to achieve a common goal.

## 3.18 Formation Phases of Work Teams

There are initially five phases of work teams in the formation process:

1. Training
2. Storming
3. Normalization
4. Performance
5. Dissolution

**1. Training:** the initial phase, when the work team begins to meet and integrate. Although motivated, the members still have some insecurity, but everyone works hard.

**2. Storm:** the initial excitement diminishes along with performance, as the first conflicts arise. The group seeks to “identify” a leader and define everyone’s territories and responsibilities.

**3. Normalization:** once they get to know each other better, members begin to understand and form implicit working rules. A leader emerges recognized by all.

**4. Performance:** with everything defined and integrated, performance is completely aimed towards the defined common objectives.

**5. Dissolution:** with the objective reached, the dissolution phase is characterized by low motivation. It’s the leader’s duty to mitigate this feeling for future projects.

## Summary

- Management is the art of getting things done through others and with formally organized groups.
- Management functions comprise planning, organizing, leading, and controlling.
- Planning is the process of setting enterprise objectives and deciding the future courses of action.
- Organizing is concerned with the determination of relationships among functions, jobs, and personnel.
- If a group in which the individual is working, is conducive for work, the performance of the individual will be similarly affected and vice versa.
- There are many reasons and methods for group formation but groups are mandatory for one’s work.
- A formal group is set up by the organization to carry out work in support of the organization’s goals.
- Informal groups are alliances that are neither formally structured nor organizationally determined.

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- Groups pass through a standard sequence of five stages: Forming, Storming, Norming, Performing and Adjourning.
- A team is a relatively permanent work group whose members must co-ordinate their activities to achieve one or more common objectives.
- A work team generates positive synergy through coordinated effort.
- Teams guarantee good productivity

**Keywords**

Team, Problem-solving teams, Functional Teams, Virtual Teams, Group, Formal Group, Informal Group, Forming, Storming, Adjourning, Planning, Controlling, Organizing, Authority, Responsibility, Management, Effectiveness, Efficiency.

**Self Assessment**

1. Management is essential for the organizations which are
  - A. Non-profit organizations
  - B. Service organizations
  - C. Social organizations
  - D. All of the above
  
2. Successful organizations do not achieve goals by chance but by following a deliberate process known as
  - A. Planning
  - B. Co-ordination
  - C. Controlling
  - D. Management
  
3. Which aspect of management is concerned with the end result?
  - A. Effectiveness
  - B. Efficiency
  - C. Co-ordination
  - D. Controlling
  
4. Efficiency is concerned with
  - A. Doing the right thing
  - B. Doing things right
  - C. Achieving end results
  - D. None of the above
  
5. Tarang Enterprises Limited is planning to increase its sales by 30% in the next quarter. Identify the feature of management being highlighted in the given statement.
  - A. Management is all pervasive
  - B. Management is a goal-oriented process
  - C. Management is a continuous process
  - D. All of the above
  
6. What is known as the primary function of management?
  - A. Controlling
  - B. Organizing
  - C. Planning
  - D. Staffing

7. \_\_\_\_\_ type of plan is not likely to be repeated in future.
- A. Standing plan
  - B. Programme
  - C. Single use plan
  - D. Method
8. Identify the correct sequence of steps involved in the planning process.
- A. Evaluating alternative courses, Identifying alternative course of actions, Setting objectives, Developing premises
  - B. Setting objectives, Identifying alternative course of actions, Evaluating alternative courses, Developing premises
  - C. Setting objectives, Developing premises, Identifying alternative course of actions, Evaluating alternative courses
  - D. Setting objectives, Developing premises, Identifying alternative course of actions, Evaluating alternative courses
9. In which of the following organization structure, each specialist is supposed to give his functional advice to all other foremen and workers?
- A. Line organization
  - B. Functional organization
  - C. Line and staff organization
  - D. All of the above
10. What is a virtual organization?
- A. An organisation that uses information and communications technologies (ICT's) to coordinate activities without physical boundaries between different functions
  - B. An organisation that uses internet technologies to sell products to customers
  - C. An organisation that manages the supply chain using digital technologies
  - D. An organisation that coordinates the workforce via video conferencing
11. A tall structure has a
- A. Narrow Span of Management
  - B. Wide Span of Management
  - C. No Span of Management
  - D. Less Levels of Management
12. \_\_\_\_\_ is the right to command.
- A. Authority
  - B. Responsibility
  - C. Accountability
  - D. None of the above
13. \_\_\_\_\_ is the duty for job performance.
- A. Authority
  - B. Responsibility
  - C. Accountability
  - D. None of the above
14. Authority granted to an employee should be
- A. More than the responsibility entrusted to him
  - B. Less than the responsibility entrusted to him
  - C. Equal to the responsibility entrusted to him
  - D. All of the above
15. The group formed by an organization to accomplish narrow range of purposes within a specified time

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- A. Formal Group
- B. Interest Group
- C. Task Group
- D. Functional Group

16. Groups which are formed as the consequence of organizational structure and work division are known as:

- A. Informal Group
- B. Formal Group
- C. Operational Group
- D. Task group

17. Mr. Ahmad is HR manager in an organization. He has ten employees who directly report to him. They are the part of which of the following group?

- A. Command group
- B. Task group
- C. Friendship group
- D. Interest group

**Answers for Self Assessment**

- |       |       |       |       |       |
|-------|-------|-------|-------|-------|
| 1. D  | 2. D  | 3. A  | 4. B  | 5. B  |
| 6. C  | 7. C  | 8. C  | 9. B  | 10. A |
| 11. A | 12. A | 13. B | 14. C | 15. C |
| 16. B | 17. A |       |       |       |

**Review Questions**

1. Define Management.
2. Discuss various functional areas of management.
3. 'Planning is looking ahead and controlling is looking back.' Comment.
4. Why is Organizational structure important? What sort of organizational structure best suited to custom made product produced in a stable environment a mass product produced in unstable environment?
5. "Organization is the backbone of management". Comment.
6. "Lack of proper management result in the wastage of time, money and efforts" in the light of this statement explains the importance of management.
7. Define "group". Explain the different types of groups.
8. Explain the reasons for forming groups.
9. Explain the different stages of group development.
10. Explain the different types of groups in detail.
11. Why do people join groups?
12. Have you ever come across cross functional teams? What was the biggest problem that the team had?

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## Unit 04: Decision Making and Control Systems

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Further Readings

### Objectives

After studying this chapter, you will be able to:

- understand the concept of decision and decision-making
- learn about decision types and decision-making styles.
- analyze the decision-making wheel or process.
- understand the concept of Controlling.
- discuss the need of Controlling.
- learn about the types of controlling.
- understand the techniques of controlling.

### Introduction

Individuals in organizations make decisions. That is, they make choices from among two or more alternatives. Decision-making is almost universally defined as choosing between alternatives. Decision-making is a critical activity in the lives of managers. The decisions a manager faces can range from very simple, routine matters for which the manager has an established decision rule (programmed decisions) to new and complex decisions that require creative solutions (non-programmed decisions).

Controlling is an important function of management. It is the process that measures current performance and guides it towards some predetermined objectives. Under primitive management, control was undertaken only when something went wrong and the objectives of control was to reprimand the person responsible for these events and take action against him. The modern concept of control envisages a system that not only provides a historical record of what has happened to the business as a whole but also pinpoints the reasons why it has happened and provides data that enable the manager to take corrective steps, if he finds he is on the wrong track. Therefore, there is no intention to punish the person for wrongdoing, but to find out the deviations between the actual performance and the standard performance and to take steps to prevent such variances in future.

### 4.1 What is Decision?

A decision is one when there are different things you can do and you pick one of them. You make lots of decisions every day.

#### **Types of decisions**

The most common types of decisions that a manager might follow or take in a professional life. These are as follows:

**1. Structured Decision:** Structured decisions are the decisions which are made under the established situations.

**2. Unstructured Decision:** Unstructured decisions are made under the emergent situation.

**3. Programmed Decision:** A simple, routine matter for which a manager has an established decision rule.

**4. Non-programmed Decision:** A new, complex decision that requires a creative solution.

**5. Strategic Decision:** Decisions taken by the top-level management to fulfill organizational goals and objectives.

**6. Tactical Decision:** Taken by the middle-level management and constitute allocation of roles and responsibilities to employees.

### **Meaning of Decision-Making:**

It is the process of examining your possibilities options, comparing them, and choosing a course of action.

### **Decision making styles**

The success of any organization depends on managers' abilities to make effective decisions. An effective decision is a timely decision that meets a desired objective and is acceptable to those individuals affected by it. The following styles of Decision making are explained here below:

**1. Participative Style:** In this style of decision making, both the manager and his subordinates work together to arrive at a decision. The subordinates should have the expertise as well as access to the information required to make decisions. Such an approach could be useful when the risk of wrong decision is very low. It is also a great way of involving and encouraging subordinates in the working of the organization

**2. Autocratic Style:** In autocratic style of decision making the manager is the sole decision maker which subordinates follow. The manager has all the information and expertise required to make a quick decision. It is important that the manager is a good decision maker as it is he who has to own up to the consequences of his decision. Though effective, in case the manager is an experienced individual, it can harm the organization if the manager insists on an authoritative type of decision making even when there is expertise available within the team.

**3. Consultative Style:** As the name suggests, consultative decision-making style are made in consultation with the subordinates. However, the fact remains that unlike in the facilitative decision-making style, in consultative decision making it is the manager who holds the decision-making power. A wise manager tends to consult his subordinates when he thinks that they have valuable expertise on the situation at hand.

**4. Democratic Style:** As per the term, the manager passes on the responsibility of making decisions to one or more of his subordinates. This type of decision making is usually adopted by the manager when he is confident of the capabilities of his subordinates.

### **Decision making wheel: Process**

Managers have to make decisions, whether they are simple or extremely complex. Making a good decision is a difficult exercise. It is the product of deliberation, evaluation and thought. To make good decisions, managers should invariably follow a sequential set of steps.

#### **1. Recognize the problem and the need for a decision:**

The manager must become aware that a problem exists and that it is important enough for managerial action. Identification of the real problem is important; otherwise, the manager may be reacting to symptoms and firefighting rather than dealing with the root cause of the problem.

#### **2. Identify the objective of the decision**

In order to monitor the problem situation (decision-making environment), managers may have to look into management reports, check progress against budgets, compare the results against industry competitors, and assess factors contributing to employee efficiency or inefficiency, etc. They have to use judgement and experience in order to identify the exact nature of the problem. In other words, the manager must determine what is to be accomplished by the decision.

### 3. Gather and evaluate data and diagnose the situation

Once aware of a problem, he must state the real problem. He must try to solve the problem, not the symptoms. The manager must pull together sufficient information about why the problem occurred. This involves conducting a thorough diagnosis of the situation and going on a fact-finding mission.

### 4. List and evaluate alternatives

Developing alternative solutions (to the problem) guarantees adequate focus and attention on the problem. It helps managers to fully test the soundness of every proposal before it is finally translated into action. During this step, a thorough "what if" analysis should also be conducted to determine the various factors that could influence the outcome.

### 5. Select the best course of action

Next, the manager selects the alternative that best meets the decision objective. If the problem has been diagnosed correctly and sufficient alternatives have been identified, this step is much easier

### 6. Implement the decision

Finally, the solution is implemented

### 7. Gather feedback

The manager must seek feedback regarding the effectiveness of the implanted solutions. Feedback allows managers to become aware of the recent problems associated with the solution

### 8. Follow-up

Consistent monitoring and periodic feedback is an essential part of the follow-up process.



Thinking Out of the Box @ UPS

It's the world's largest package delivery company with the instantly recognizable brown trucks. Every day United Parcel Service (UPS) transports some 15 million packages and documents throughout the United States and to more than 200 countries. Delivering those packages efficiently is what it gets paid to do, and that massive effort wouldn't be possible without its 99,000-plus drivers.

- **HR challenge:** hiring and training some 25,000 drivers over the next five years to replace retiring Baby Boomers.
- **Plan :**
  - i. Combines its tested business model of uniformity and efficiency with a new approach to driver training.
  - ii. UPS's traditional classroom driver training obviously wasn't working as some 30 percent of its driver candidates failed to make it.
  - iii. The company was convinced that the bulk of its driver recruits – responded best to high-tech instruction instead of books and lectures.
- iv. Now, trainees use video games, a "slip and fall simulator which combines a greased floor with slippery shoes," and an obstacle course around a mock village.
- **Outcome:** Of the 1,629 trainees who have completed it, only 10 percent have failed the training program, which takes a total of six weeks overall including 30 days of driving a truck in the real world.

## 4.2 Concept of Controlling

It is a process of monitoring performance and taking action to ensure desired results.

Control is the process through which managers assure that actual activities conform to planned activities. According to Breach, "Control is checking current performance against predetermined standards contained in the plans, with a view to ensuring adequate progress and satisfactory performance."

### Definition of Controlling

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*According to George R. Terry*, "Controlling is determining what is being accomplished i.e., evaluating the performance and if necessary, applying corrective measures so that the performance takes place according to plans."

*According to Billy E. Goetz*, "Management control seeks to compel events to conform plans".

*According to Robert N. Anthony*, "Management control is the process by which managers assure that resources are obtained and used effectively and efficiently."

In the words of *Koontz and O'Donnell*, "Managerial control implies measurement of accomplishment against the standard and the correction of deviations to assure attainment of objectives according to plans."

### **Need of Controlling**

Control is an indispensable function of management. Without control the best of plans can go awry. A good control system helps an organization in the following ways:

- (i) **Accomplishing organizational goals:** The controlling function measures progress towards the organizational goals and brings to light the deviations, if any, and indicates corrective action.
- (ii) **Judging accuracy of standards:** A good control system enables management to verify whether the standards set are accurate and objective. An efficient control system keeps a careful check on the changes taking place in the organization and in the environment and helps to review and revise the standards in light of such changes.
- (iii) **Improving employee motivation:** A good control system ensures that employees know well in advance what they are expected to do and what are the standards of performance on the basis of which they will be appraised. It, thus, motivates them and helps them to give better performance.
- (iv) **Making efficient use of resources:** By exercising control, a manager seeks to reduce wastage and spoilage of resources. Each activity is performed in accordance with predetermined standards and norms. This ensures that resources are used in the most effective and efficient manner.

### **Controlling Process**

Controlling is a systematic process involving the following steps.

1. **Setting performance standards:** The first step in the controlling process is setting up of performance standards. Standards are the criteria against which actual performance would be measured. Thus, standards serve as benchmarks towards which an organization strives to work.
2. **Measurement of actual performance:** Once performance standards are set, the next step is measurement of actual performance. Performance should be measured in an objective and reliable manner. There are several techniques for measurement of performance. These include personal observation, sample checking, performance reports, etc. As far as possible, performance should be measured in the same units in which standards are set as this would make their comparison easier.
3. **Comparison of actual performance with standards:** This step involves comparison of actual performance with the standard. Such comparison will reveal the deviation between actual and desired results. Comparison becomes easier when standards are set in quantitative terms.
4. **Analyzing deviations:** Some deviation in performance can be expected in all activities. It is, therefore, important to determine the acceptable range of deviations. Also, deviations in key areas of business need to be attended more urgently as compared to deviations in certain insignificant areas.
5. **Taking corrective action:** The final step in the controlling process is taking corrective action. No corrective action is required when the deviations are within acceptable limits. However, when the deviations go beyond the acceptable range, especially in the important areas, it demands immediate managerial attention so that deviations do not occur again and standards are accomplished.

### **Types of Control**

To discuss about types of control, there are mainly three bases for better understanding. These are:

1. On the basis of time.

2. On the basis of designing control systems

3. On the basis of management levels

### On the basis of time:

1. Feed forward (Anticipate the deviation)
2. Concurrent (to control the tasks while they are being performed)
3. Feedback (On completion of task)

### On the basis of designing control systems

1. Market Control (Take decisions in line with the market forces)
2. Bureaucratic Control (ex- hospital cannot issue medicine unless prescribed)
3. Clan Control (Focuses on organizational culture)

### On the basis of management levels

1. Operational (Day to day control)
2. Structural (monitoring of task in hierarchy)
3. Tactical (meeting the departmental objectives)
4. Strategic Control (effectiveness of corporate, business and functional strategies)



Uranus Limited is a company dealing in metal products. The work is mainly divided into functions including production, purchase, marketing, accounts and personnel.

Identify the type of organizational structure followed by the organization

Answer: Functional Structure



Ishita works as a corporate event coordinator in an event management company. She has been made an overall official in charge for organizing a painting exhibition for one of the clients of the company. For ensuring that the exhibition takes place successfully, she identifies the various activities involved and divides the whole work into various task groups like marketing committee, decoration committee and reception committee. In order to facilitate coordination within and among committees, she appoints a supervisor of each group. Each member in the group is asked to report to their respective supervisor of each group. Each member in the group is asked to report to their respective supervisors and all the supervisors are expected to work as per Ishita's orders.

Which function of management being performed by Ishita?

## Control Methods

There are two ways of doing controlling which are known as Financial and Non-financial control methods.

### 1. Non-Financial Control Method-

There is no requirement of financial data and it includes rewards or punishments, stringent recruitment and retirement norms, trainings, management by exception, project progress control, production, and inventory and quality control.

### 2. Financial Control Method-

Availability of data in terms of profits, costs, turnovers, or revenues is shared so that managers can control costs, sustain liquidity, and maintain a balance between assets and liabilities.

## Controlling Techniques

The controlling techniques can be divided into two main types: Traditional and Modern Control techniques.

### Traditional Control Techniques

#### 1. Budgeting:

A budget is a statement of anticipated results during a designating period expressed in financial and non-financial terms. A budget is the monetary or/and quantitative expansion of business plans and policies to be pursued in the future period of time. The term budgeting is used for preparing budgets and other procedures for planning, co-ordination and control of business enterprise. So a budget is a pre-determined statement of management policy during a given period which provides a standard for comparison with the results actually achieved.

**2. Budgetary Control:**

Budgetary control is the process of determining various budgeted figures for the enterprise for the future period and then comparing the budgeted figures with the actual performance for calculating variances, if any. First of all, budgets are prepared and then actual results are recorded. The comparison of Budgeted and actual figures will enable the management to find out discrepancies and take remedial measures at a proper time. The budgetary control is a continuous process which helps in planning and co-ordination. It provides a method of control too. A budget is a means and budgetary control is the end-result.

**3. Cost Control:**

Cost control is a control of all the costs of an enterprise in order to achieve cost effectiveness in business operations. Cost can be classified as: fixed cost, variable cost, semi-variable cost. The fixed costs are incurred over a period over a period of time and are not directly related to production. These costs remain the same even if there is an increase or decrease in production. Variable costs; on the other hand, change in the proportion of output. Semi-variable costs are fixed as well as variable in nature. Some costs may be incurred continuously, others now and then and still others only deemed to be incurred (depreciation).

**4. Inventory Control:**

Inventory control or materials management connotes controlling the kind, amount, location and timing of various commodities used in and produced by the industrial enterprises. It is the control of materials in such a manner that it ensures maximum return on working capital. Inventory control is necessary for the smooth and uninterrupted functioning of production department. Its main purpose is to maintain an adequate supply of correct material at the lowest total cost. Inventory control is exercised at three stages. (i) purchasing of materials (ii) storing of materials (iii) issuing of materials.

**5. Profit and Loss Control:**

Profit and loss control is a simple and commonly used overall control device to find out the immediate revenue or cost factors responsible for either the success of an enterprise. As a control device it is regarded very effective in certain respects because it enables the management to influence in advance revenues, expenses and consequently even profits. The sales, expenses and profit of different departments or for different products are compared with that of other departments or products. The department or product becomes a cost center. The in charge of the department is responsible for its performance. Even historical comparison is done to assess the performance. In case there are deviations in performance then immediate steps are taken to rectify them.

**6. Statistical Data Analysis:**

Statistical data analysis is an important control technique. This analysis is possible by means of comparison of ratios, percentages, averages, trends etc. of different periods with a view to pinpoint deviations and causes. This method of control is very useful in case of inventory control, production control and quality control. The minimum and maximum control limits are fixed and deviations within these limits are allowed but if variations go beyond prescribed parameters then immediate steps are taken to correct them. Statistical control charts are prepared with the help of collected data and permissible limits are plotted. A look at the chart will give an idea to the viewer if everything is going as per the plans or not. So analysis of data is a good device of control.

**Modern Control Techniques****1. Return on Investment Control:**

Profits are the measure of overall efficiency of a business. Profit earned in relation to the capital employed in a business is an important control device. If the rate of return on investment (shareholder's funds) is quite satisfactory, it will be taken as a yard-stick of good performance. The

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return on investment can be compared over period of time as well as with that of other similar concerns. This comparison will show the Notes present performance in relation to earlier periods and also the level of achievement of the concern in comparison to other concerns.

**2. Programme Evaluation and Review Technique (PERT):**

Programme evaluation and review technique (PERT) was first developed as a management tool for coordination and early completion of Polaris Ballistic Missile Project in USA resulting in a reduction of 30 per cent time in project execution. A contemporary of PERT is CPM (Critical Path Method) and was developed in connection with maintenance and construction work.

**3. Management Information System:**

PERT is useful at several stages of project management starting from early planning stages when various alternative programmes are being considered to the scheduling phase, when time and resources schedules are laid out, to final stage in operation, when used as control device to measure actual versus planned progress. PERT uses 'network' as the basic tool of project management and is helpful in completing a project on schedule by coordinating different jobs involved in its completion.

**4. Management Auditing:**

Management audit is an investigation by an independent organization to find out whether the management is carried out most effectively or not. In case there are drawbacks at any level then recommendations should be given to improve managerial efficiency. In the words of Leslie R. Howard, "Management audit is an investigation of a business from the highest level downward in order to ascertain whether sound management prevails throughout, thus facilitating the most effective relationship with the outside world and the most efficient organization and smooth running internally.

**Summary**

- Decision-making can be regarded as an outcome of cognitive processes leading to the selection of a course of action among several alternatives.
- Making a decision implies that there are alternative choices to be considered and the best alternative is to be chosen.
- Controlling is a process of monitoring performance and taking action to ensure desired results.
- Controlling techniques are of two types: Traditional and Modern Control techniques.

**Keywords**

Controlling, Decision-Making, Programmed Decision, Control techniques, Control methods, PERT.

**Self Assessment**

1. The selection of best alternative from many alternatives is known as \_\_\_\_\_.
  - A. selection.
  - B. decision-making.
  - C. organizing.
  - D. budgeting.
  
2. Deal with routing and repetitive problems is a \_\_\_\_\_.
  - A. programmed decision.
  - B. non-programmed decision.
  - C. major decision.
  - D. minor decision.

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3. Decision making is (simplistically) typically described as which of the following?
  - A. Deciding what is correct
  - B. Putting preferences on paper
  - C. Choosing among alternatives
  - D. Processing information to completion
  
4. The decisions which are made under the established situations are known as \_\_\_\_\_.
  - A. Structured decisions
  - B. Unstructured Decisions
  - C. Strategic Decisions
  - D. Tactical Decisions
  
5. Which cannot be considered as a decision-making style?
  - A. Autocratic
  - B. Democratic
  - C. Consultative
  - D. Strategic
  
6. Which type of decisions are taken by the top-level management to fulfil organizational goals and objectives?
  - A. Tactical
  - B. Programmed
  - C. Strategic
  - D. Structured
  
7. Decisions can be taken by only top management in any organization.
  - A. True
  - B. False
  
8. \_\_\_\_\_function of management not only helps in keeping a track on the progress of activities but also ensures that activities conform to standards.
  - A. Planning
  - B. Controlling
  - C. Organizing
  - D. Directing
  
9. Control function of management cannot be performed without \_\_\_\_\_.
  - A. Planning
  - B. Controlling
  - C. Directing
  - D. Organizing
  
10. Effective control through efficient superiors can only be a guarantee for success.
  - A. True
  - B. False
  
11. .... is a fundamental management function that ensures work accomplishment according to plans.
  - A. Planning
  - B. Controlling
  - C. Directing
  - D. Organizing

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12. Which is not a type of control on the basis of time?  
 A. Market Control  
 B. Feed-forward control  
 C. Concurrent Control  
 D. Feedback Control
13. In which method, there is no requirement of financial data?  
 A. Financial Control  
 B. Non-financial Control  
 C. Traditional  
 D. Modern
14. Financial statements show financial position of a firm over a period of time, generally \_\_\_\_\_ year.  
 A. One  
 B. Two  
 C. Three  
 D. Four
15. Which controlling method will provide the first-hand information to managers for better control?  
 A. Personal Observation  
 B. Financial Statements  
 C. Written instructions  
 D. Setting Examples

**Answers for Self Assessment**

- |       |       |       |       |       |
|-------|-------|-------|-------|-------|
| 1. B  | 2. A  | 3. C  | 4. A  | 5. D  |
| 6. C  | 7. B  | 8. B  | 9. A  | 10. A |
| 11. B | 12. A | 13. B | 14. A | 15. A |

**Review Questions**

1. 1. Define controlling. Discuss its characteristics.
2. 2. Discuss types of controlling.
3. 3. Discuss various control techniques.
4. Define Decision. What is decision making technique?
5. What are the different types of controlling techniques?
6. Make a decision-making wheel for a situation of your own life.

**Further Readings**

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## Unit 05: Leadership

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### Objectives

After studying this chapter, you will be able to:

- Understand the concept of leadership
- Understand the leadership skills
- Explore the styles of leadership
- Understand the theories of leadership.
- Analyze the Trait theory of leadership.
- Analyze the Situational Theory of Leadership.

### Introduction

Leadership is a key process in any organization. We attribute the success or failure of any organization to its leadership. When a business venture, or a cricket team is successful, its managing director or the captain often receives the credit. When failure occurs, it is usually the same individual at the top that is replaced. Thus, one of the key elements of concern in any organization is how to attract, train, and keep people who will be effective leaders.

### 5.1 What is Leadership?

Leadership is defined as “a process whereby an individual influences a group of individuals to achieve a common goal.

#### **Definition of Leadership**

Leadership is the process of influencing the activities of an individual or group in efforts toward goal achievement in a given situation. – Hersey and Blanchard.

Leadership is the art of influencing others to their maximum performance to accomplish any task, objective or project. – Cohen



Do you need to have a formal position of authority to be a leader?

**Characteristics of Leadership**

1. **Influence the behaviour of others:** Leadership is an ability of an individual to influence the behaviour of other employees in the organization to achieve a common purpose or goal so that they are willingly co-operating with each other for the fulfilment of the same.
2. **Inter-personal process:** It is an interpersonal process between the leader and the followers. The relationship between the leader and the followers decides how efficiently and effectively the targets of the organization would be met.
3. **Attainment of common organizational goals:** The purpose of leadership is to guide the people in an organization to work towards the attainment of common organizational goals. The leader brings the people and their efforts together to achieve common goals.
4. **Continuous process:** Leadership is a continuous process. A leader has to guide his employees every time and also monitor them in order to make sure that their efforts are going in the same direction and that they are not deviating from their goals.
5. **Group Process:** It is a group process that involves two or more people together interacting with each other. A leader cannot lead without the followers.
6. **Dependent on the situation:** It is situation bound as it all depends upon tackling the situations present. Thus, there is no single best style of leadership.
7. **Leadership styles and patterns:** Tannenbaum and Schmidt have described the range of possible leadership behavior available to a manager. Each type of action is related to the degree of authority used by the boss and to the degree of freedom available to his subordinates in reaching decisions.

**Importance of Leadership**

The importance of leadership in an organization cannot be denied. People working in an organization need individuals (leaders) who could be instrumental in guiding the efforts of groups of workers to achieve goals and objectives of both the individuals and the organization. The leader guides the action of others in accomplishing these tasks. A good leader motivates his subordinates, creates confidence and increases the morale of the workers. In the words of Peter F Drucker – “Good leadership is a must for the success of a business but the business leaders are the scarcest resources of any enterprise”. The following points highlight the importance of leadership:

1. **Initiating Action:** Leadership starts from the very beginning, even before the work actually starts. A leader is a person who communicates the policies and plans to the subordinates to start the work.
2. **Providing Motivation:** A leader motivates the employees by giving them financial and non-financial incentives and gets the work done efficiently. Motivation is the driving force in an individual’s life.
3. **Providing Guidance:** A leader not only supervises the employees but also guides them in their work. He instructs the subordinates on how to perform their work effectively so that their efforts don’t get wasted.
4. **Creating Confidence:** A leader acknowledges the efforts of the employees, explains to them their role clearly and guides them to achieve their goals. He also resolves the complaints and problems of the employees, thereby building confidence in them regarding the organization.
5. **Building Work Environment:** A good leader should maintain personal contacts with the employees and should hear their problems and solve them. He always listens to the point of view of the employees and in case of disagreement persuades them to agree with him by giving suitable clarifications.
6. **Co-ordination:** A leader reconciles the personal interests of the employees with the organizational goals and achieves co-ordination in the entity.
7. **Creating Successors:** A leader trains his subordinates in such a manner that they can succeed him in future easily in his absence. He creates more leaders.

8. **Induces Change:** A leader persuades, clarifies and inspires employees to accept any change in the organization without much resistance and discontentment. He makes sure that employees don't feel insecure about the changes.

### Leadership Skill

The leader is expected to play many roles and therefore, must be qualified to guide others to organizational achievement. Although no set of absolute traits or skills may be identified, individuals who would be leaders must possess abilities to lead others. They must have certain attributes to help them in performing their leadership role. Broadly speaking, the skills that are necessary for an industrial leader may be summarized under four heads:

1. **People Skills:** Leadership is all about attracting people to your vision and getting the team to perform tasks that bring the organization closer to the goals. Without the skills to interact, work and guide other people, the leadership is doomed to fall apart.

Key elements of people skills:

1. Learning how to delegate.
2. Knowing how to give and receive feedback
3. Understanding Behavior
4. Being able to work as a team.

2. **Communication Skills:** Leaders are essentially visionary storytellers who must be able to convince and inspire others with their message. Communication is also much more than the ability to talk in an inspiring way. Communication is built through the ability to listen, to negotiate and by creating meaningful connections.

3. **Decision Making Skills:** Leadership is about being able to make decisions in an efficient manner and with confidence that you've made the right choice.

4. **Problem-solving Skills:** Being able to make decisions is an important skill, but to complement it, leadership needs to solve problems as well.

5. **Strategic Thinking Skills:** One of the most essential leadership skills is strategic thinking. Strategic thinking is often considered as a skill only a selected few possess, but it can be learned and developed.

### Manager vs Leader

Let's understand the difference between manager and leader in tabular form:

MANAGER	LEADER
Administer	Innovates
Maintains	Develops
Relies on Control	Inspire Trust
Short-range view	Long-range perspective
Asks How and When	Asks Why and What
Imitates	Originates
Focuses on System and Structure	Focuses on People
Does things Right	Does the Right Thing

## Leadership Styles

Leadership style refers to the behavior pattern adopted by a leader to influence the behavior of his subordinates for attaining the organizational goals. As different leadership styles have their own merits and demerits, it is difficult to prefer one leadership style over another. The selection of a leadership style will depend on the consideration of a number of factors.

Tannenbaum and Schmidt have pointed out the important factors that affect the choice of a style of leadership. They are:

1. Forces in the manager, i.e., the manager's personality, experience and value system.
2. Forces in the subordinates, i.e., the subordinates' readiness for taking decisions, and their knowledge, interest, need for independence, etc.
3. Forces in the situation, i.e., complexity of the problem, pressure of time etc.

### *I. Traditional Leadership Styles*

The different types of leadership styles are:

1. Authoritarian (Autocratic) Leadership
  2. Participative (Democratic) Leadership
  3. Delegative (Laissez-Faire) Leadership
1. **Autocratic:** In the Autocratic Leadership Style, the leader centralizes the decision-making power in himself and give directions to his subordinates as to what they are supposed to do and how they are required to perform the given task. Thus, a leader enjoys the full authority and imposes his will on others.
  2. **Participative:** In the Participative Leadership Style, the leader encourages his subordinates to contribute their ideas or opinion in the group situations and share responsibility in them.
  3. **Delegative/Laissez-Faire:** The Laissez-Faire or Free-Rein is the leadership style wherein the leader gives full freedom to his subordinates to act on their own. Here, the leader once defines the goals, policies, programmes and the limitations for action and then leaves the remaining process to be accomplished by the subordinates on their own.

### *II. Transactional Leadership*

Transactional leadership is a set of activities that involve an exchange between followers and leader and deal with daily tasks (Bass, 1990). Transactional leadership deals with those day-to-day tasks that get the job done.

### *III. Charismatic Leadership:*

Charismatic leaders don't doubt their own decisions, they move forward unwaveringly and believe that the decisions they make are the correct ones. They move through a crowd of their followers shaking hands and lending an encouraging word. They are undeniably clear on their expectations and where they see the company going. They have mastered the art of developing images for themselves that others want to emulate.

### *IV. Transformational Leadership:*

Transformational leaders motivate and teach with a shared vision of the future. They communicate well. They inspire their group because they expect the best from everyone and hold themselves accountable as well.

Transformational leaders usually exhibit the following traits:

1. Integrity
2. Self-awareness
3. Authenticity
4. Empathy

### *V. Servant Leadership:*

A "servant leader" is someone, regardless of their level on the corporate hierarchy, who leads by meeting the needs of the team. (Greenleaf, 1970). Values are important in the world of servant

leadership, and those that lead within this network do so with generosity of spirit. Servant leaders can achieve power because of their ideals and ethics.



### Southwest Airlines

How can an airline survive a government order to ground its entire fleet and shut down for days? After 9/11, all U.S. airlines were faced with this same crisis. One that succeeded through the difficulty was Southwest Airlines, already known for its outstanding customer service. Southwest's passengers, flight attendants, pilots and ground crews were stranded all across the country after the terrorist attacks.

But unlike their competition, Southwest's leadership did more than just sit and wait. They encouraged employees to leverage their trademark fun approach to business and to help stranded customers enjoy themselves at the movies or the local bowling alley. And when the ramifications of the shutdown forced other airlines to cut staff, Southwest's then-CEO, James Parker, announced just three days after 9/11 that the company would be keeping all of its employees, as well as issuing a profit-sharing payment.

### *How leader handled?*

Leadership characteristics like crisis management, creative problem solving and a strong belief in the company's vision saw Southwest through this unimaginable situation. The CEO also protected his staff, which ultimately led to a stronger airline.



### Starbucks

Starbucks is recognized for treating its employees, also known as partners, well. The coffee giant offers insurance benefits, stock options and retirement plans. But back in 1997, Starbucks faced a crisis when tragedy struck and three employees were killed during a robbery in Washington, D.C. The outstanding leadership of CEO Howard Schultz was demonstrated when he flew straight to D.C. and spent a week with the co-workers and families of the three employees.

### *Leadership Traits*

While some leaders might have stayed as far away as possible from this tragic situation, Shultz's natural leadership traits prevailed. With compassion, approachability and a dedication to meeting his partners' needs, he did what was right. As a result, the public viewed him and Starbucks more favorably.

## **5.2 Theories of Leadership**

Different authorities and different researchers have viewed leadership differently. Some put emphasis on personal options, while others view leadership as situational. The researchers conducted by behavioral scientists to find out what makes a leader effective have resulted in "theories of leadership". The important theories of leadership are listed/discussed below:

1. Trait Theories
2. Behavioral Theories
3. Contemporary Theories

### **1. Trait Theories:**

Theories of leadership that consider personal qualities and characteristics that differentiate leaders from non-leaders are known as Trait Theories. Trait theories of leadership focus on personal qualities and characteristics. The trait model of leadership is based on the characteristics of many leaders - both successful and unsuccessful - and is used to predict leadership effectiveness. The resulting lists of traits are then compared to those of potential leaders to assess their likelihood of success or failure.

**Core Traits:**

**Achievement drive:** High level of effort, high levels of ambition, energy and initiative

**Leadership motivation:** an intense desire to lead others to reach shared goals

**Honesty and integrity:** trustworthy, reliable, and open

**Self-confidence:** Belief in one's self, ideas, and ability

**Cognitive ability:** Capable of exercising good judgment, strong analytical abilities, and conceptually skilled

**Knowledge of business:** Knowledge of industry and other technical matters

**Emotional Maturity:** well, adjusted, does not suffer from severe psychological disorders.

**Others:** charisma, creativity and flexibility

**Strengths of Trait Theory:**

- It is naturally pleasing theory.
- It is valid as lot of research has validated the foundation and basis of the theory.
- It serves as a yardstick against which the leadership traits of an individual can be assessed.
- It gives a detailed knowledge and understanding of the leader element in the leadership process.

**Limitations of Trait Theory:**

- There is bound to be some subjective judgment in determining who is regarded as a 'good' or 'successful' leader
- The list of possible traits tends to be very long. More than 100 different traits of successful leaders in various leadership positions have been identified. These descriptions are simply generalities.
- There is also a disagreement over which traits are the most important for an effective leader
- The model attempts to relate physical traits such as, height and weight, to effective leadership. Most of these factors relate to situational factors. **For example**, a minimum weight and height might be necessary to perform the tasks efficiently in a military leadership position. In business organizations, these are not the requirements to be an effective leader.
- The theory is very complex.

**Implications of Trait Theory:**

- The trait theory gives constructive information about leadership.
- It can be applied by people at all levels in all types of organizations.
- Managers can utilize the information from the theory to evaluate their position in the organization and to assess how their position can be made stronger in the organization.
- They can get an in-depth understanding of their identity and the way they will affect others in the organization.
- This theory makes the manager aware of their strengths and weaknesses and thus they get an understanding of how they can develop their leadership qualities.



Do you Agree?

"Successful leaders definitely have interests, abilities, and personality traits that are different from those of the less effective leaders."

## 2. Behavioural Theory of Leadership

According to this theory, a particular behavior of a leader provides greater satisfaction to the followers and so they recognize him as a good leader. The behavioral approach is based on the premise that effective leadership is the result of effective role behavior. A leader uses conceptual, human and technical skills to influence the behavior of his subordinates. The behavioral theory does not concentrate on the traits of leaders; it inspires study of the activities of leaders to identify their behavioral patterns.

The inability of the trait approach to consistently define specific traits that would differentiate successful and unsuccessful leaders led to the conclusion that emphasis on the behavior of leaders (which could be measured) rather than emphasis on traits (which could not be measured) were an appropriate new research strategy. Beginning in the late 1940s and continuing through the early 1960s, research based on this emphasis was conducted at Ohio State University and the University of Michigan.

### *i. The Ohio State University Studies:*

A team of Ohio State University researchers including Edwin Fleishman conducted extensive surveys. The goal of the research was to:

- (a) Identify the behaviors exhibited by leaders.
- (b) Determine what affect these behaviors had on employee satisfaction and performance.
- (c) Identify the best leadership style

### *ii. University of Michigan Studies:*

After studying numerous industrial situations, the researchers concluded that two leadership styles – employee-centered and production or task-centered – influenced employee performance and satisfaction.

**(a) Task-Centered Leader Behavior:** An effort to lead employees by focusing on work and how well employees perform. The task-centered leader pays close attention to employees' work, explains work procedures, and is deeply interested in performance.

**(b) Employee-centered Leader Behavior:** An effort to lead employees by developing a cohesive work group and ensuring employee satisfaction. The employee-centered leader emphasizes employees' well-being rather than the tasks they perform.

## 3. Contingency Theory of Leadership

Fiedler's contingency model is one of the most serious and elaborate situational theories in leadership literature. Fiedler is probably the first researcher who recognized the need for a broader explanation of leadership phenomena anchored on situational variables.

Fiedler's model is called a 'contingency' model because the leader's effectiveness is partially contingent upon three major situational variables.

### **i. Leader-member relations:**

It refers to the degree of confidence, trust and respect followers have in the leader. It indicates the degree to which group members like the leader and are willing to accept the leader's behavior, as an influence on them. If followers are willing to follow because of charisma, expertise, competence or mutual respect, the leader has little need to depend on task structure or position power. If, on the other hand, the leader is not trusted and is viewed negatively by followers, the situation is considered less favorable.

### **ii. Task structure:**

It measures the extent to which the task performed by subordinates is routine or non-routine. Task structure refers to the degree to which the task requirements are clearly defined, (clarity of goals) the correctness of a decision can be easily verified (verifiability of decisions made) and there are alternative solutions to task problems (multiplicity of options to solve problems). In other words, task structure refers to how routine and predictable the work group's task is.

**iii. Leader position power:**

The most obvious manner in which the leader secures power is by accepting and performing the leadership role. Position power in the contingency model refers to the power inherent in the leader’s organizational position. It refers to the degree to which the leader has at his disposal various rewards and sanctions, his authority over group’s members, and the degree to which this authority is supported by the organization.

**iv. Favorableness of the situation:**

Thus, depending on the ‘high’ and low’ categories of these situational variables, Fiedler developed eight possible combinations ranging from highly favorable to unfavorable situations.



**Hiring a New Assistant Middle School Principal**

- Principal Maureen Moser has two finalists for potential assistant principals at a new middle school in an affluent Midwestern area.
- Her hiring team consists of faculty, staff, and parents.
- Both finalists were teachers having no prior principal experience but are from differing backgrounds.
- It is important to note that Maureen identifies strongly with one candidate as reflective of her own traits while she finds the traits of the other candidate as complementary to her own.

**Trait Approach**

- The idea that both candidates, and the principal, carry innate characteristics that make them valuable leaders informs the hiring practice of a principal subscribing to the trait approach.
- In this case, the hiring principal acknowledges her own traits and those of her ideal candidate while examining how the traits of the two finalists fit into that ideal.

**Traits of the Potential Assistant Principal Candidates**

**Jaimie - 5th Grade Suburban Elementary Teacher**

- Organized
- Dependable
- Creative
- Accepting
- Trusting
- Nurturing

**Dwayne - 6th-8th Urban Grade Teacher and Coach**

- Assertive
- Positive
- Decisive
- Confident
- Determined
- Intelligent

*Valued Traits from Different Perspectives*

Principal Perspective	Parental perspective	Teacher Perspective
Confidence	Dependability	Trusting
Consistency	Nurturing	Engaging
Dependability	Accepting	Open

### ***Hiring Principal's Traits and their Effects***

Principal Moser is looking for someone who will be able to manage school operations, discipline students, conduct conferences, and coach in instructional planning.

She is described as being chosen to head this new school because of her confidence, determination, and engaging personality traits.

Having been promoted based on specific leadership traits, it is possible that she identifies and values those same traits in her future assistant principal.

Valuing traits that mirror one's own over differing traits may affect hiring practices when considering the overall makeup of leaders and followers in an organization.

### ***Mirror or Complementary***

Both Maureen and Dwayne project confidence and intelligence while engaging their followers.

Because of these similar traits, Maureen most likely sees Dwayne as a mirror image of herself even though their backgrounds and situations may differ (Dwayne comes from a more urban, coaching environment as a language arts teacher).

Maureen expresses that the other candidate, which exhibits different traits from her, may contribute to a more well-rounded faculty.

Jaimie is described as being more creative, trusting, accepting, and nurturing - traits that could be valuable in her previous role as a 5th grade teacher.

### ***Challenges of Trait Approach***

- Dwayne and Jaimie are similarly qualified but differ in personality and traits.
- These traits will no doubt have an impact on the overall educational environment.
- If using the trait approach, Maureen will need to weigh the advantages of their differing traits from multiple viewpoints of staff, parents, students, and principal.
- Maureen could choose the confident and engaging basketball coach in hopes to rally the educational community together but may miss the creative and nurturing aspects that elementary teacher could provide.
- Choosing a candidate with similar leadership traits may present the potential for conflict or power struggles when conflict arises between the two confident administrators.
- Similarly, trusting and accepting administrators may be perceived as weaker in the eyes of the community, thus creating conflict through decreased confidence in ability.

### **Summary**

Leadership is a process by which an individual influences the thoughts, attitudes, and behaviors of others.

Leaders set a direction for the rest of the group and help it to see what lies ahead.

They help the team visualize what it might achieve and encourage as well as inspire the entire team to perform up to its true potential.

Without leadership a group degenerates into non-performers.

That is why the practice of leadership is known to be a key business differentiator.

In order to increase individual effectiveness, one must certainly possess good team skills coupled with great leadership qualities.

### **Keywords**

Leader, Leadership, Trait theory, Behavioral theory, Servant Leadership, Charismatic Leadership.

**Self Assessment**

1. We need to have a formal position of authority to be a leader.
  - A. True
  - B. False
  
2. Leader always do the right things.
  - A. True
  - B. False
  
3. In which leadership style, a leader enjoys the full authority and imposes his will on others.
  - A. Autocratic
  - B. Participative
  - C. Delegative
  - D. Transformational
  
4. Leadership is an inter-personal process between the leader and the followers.
  - A. True
  - B. False
  
5. \_\_\_\_\_ the leadership style wherein the leader gives full freedom to his subordinates to act on their own.
  - A. Laissez-faire
  - B. Participative
  - C. Autocratic
  - D. Delegative
  
6. Who is responsible of doing administrative tasks in an organization?
  - A. Manager
  - B. Leader
  - C. Both Manager and Leader
  - D. None of the above
  
7. \_\_\_\_\_ leadership is a set of activities that involve an exchange between followers and leader and deal with daily tasks.
  - A. Transactional
  - B. Transformational
  - C. Servant
  - D. Charismatic
  
8. \_\_\_\_\_ theories of leadership focus on personal qualities and characteristics.
  - A. Trait Theory
  - B. Behavioral Theory
  - C. Contingency Theory
  - D. All of the above
  
9. Successful leaders definitely have interests, abilities, and personality traits that are different from those of the less effective leaders.
  - A. True
  - B. False

10. Which trait explains capability of exercising good judgment, strong analytical abilities, and conceptually skilled?
- Cognitive Ability
  - Emotional Maturity
  - Leadership Motivation
  - Self-Confidence
11. Theories of leadership that consider personal qualities and characteristics that differentiate leaders from non-leaders are known as \_\_\_\_\_ theory.
- Trait Theory
  - Behavioral Theory
  - Contingency Theory
  - All of the above
12. Which theory suggests that no single leadership style is best?
- Situational
  - Behavioral
  - Trait
  - Ohio State
13. How many types of leadership exist as per situational theory of leadership?
- Three
  - Four
  - Five
  - Six
14. Which leadership styles fits best with employees having low maturity level?
- Telling
  - Selling
  - Participating
  - Delegating
15. Which leadership styles fits best with employees having high maturity level?
- Telling
  - Selling
  - Participating
  - Delegating

### **Answers for Self Assessment**

- |       |       |       |       |       |
|-------|-------|-------|-------|-------|
| 1. B  | 2. A  | 3. A  | 4. A  | 5. A  |
| 6. A  | 7. A  | 8. A  | 9. A  | 10. A |
| 11. A | 12. A | 13. B | 14. A | 15. D |

### **Review Questions**

- "A good leader is one who understands his subordinates, their needs and their sources of satisfaction". Comment.
- What is the difference between a leader and a manager?
- Critically examine the different approaches to the study of leadership behavior. Is there one best style of leadership?
- "Leadership is the driving force which gets thing done by others". Discuss
- Which is your favorite leadership style and why?

6. It is well known maxim that leadership is what a leader show. What according to you is leadership?
7. What do you think are the limitations of the trait theory?



### **Further Readings**

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## Unit 06: Motivation

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### Objectives

After studying this chapter, you will be able to:

- Understand the concept of motivation
- Learn the elements in motivation
- Explore the significance of motivation
- Learn about Maslow Need Hierarchy theory
- Learn about Herzberg two factor theory
- Learn about ERG theory
- To understand different contemporary motivation theories.
- Application of contemporary motivation theories in companies.

### Introduction

The biggest challenge faced by the organizations is to get the work done by their employees. This entirely depends on the motivation levels of the employees. Their motivation is a result of their needs and organizational expectations. If the employees are adequately motivated, the organization will be able to meet its objectives. Motivation is the process of rousing and sustaining goal-directed behavior. Motivation is one of the more complex topics in organizational behavior. Motivation comes from the Latin word "movere" which means, "to move". A motive is an inner state that encourages, activates or moves and that directs behavior towards goals. Thus, motivation is psychological force within an individual that sets him in motion for the achievement of certain goals or satisfaction of certain needs.

High performance is achieved by well-motivated people who are prepared to exercise discretionary effort. Even in fairly basic roles, Hunter et al (1990) found that the difference in value-added discretionary performance between 'superior' and 'standard' performers was 19 per cent. For highly complex jobs it was 48 per cent. To motivate people, it is necessary to appreciate how motivation works. This means understanding motivation theory and how the theory can be put into practice.

## 6.1 What is Motivation?

A motive is a reason for doing something. Motivation is concerned with the strength and direction of behavior and the factors that influence people to behave in certain ways. The term 'motivation' can refer variously to the goals individuals have, the ways in which individuals chose their goals and the ways in which others try to change their behavior.

What makes people work? Why do some people perform better than others? Why does the same person act differently at different times? Perhaps one of the biggest questions confronting organizations today is the "people" question. A manager must stimulate people to action to accomplish the desired goals; he must fuse the varied individual human capacities and powers of the many people employed into a smoothly working team with high productivity. How do we get people to perform at a higher than "normal" percent of their physical and mental capacities and also maintain satisfaction? This is the challenge of motivation.

### Definition of Motivation

Gray Starke, "Motivation is the result of processes, internal or external to the individual, that arouse enthusiasm and persistence to pursue a certain course of action."

Stephen P Robbins, "We define motivation as the willingness to exert high levels of effort toward organisational goals, conditioned by the effort's ability to satisfy some individual needs."

S. Zedeck and M. Blood, "Motivation is a predisposition to act in a specific goal-directed way."

Atkinson J.W, "(Motivation is) the immediate influences on the direction, vigour and persistence of action."

S.W Gellerman, "(Motivation is) steering one's actions toward certain goals and committing a certain part of one's energies to reach them."

M.R. Jones, "(Motivation is) how behaviour gets started, is energized, is sustained, is directed, is stopped and what kind of subjective reaction is present in the organism while all these are going on."

## 6.2 Characteristics of Motivation

The characteristics of motivation are described as under:

### 1. *Motivation is a psychological phenomenon*

It is the inner desire of an individual to achieve something more. More is the individual motivated better performance and organization relations.

### 2. *Motivation is a continuous process*

Since need and desire are endless so the need is a continuous phenomenon if one need is satisfied the other need emerges.

### 3. *Motivation is caused due to anticipated perceived value from an action*

Perceived value is the probability or expectancy.  $\text{motivation} = \text{value} \times \text{expectancy}$ .

### 4. *Motivation varies from person to person and time to time*

Motivation is different for different persons and it also varied according to time and place because wants are different for different people, according to time and places.

### 5. *An individual is motivated by positive or negative motivation*

Positive motivation is based on incentives or reward. Incentive can be monetary and non-monetary.

Negative motivation is based on penalties, calling for explanation, threats, fear, etc. Fear of losing the job or promotion.



Is highly motivated employee always successful in a job?  
Think upon

## Key elements or components of motivation

The three elements of motivation or components are:

- i. Intensity* – the amount of effort put forth to meet the goal
- ii. Direction* – efforts are channeled toward organizational goals
- iii. Persistence* – how long the effort is maintained

Let's understand further: Intensity refers to how hard a person tries to achieve his or her goal. Danny clearly enjoys reading and does a lot of it – his intensity for reading is high, but his intensity around history is low.

Direction refers to the area to which an individual focuses his efforts, and the quality of those focused efforts. The direction of Danny's reading—that is, reading comic books instead of textbooks—is poor. When he reads his textbooks, the quality of the effort Danny puts into the activity is also poor. He doesn't commit lines to memory or absorb themes like he does when he reads comic books.

Finally, there is persistence, or the amount of time an individual can maintain the effort to achieve a goal. Danny is an avid reader and will continue to read as long as his favorite authors and artists produce new issues and series. He's persistent about that, but it remains to be seen if he'll return to his textbooks and try to read those. Right now, Danny opens up his textbooks and tries to read, but he doesn't try for very long. His level of persistence is not where it needs to be to consider him "motivated."

## 6.3 Types of Motivation

There are two types of motivation: Intrinsic motivation and Extrinsic motivation.

**1. Intrinsic Motivation:** Intrinsic motivation can arise from self-generated factors that influence people's behaviour. It is not created by external incentives. Intrinsic Motivation occurs when an individual is "turned on to one's work because of the positive internal feelings that are generated by doing well.

It can take the form of motivation by the work itself when individuals feel that their work is important, interesting and challenging and provides them with a reasonable degree of autonomy (freedom to act), opportunities to achieve and advance, and scope to use and develop their skills and abilities.

**2. Extrinsic Motivation:** Extrinsic Motivation results from the potential or actual receipt of extrinsic rewards. This motivation occurs when things are done to or for people to motivate them.

These include rewards, such as incentives, increased pay, praise, or promotion; and punishments, such as disciplinary action, withholding pay, or criticism. Extrinsic motivators can have an immediate and powerful effect, but will not necessarily last long.

Extrinsic motivators can have an immediate and powerful effect, but will not necessarily last long. The intrinsic motivators, which are concerned with the 'quality of working life' (a phrase and movement that emerged from this concept), are likely to have a deeper and longer-term effect because they are inherent in individuals and their work and not imposed from outside in such forms as incentive pay.

## Significance of Motivation

Broadly, the significance of motivation can be discussed under following points:

1. **High level of performance:** Organization must ensure that the employees have a high degree of motivation. A highly motivated employee put extra effort into work and have a sense of belonging for the organization. The efficiency of work will be improved, wastage will be minimum which will result in the increased productivity, and performance level will be high.

2. **Low employee turnover and absenteeism:** Low level of motivation is a root cause of low turnover and absenteeism. High level of absenteeism causes a low level of production, poor quality, wastages and disruption in production schedules. Increased turnover is disastrous for any organization as it puts a strain on the financial position of the organization due to additional recruitment, selection, training and development.
3. **Acceptance of organization change:** Social change and technology evolution happens in the external environment have greater impact on the motivation of the employee. Management must ensure that the changes are introduced in the organization and its benefits explained to the employees so that there is no resistance to change and organizational growth is achieved.
4. **Organizational image:** Employees are the mirrors of any organization. Regular training & development programmes should be organized to keep employee updated with latest skills. It will have a positive impact on the employees and the image of the organization will be improved.  
High organizational image will contribute towards the brand image of the product and services the organization is marketing.
5. **Builds friendly relationship: Motivation is an important factor which brings employees satisfaction. This can be done by keeping into mind and framing an incentive plan for the benefit of the employees.**
6. **Leads to achievement of organizational goals:** The goals of an enterprise can be achieved only when the following factors take place :-
  - There is best possible utilization of resources,
  - There is a co-operative work environment,
  - The employees are goal-directed and they act in a purposive manner,
  - Goals can be achieved if co-ordination and co-operation takes place simultaneously which can be effectively done through motivation.
7. **Puts human resources into action:** Every concern requires physical, financial and human resources to accomplish the goals. It is through motivation that the human resources can be utilized by making full use of it.



Is motivation important both to an individual and a business?  
Think upon

### Motivation is important to an individual as:

Motivation will help him achieve his personal goals. If an individual is motivated, he will have job satisfaction. Motivation will help in self-development of individual. An individual would always gain by working with a dynamic team.

### Motivation is important to a business as:

The more motivated the employees are, the more empowered the team is. The more is the team work and individual employee contribution, more profitable and successful is the business. During period of amendments, there will be more adaptability and creativity. Motivation will lead to an optimistic and challenging attitude at work place.

### Features of Sound Motivation System

The features of sound motivation system are as under:

1. Superior performance should be reasonably rewarded and should be duly acknowledged.
2. If the performance is not consistently up to the mark, then the system must make provisions for penalties.

3. A sound motivation system must be correlated to organizational goals. Thus, the individual/employee goals must be harmonized with the organizational goals.
4. The motivational system must be modified to the situation and to the organization.
5. The motivation system should involve monetary as well as non- monetary rewards.
6. The monetary rewards should be correlated to performance.
7. Performance should be based on the employees' action towards the goals, and not on the fame of employees.
8. "Motivate yourself to motivate your employees" should be the managerial approach.

## 6.4 Theories of Motivation

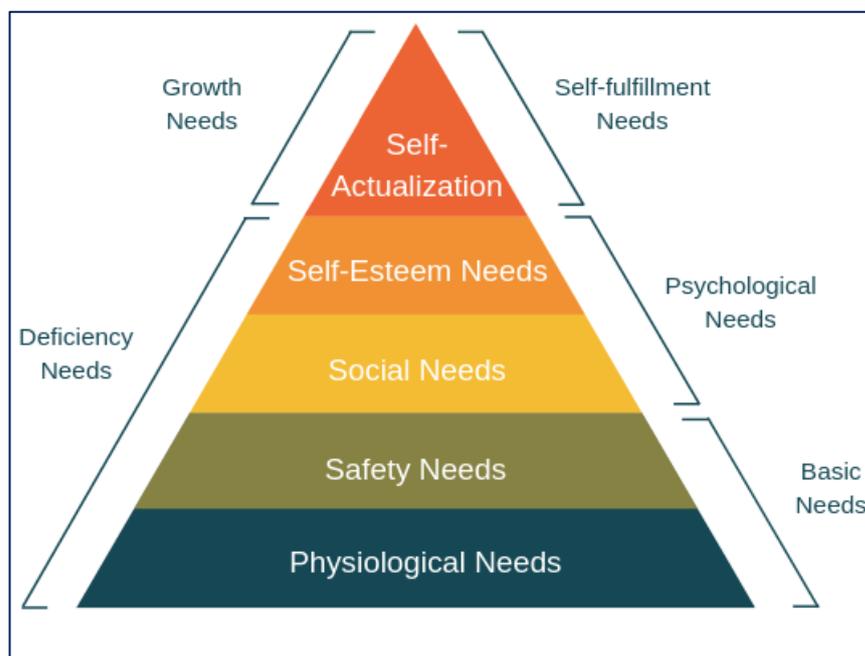
There are a number of motivation theories which, in the main, are complementary to one another. Motivation theories are categorized into two: Content and Process theories. Also known as Early theories and Contemporary theories.

### Early theories of Motivation:

There are three early theories of motivation as under:

1. Hierarchy of Needs Theory: Abraham Maslow
2. Herzberg's two factor theory/ Motivation-Hygiene Theory
3. Alderfer's ERG theory

**1. Maslow's Hierarchy of Needs:** The most famous classification of needs is the one formulated by Maslow (1954). He suggested that there are five major need categories that apply to people in general, starting from the fundamental physiological needs and leading through a hierarchy of safety, social and esteem needs to the need for self-fulfillment, the highest need of all. When a lower need is satisfied the next highest becomes dominant and the individual's attention is turned to satisfying this higher need. The need for self-fulfillment, however, can never be satisfied. 'Man is a wanting animal'; only an unsatisfied need can motivate behavior and the dominant need is the prime motivator of behaviour. Psychological development takes place as people move up the hierarchy of needs, but this is not necessarily a straightforward progression. The lower needs still exist, even if temporarily dormant as motivators, and individuals constantly return to previously satisfied needs.



- I. **Physiological Needs:** Google has bicycles and electric cars to get staff to meetings, gaming centers, organic gardens, and eco-friendly furnishings. The company wants to

make its employees' lives more comfortable, and they are continually searching for ways to improve the health, well-being, and morale of its Googlers.

- II. **Safety Needs:** The fact that the CEO of Facebook, one of the world's most dynamic and fastest growing companies, is meeting with entry-level employees says a lot about the way Mark Zuckerberg does business. Rather than slotting people into roles based on age and experience, Facebook values everyone's ideas in clear and distinct ways.
- III. **Social Needs:** HBO's Corporate Social Responsibility team unites HBO employees, talent and non-profit partners to make a difference on social issues, connected to their industry, and their communities. Employees are inspired from their top-down leadership to educate, take action and help make the world a better place.
- IV. **Self-esteem needs:** Southwest gives employees "permission" to go the extra mile to make customers happy, empowering them to do whatever is necessary to meet that vision.
- V. **Self-actualization needs:** Google offers its employees one of the most innovative work environments. Google encourages employees to spend 20% of their time pursuing innovative ideas about which they are passionate – resulting in products and applications like Google News, Google Alerts and Google Maps Street View.



#### Business Application of Maslow's Hierarchy

Example:



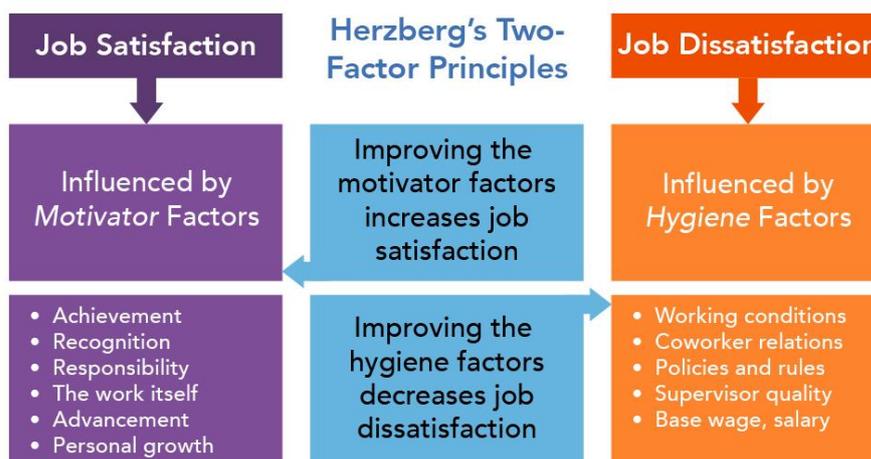
Think upon

What do people want from their jobs?

Answer: Security, Good relationships with co-workers and Opportunities for Growth & Advancement.

1. **Herzberg's two-factor theory:** Fredrick Herzberg departed from the need hierarchy approach to motivation and examined the experiences that satisfied or dissatisfied people's needs at work. This need motivation theory became known as the 'two-factor theory'. Herzberg's original study included 200 engineers and accountants in Western Pennsylvania during the 1950s. Prior to that time, it was common for those researching work motivation to view the concept of job satisfaction as one-dimensional, that is, job satisfaction and job dissatisfaction were viewed as opposite ends of the same continuum. This meant that something that caused job satisfaction, would cause job dissatisfaction if it were removed; similarly, something that caused job dissatisfaction, if removed, would result in job satisfaction. Based upon unstructured interviews with 200 engineers and accountants, Herzberg concluded that this view of job satisfaction was incorrect, and that satisfaction and dissatisfaction were actually conceptually different factors caused by different phenomena in the work environment.

**Diagrammatic Explanation:**



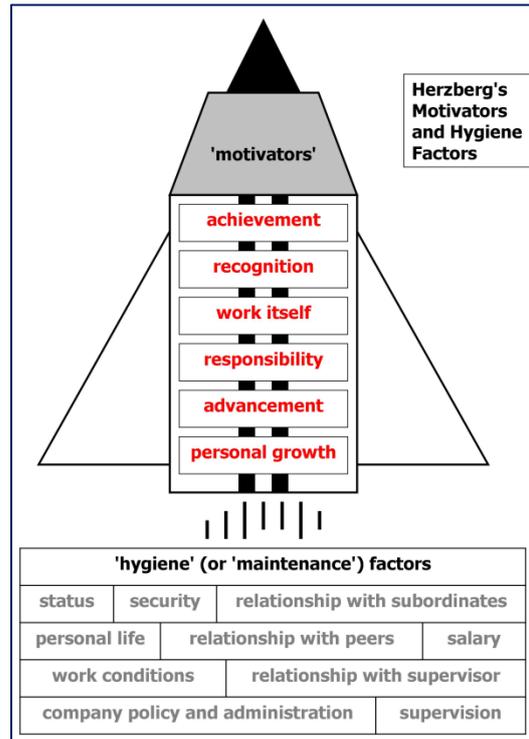
- I. **Hygiene Factors:** In the concept developed by Frederick Herzberg, factors that do not motivate employees, but are essential to maintain satisfaction. These include a satisfactory salary and related employee benefits, considerate human relations skills, and satisfactory working conditions. The absence of any of these hygiene factors will cause employee dissatisfaction. These are also called maintenance factors. Job dissatisfaction occurs when the hygiene factors are either not present or not sufficient. In the original research, the hygiene factors were company policy and administration, technical supervision, interpersonal relations with one's supervisor and working conditions, salary and status. These factors relate to the context of the job and may be considered support factors. They do not directly affect a person's motivation to work but influence the extent of the person's discontent. These factors cannot stimulate psychological growth or human development. Excellent hygiene factors result in employees' being not dissatisfied and contribute to the absence of complaints about these contextual considerations.

**Motivator Factors:** These are the Motivators (e.g., challenging work, recognition, responsibility) that give positive satisfaction, arising from intrinsic conditions of the job itself, such as recognition, achievement, or personal growth.

According to Herzberg, building motivation factors into a job produces job satisfaction. This process is known as job enrichment. In the original research, the motivation factors were identified as responsibility, achievement, recognition, advancement and the work itself. These factors relate to the content of the job and what the employee actually does on the job. When these factors are present, they lead to superior performance and effort on the part of job incumbents. Motivation factors lead to positive mental health and challenge people to grow, contribute to the work environment, and invest themselves in the organization. The motivation factors are the most important of the two sets of factors, because they directly affect a person's motivational drive to do a good job. When they are absent, the person will be de-motivated to perform well and achieve excellence.



Example: Hygiene factors are merely a LAUNCHPAD.



Practical Application: TESCO

- TESCO uses Herzberg's theory to motivate its employees.
- Company pays attention to factors causing dissatisfaction as well as those causing satisfaction.
- Employees are motivated and empowered
  - i. by timely and appropriate communication,
  - ii. by involving personnel in decision-making and
  - iii. by delegating wherever possible.
- Forums are held every year in which staff can provide input on pay rises.
- Tesco personnel even get an opportunity to give their input when restaurant menus are designed, helping to prevent feelings of alienation and dissatisfaction.

2. **Alderfer's ERG Theory:** Alderfer (1972) devised a theory of human needs that postulated three primary categories:

1. Existence needs such as hunger and thirst – pay, fringe benefits and working conditions are other types of existence needs.
2. Relatedness needs, which acknowledge that people are not self-contained units but must engage in transactions with their human environment – acceptance, understanding, confirmation and influence are elements of the relatedness process.
3. Growth needs, which involve people in finding the opportunities 'to be what they are most fully and to become what they can'.

Example: NESTLE

- Nestle provides **existence need** by carrying out activities like "Employee Healthy Programs" to encourage and maintain a healthy lifestyle of the employee.

- Nestle also provides **relatedness need** to encourage the employee to create their own social or community obligations through the Nestle charity homes activity.
- Nestle also provides **growth need** to provide rewards to employees who excel in their performance.

## 6.5 Contemporary Theories

There are majorly four contemporary theories:

1. McClelland's Theory of Needs
2. Expectancy Theory
3. Goal Setting Theory
4. Equity Theory

Let's explain each theory one by one with relevant examples.

**1. McClelland's Theory of Needs:** An alternative way of classifying needs was developed by McClelland (1961), who based it mainly on studies of managers. He identified three needs as being most important:

1. The need for achievement, defined as the need for competitive success measured against a personal standard of excellence.
2. The need for affiliation, defined as the need for warm, friendly, compassionate relationships with others.
3. The need for power, defined as the need to control or influence others.

Different individuals have different levels of these needs. Some have a greater need for achievement, others a stronger need for affiliation, and still others a stronger need for power. While one need may be dominant, however, this does not mean that the others are non-existent.

The three needs may be given different priorities at different levels of management. Achievement needs are particularly important for success in many junior and middle management jobs where it is possible to feel direct responsibility for task accomplishment. But in senior management positions a concern for institutionalized as opposed to personal power becomes more important. A strong need for affiliation is not so significant at any level.



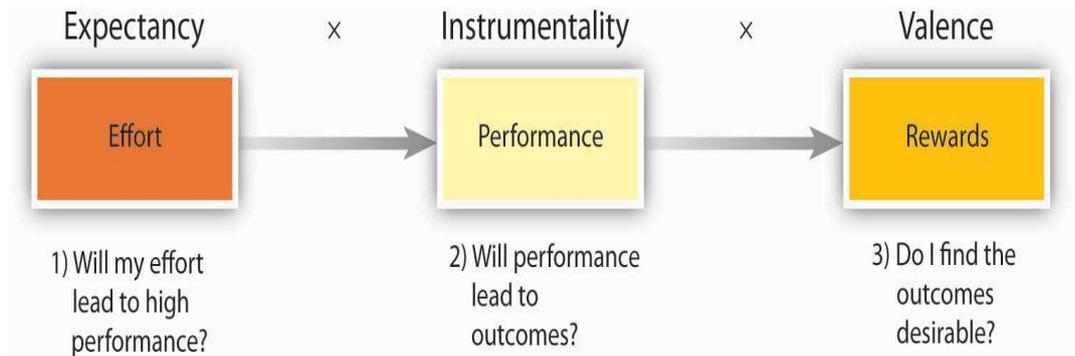
Think upon: Which kind of story you come up with?

- If the story you come up with contains themes of success, meeting deadlines, or coming up with brilliant ideas, you may be **high in need for achievement**.
- If the story you created in relation to the picture you are analyzing contains elements of making plans to be with friends or family, you may have a **high need for affiliation**.
- If your story contains elements of getting work done by influencing other people or desiring to make an impact on the organization, you may have a **high need for power**.

**2. Expectancy Theory:** Expectancy theory states that motivation will be high when people know what they have to do to get a reward, expect that they will be able to get the reward and expect that the reward will be worthwhile.

The concept of expectancy was originally contained in the valency-instrumentality-expectancy (VIE) theory formulated by Vroom (1964). Valency stands for value, instrumentality is the belief that if we do one thing it will lead to another, and expectancy is the probability that action or effort will lead to an outcome.

The strength of expectations may be based on past experiences (reinforcement), but individuals are frequently presented with new situations – a change in job, payment system, or working conditions imposed by management – where past experience is an inadequate guide to the implications of the change. In these circumstances, motivation may be reduced.



1. **Valence**- Refers to the level of confidence an employee has to expect a desirable outcome for his actions and behaviour.
2. **Expectancy**-Outcome an employee anticipates in response to his actions or behaviour.
3. **Instrumentality**-Qualifications and abilities an employee has to perform the work necessary to produce a desirable outcome.



Think upon: What do you believe about yourself?

- Do you believe that the effort you put forth in a class is related to performing well in that class? (**EXPECTANCY**)
- Do you believe that getting a good grade in the class is related to rewards such as getting a better job, or gaining approval from your instructor, or from your friends or parents? (**INSTRUMENTALITY**)
- Do you value getting a better job, or gaining approval from your instructor, friends, or parents? (**VALENCE**)

#### Example: Hallmark

- Hallmark company has maximum **Expectancy** employees who believe in their abilities that they can perform best.
- Company provides them with the best training and development and supports them with resources.
- Hallmark company employees **Instrumentality** is high and there is no lack of confidence`

3. **Equity Theory**: As the name implies, this motivation theory is based on the assumption that individuals are motivated by their desire to be equitably treated in their work relationships. When employees work for an organisation, they basically exchange their services for pay and other benefits. Equity theory proposes that individuals attempt to reduce any inequity they may feel as a result of this exchange relationship.

Adam's Theory of Equity is one of the popular social exchange theories and is perhaps the most rigorously development statement of how individuals evaluate social exchange relationships. Basically, the theory points out that people are motivated to maintain fair relationships with others and will try to rectify unfair relationships by making them fair. This theory is based on two assumptions about human behaviour:

1. Individuals make contributions (inputs) for which they expect certain outcomes (rewards). Inputs include such things as the person's past training and experience, special knowledge, personal characteristics, etc. Outcomes include pay recognition, promotion, prestige, fringe benefits, etc.

- Individuals decide whether or not a particular exchange is satisfactory, by comparing their inputs and outcomes to those of others in the form of a ratio. Equity exists when an individual concludes that his/her own outcome/input ratio is equal to that of others.



#### Case study: Smita and Yash

Smita is a student working towards a bachelor's degree in finance. To gain some work experience and increase her marketability, she accepted a summer internship in her finance department of a pharmaceutical company. She is quite pleased at the pay of Rs 20,000 which is more than other students in her cohort receive for their summer internships. At work, she meets Yash, a recent graduate working as a middle manager in the same finance department. Yash makes Rs 40,000 a month. On the job, Smita is a go-getter. She is engaged, satisfied and always seems willing to help others. Yash is the opposite. He often seems disinterested in his job and entertains thoughts about quitting. When pressed one day about why he is unhappy, Yash cites his pay as the main reason for his behavior. Specifically, he tells Smita that compared to managers at other pharmaceutical companies, he makes much less. "It is not fair", he complains. "I work just as hard as they do, yet I don't make as much. Maybe I should go to work with the competitor."

Question for discussion: How could someone making Rs 40,000 be less satisfied with his or her pay than someone making Rs 20,000 a month and be less motivated as a result?

- Goal Setting Theory:** Goal theory as developed by Latham and Locke (1979) states that motivation and performance are higher when individuals are set specific goals, when goals are difficult but accepted, and when there is feedback on performance. Participation in goal setting is important as a means of getting agreement to the setting of higher goals. Difficult goals must be agreed and their achievement reinforced by guidance and advice. Finally, feedback is vital in maintaining motivation, particularly towards the achievement of even higher goal.

The success of goal setting in motivating performance depends on establishing goals that have the appropriate attributes or characteristics. In particular goals should be specific and measurable, challenging, attainable, relevant to the major work of the organization, and time-limited in the sense of having a defined period of time within which the goal must be accomplished.

Specific hard goals produce a higher level of output than does the generalized goal of "do your best". The specificity of the goal itself acts as an internal stimulus. If factors like ability and acceptance of the goal are held constant, we can also state that the more difficult the goal, the higher the level of performance. However, it's logical to assume that easier goals are more likely to be accepted. But once an employee accepts a hard task, he or she will exert a high level of effort until it is achieved, lowered or abandoned.

People will do better when they get feedback on how well they are progressing toward their goals because feedback helps identify discrepancies between what they have done and what they want to do; that is, feedback acts to guide behavior.

Goal-setting theory presupposes that an individual is committed to the goal, that is, determined not to lower or abandon the goal. This is most likely to occur when goals are made public, when the individual has an internal locus of control, and when the goals are self-set rather than assigned. Self-efficacy refers to an individual's belief that he or she is capable of performing a task. The higher your self-efficacy, the more confidence you have in your ability to succeed in a task. So, in difficult situations, we find that people with low self-efficacy will try harder to master the challenge.

**Summary**

- Motivation is the internal condition that activates behavior and gives it direction; energizes and directs goal-oriented behavior.
- The challenge at work is to create an environment in which people are motivated about work priorities.
- There are various theories to motivate people at work places.
- David C. McClelland offers a different perspective, 'acquired-needs' theory, which argues that our needs are acquired or learned on the basis of our life experience.
- Although such needs tend to be a product of a variety of conditions to which we are exposed, sometimes even a specific event can profoundly influence our desires.
- The individual exhibiting this need as the dominant one derives satisfaction from his or her ability to control others.
- Actual achievement of desired goals is of secondary importance to the high nPow individual; instead the means by which goals are achieved (the exercise of power) are of primary importance.
- McClelland has analyzed various needs in terms of their relationship to managerial effectiveness.
- Individuals with a personal-power orientation run into difficulties as managers because they often attempt to use the efforts of others for their own personal benefit.
- Intentions to work toward a goal are a major source of work motivation.
- Specific hard goals produce a higher level of output than does the generalized goal of "do your best".
- Goal-setting theory presupposes that an individual is committed to the goal, that is, determined not to lower or abandon

**Keywords**

- Maslow
- Motivation
- Equity
- Herzberg
- Valence
- Power
- Achievement
- Affiliation
- Goal-setting

**Self Assessment**

1. Which type of motivation results from the potential or actual receipt of extrinsic rewards?
  - A. Intrinsic Motivation
  - B. Extrinsic Motivation
  - C. Early Motivation
  - D. Contemporary Motivation
2. Motivation is important for both: an individual and an organization.

- A. True
  - B. False
3. Are highly motivated employees always successful in a job?
- A. True
  - B. False
4. Who has given the hierarchy of needs hierarchy theory of motivation?
- A. Abraham Maslow
  - B. David McClelland
  - C. Victor Vroom
  - D. Frederick Herzberg
5. Which among the following is the highest-level need under Need Hierarchy Theory of Motivation?
- A. Safety and Security Needs
  - B. Social Needs
  - C. Self-esteem Needs
  - D. Self-Actualization Needs
6. What does "E", "R" and "G" stand for in the ERG theory?
- A. Export, Risk and Guarantee
  - B. Exponential, Reliability and Growth
  - C. Existence, Relatedness and Growth
  - D. Experience, Relatedness and Growth
7. Which of the following would be classified by Herzberg as a hygiene factor?
- A. Personal growth
  - B. Company Policy
  - C. Responsibility
  - D. Achievement
8. Who proposed that achievement, affiliation and power are three important needs that help explain motivation in workplace situations?
- A. McGregor
  - B. McClelland
  - C. Alderfer
  - D. Maslow

9. Company policy, administration, supervision, interpersonal relations, working conditions, and salary are characterized as:
- A. Hygiene Factors
  - B. Growth Factors
  - C. Achievement Factors
  - D. Esteem Factors
10. Maslow and Herzberg are two examples of \_\_\_\_\_ theories of motivation.
- A. Equity
  - B. Expectancy
  - C. Process
  - D. Content
11. The theory that an employee will compare his or her job inputs and outcomes relative to others is called:
- A. Equity Theory
  - B. Expectancy Theory
  - C. Employee theory
  - D. Maslow Theory
12. According to McClelland's Needs Theory, which of the following is not a motivating need?
- A. Need for Power
  - B. Need for Security
  - C. Need for Achievement
  - D. Need for Affiliation
13. Which of these needs is greatest for those individuals who have a strong desire to excel?
- A. need for achievement
  - B. need for power
  - C. need for affiliation
  - D. need for self-actualization
14. Being liked by others is the main goal of people with which of these needs?
- A. need for achievement
  - B. need for power
  - C. need for affiliation
  - D. need for self-actualization

15. In expectancy theory, \_\_\_\_ is a perception about the extent of which effort will result in a certain level of performance.
- Effort
  - Expectancy
  - Valence
  - Instrumentality

### **Answers for Self Assessment**

- |       |       |       |       |       |
|-------|-------|-------|-------|-------|
| 1. B  | 2. A  | 3. A  | 4. A  | 5. D  |
| 6. C  | 7. B  | 8. B  | 9. A  | 10. D |
| 11. A | 12. B | 13. A | 14. C | 15. B |

### **Review Questions**

- What is motivation?
- What is the significance of motivation?
- Discuss the characteristics of motivation in detail.
- What are the different types of motivation?
- What are the different content theories of motivation?
- What are the different process theories of motivation?
- What do you mean by ERG theory?
- Is there "one best" motivation theory? Explain your answer.
- Describe the process by which needs motivate workers.
- What goals would be most likely to improve your learning and performance in an organizational behavior class?
- What goals would be most likely to improve your learning and performance in an organizational behavior class?
- Describe need for achievement, power, and affiliation, and identify how these acquired needs affect work behavior.
- Review the hygiene and motivators in the two-factor theory of motivation. Do you agree with the distinction between hygiene factors and motivators? Are there any hygiene factors that you would consider to be motivators?
- Using examples, explain the concepts of expectancy, instrumentality, and valence.



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## Unit 07: Communication

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### Objectives

After studying this chapter, you will be able to:

- Understand the concept of Communication.
- Learn about the types of communication.
- Learn about the functions of communication.
- Understand the communication process.
- Compare the communication methods
- Understand the barriers to communication.
- Understand the ways to overcome the barriers.

### Introduction

Communication is the exchange of messages between people for the purpose of reaching common understandings and achieving common goals. Unless common meanings are shared, managers find it extremely difficult to influence others. Whenever groups of people interact, communication takes place. Communication is the exchange of information using a shared set of symbols. It is the process that links group members and enables them to coordinate their activities. Therefore, when managers foster effective communication, they strengthen the connections between employees and build cooperation. Leadership is a key process in any organization. Coming to business enterprises, people working there need leaders who could be instrumental in guiding the efforts of groups of workers to achieve the goals of both individuals and the organization. Leadership is a process of influence on a group. Leadership is the ability of a manager to induce subordinates to work with confidence and zeal.

### 7.1 Communication

#### **Meaning of Communication**

Communication is the **transfer** and **understanding** of meaning.

- ✓ Transfer of Meaning: If information or ideas have not been conveyed, communication hasn't taken place.
- ✓ Understanding of Meaning: For communication to be successful, the meaning must be imparted and understood.

## Types of Communication

There are different types of communication which can be describes on different basis. Let's have a look on each one by one:

### 1. Based on Level

Levels of Communication are:

**1.1 Intrapersonal communication:** It is the language used or thought internal to the communicator. Intrapersonal communication is the active internal involvement of the individual in symbolic processing of messages. Both the roles of the sender and receiver is assumed by the individual himself and he also provides feedback to herself in an ongoing internal process. It can be useful to envision intrapersonal communication occurring in the mind of the individual in a model which contains a sender, receiver, and feedback loop.

**1.2 Interpersonal communication:** It is the level in which communication channels are the medium chosen to convey the message from sender to receiver. Communication channels can be either direct or indirect. Direct channels are those that are obvious and can be easily recognized by the receiver. They are also under direct control of the sender. Indirect channels are those channels that are usually recognized subliminally or subconsciously by the receiver, and not under direct control of the sender.

**3. Group communication** refers to the nature of communication that occurs in groups that are between 3 and 12 individuals. Small group communication generally takes place in a context that mixes interpersonal communication interactions with social clustering.

**4. Public communication:** It's at the heart of our economy, society, and politics. Studios use it to promote their films. Politicians use it to get elected. Businesses use it to burnish their image. Advocates use it to promote social causes. It's a field built on ideas and images, persuasion and information, strategy, and tactics. No policy or product can succeed without a smart message targeted to the right audience in creative and innovative ways.

### 2. Based on Form/Medium Used

Communication can be classified on the basis of the medium employed:

**2.1 Verbal Communication:** It means communicating with words, written or spoken. Verbal communication consists of speaking, listening, writing, reading, and thinking. It may further be classified as Oral or Written Communication.

**2.2 Non-verbal communication:** It includes using of pictures, signs, gestures, and facial expressions for exchanging information between persons. It is done through sign language, action language, or object language. Non-verbal communication flows through all acts of speaking or writing. It is a wordless message conveyed through gestures (sign), movements (action language), and object language (pictures/clothes) and so on. Further non-verbal communication can be identified by personal space (proxemics), sense of smell (olfactics) and time (chronemics).

**2.3 Formal Communication:** A formal channel of communication can be defined as a means of communication that is formally controlled by managers or people occupying positions in an organization. The communication flows through formal channels, that is, officially recognized positions along the line in the organization. This ensures that the information flows orderly, timely, and accurately. Any information, decision, memo, reminder etc. will follow this path.

**2.4 Informal Communication:** Side by side with the formal channel of communication every organization has an equally effective channel of communication that is the informal channel. It is not officially sanctioned, and quite often it is even discouraged or looked down upon. But, then, it is very much there, and has been given the name 'grapevine' precisely because it runs in all directions-horizontal, vertical, diagonal. As the management experts put it, "it flows around water coolers, down hallways, through lunchrooms, and wherever people get together in groups".

**2.5 Downward Communication:** The Communication that flows from Top to Bottom is known as downward communication. Any organization has an inbuilt hierarchical system, and in that, in the first instance, communication invariably flows downwards.

**2.6 Upward Communication:** The Communication that flows from bottom to top, which is from lower hierarchical level to higher level, is called Upward Communication. The main function of upward communication is to supply information to the upper levels about what is happening at the lower levels. It is just the reverse of the previous dimension.

### 3. Based on Context

Based on context, the different types of communication are:

#### 3.1 Organizational Communication:

All the patterns, networks, and systems of communication within an organization. It is the process by which the management reaches others in managing its work. Since managers work through others, all of their managerial functions pass through the bottleneck of communication.

#### 3.2 Intercultural Communication:

Intercultural communication refers to the communication between people from different cultures.

## 7.2 Functions of Communication

Functions of communication can be explained with the help of 4 different ways.

1. Control
2. Motivation
3. Emotional Expression
4. Information

**1. Control:** Formal communication acts to control employee behaviour. Organizations have authority hierarchies and formal guidelines that employees are expected to follow.

**For Example:** When employees are required to communicate any job-related grievance to their immediate manager, to follow their job description, or to comply with company policies, communication is being used to control.

Informal communication also acts to control employee behaviour.

**For Example:** When a work group teases a member who's ignoring the norms by working too hard, they are informally controlling the member's behaviour.

**2. Motivation:** Communication acts to motivate by clarifying to employees: what is to be done, how well they are doing and what can be done to improve performance if it's not up to par.

As employees set specific goals, work toward those goals, and receive feedback on progress toward goals, communication is required.

**3. Emotional Expression:** The communication that takes place within the group is a fundamental mechanism by which members share frustrations and feelings of satisfaction. Therefore, communication provides a release for emotional expression of feelings and for fulfilment of social needs.

**4. Information:** Individuals and groups need information to get things done in organizations. Communication provides information.



Gujarat University in recently suspended a professor who has accused of writing objectionable letters to a female colleague and was also allegedly guilty of harassment at the workplace. The accused professor was given a chance to respond to the complaint registered against him with the police for objectionable communication through letters.

Upon finding the response of the accused unsatisfactory, the University then took legal course against the professor and proceeded with police investigation. The police got the objectionable letters examined by forensic experts who determined that the writing

matched with the handwriting of the accused. A legal case was also registered, leaving him facing serious organizational and legal consequences. Organizations are getting increasingly vigilant and concerned in matters of human rights and do not tolerate objectionable communication. In an organization, therefore, it is of paramount importance that communication channels and norms are clear to all employees and are complied with under all circumstances.

The ability to communicate effectively is a skill that must be mastered by any person who wants to be an effective manager. The importance of effective communication for managers can't be overemphasized for one specific reason: Everything a manager does involves communicating.

Not some things, but everything!

A manager can't make a decision without information. The information has to be communicated. Once a decision is made, communication must again take place. Otherwise, no one would know that a decision was made.

The best idea, the most creative suggestion, the best plan, or the most effective job redesign can't take shape without communication.



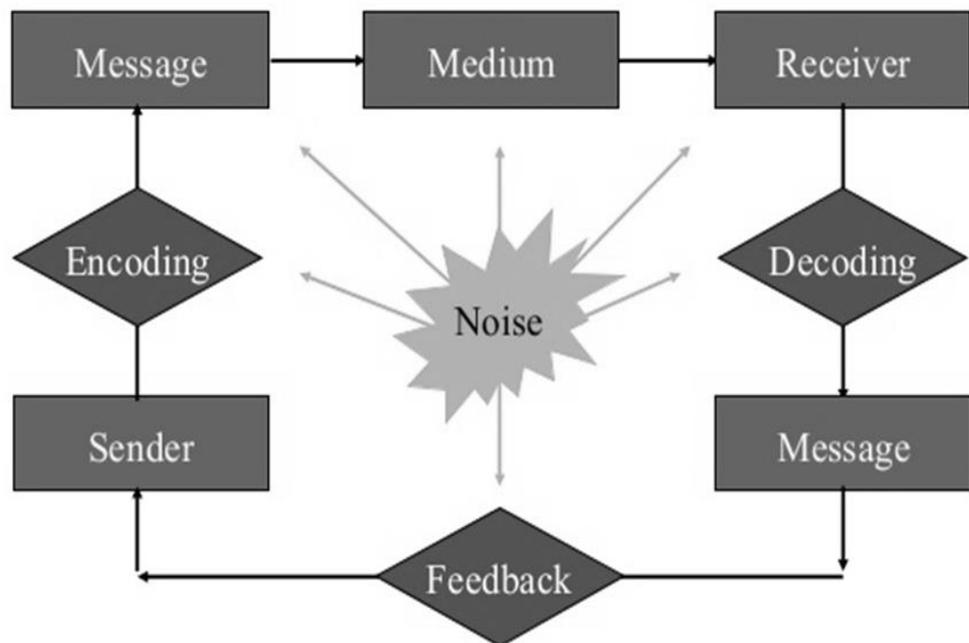
**Example: SAIT Polytechnic**

- CEO -Irene Lewis
- Canada based technical institute
- Awarded Excellence in Communication Leadership

**Given by International Association of Business Communicators**

- Recognizes leaders who foster excellence in communication and contribute the development and support of organizational communication.
- Selection Committee noted Lewis's leadership and commitment to communication and her impact on SAIT's reputation and growth.

**7.3 Process of Interpersonal Communication**



- Firstly, a purpose, expressed as a MESSAGE to be conveyed, must exist.

- It passes between a source (THE SENDER) and a RECEIVER.
- The message is converted to symbolic form(called ENCODING) and passed by way of some MEDIUM (CHANNEL) to the receiver.
- Receiver retranslates the SENDER'S message called DECODING.

The result of this whole process is transfer of meaning from one person to another.

For any communication to occur there must be at least two people involved. It is easy to think about communication involving a sender and a receiver of a message. However, the problem with this way of seeing a relationship is that it presents communication as a one-way process where one person sends the message and the other receives it. While one person is talking and another is listening, for example. In fact, communications are almost always complex, two-way processes, with people sending and receiving messages to and from each other simultaneously. In other words, communication is an interactive process. While one person is talking the other is listening - but while listening they are also sending feedback in the form of smiles, head nods etc.

### The Message

Message not only means the speech used or information conveyed, but also the non-verbal messages exchanged such as facial expressions, tone of voice, gestures, and body language. Non-verbal behavior can convey additional information about the spoken message. It can reveal more about emotional attitudes which may underlie the content of speech.

### Feedback

Feedback consists of messages the receiver returns, which allows the sender to know how accurately the message has been received, as well as the receiver's reaction. The receiver may also respond to the unintentional message as well as the intentional message.

### Noise

Noise has a special meaning in communication theory. It refers to anything that distorts the message, so that what is received is different from what is intended by the speaker. Whilst physical 'noise' (for example, background sounds or a low-flying jet plane) can interfere with communication, other factors are 'noise'. The use of complicated jargon, inappropriate body language, inattention, disinterest, and cultural differences can be considered 'noise' in the context of interpersonal communication.



What is the important criterion for meaningful leadership?

Answer: Personal Communication



### Case Study: Ratan Tata

When Ratan Tata retired from the chairpersonship of the Tata Group, the external business environment was very challenging to the companies in the conglomerate. In his farewell letter to employees, he emphasized the "NEVER SAY DIE" spirit and commitment of the employees who had been instrumental in the Tata Group's achievement of annual turnover exceeding \$100 billion. He whole-heartedly thanked the employees for their faith in him, even when the group faced difficulties in terms of challenging market conditions. He continued that the Tata Group would undoubtedly play a significant role in the development of the country, leading across industrial segments, and upholding the value systems and ethical standards on which the Group was founded.

Communication Methods

<p><b>High Feedback Potential</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Face-to-face</li> <li><input type="checkbox"/> Telephone</li> <li><input type="checkbox"/> Computer conference</li> </ul>	<p><b>Low Feedback Potential</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Publications</li> </ul>
<p><b>High Complexity Capacity</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Face-to-face</li> </ul>	<p><b>Low Complexity Capacity</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Bulletin boards</li> </ul>
<p><b>High Breadth Potential</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Face-to-face</li> <li><input type="checkbox"/> Bulletin boards</li> <li><input type="checkbox"/> E-mail</li> </ul>	<p><b>Low Breadth Potential</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Postal mail</li> <li><input type="checkbox"/> Audio-videotapes</li> </ul>
<p><b>High Confidentiality</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Face-to-face</li> <li><input type="checkbox"/> Voice mail</li> </ul>	<p><b>Low Confidentiality</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Publications</li> <li><input type="checkbox"/> Bulletin boards</li> <li><input type="checkbox"/> Audio-videotapes</li> <li><input type="checkbox"/> Teleconference</li> </ul>
<p><b>High Encoding Ease</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Face-to-face</li> <li><input type="checkbox"/> Telephone</li> </ul>	<p><b>Low Encoding Ease</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Publications</li> </ul>
<p><b>High Time-Decoding Ease</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Face-to-face</li> <li><input type="checkbox"/> Telephone</li> <li><input type="checkbox"/> Hotlines</li> <li><input type="checkbox"/> Voice mail</li> </ul>	<p><b>Low Time-Decoding Ease</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Memos</li> <li><input type="checkbox"/> Postal mail</li> <li><input type="checkbox"/> Fax</li> <li><input type="checkbox"/> Publications</li> </ul>
<p><b>High Space Constraint</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Face-to-face</li> <li><input type="checkbox"/> Group meetings</li> <li><input type="checkbox"/> Formal presentations</li> </ul>	<p><b>Low Space Constraint</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Memos</li> <li><input type="checkbox"/> Postal mail</li> <li><input type="checkbox"/> Fax</li> <li><input type="checkbox"/> Publications</li> <li><input type="checkbox"/> Voice mail</li> </ul>
<p><b>High Cost</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Group meetings</li> <li><input type="checkbox"/> Formal presentations</li> <li><input type="checkbox"/> Videoconference</li> </ul>	<p><b>Low Cost</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Bulletin boards</li> </ul>
<p><b>High Personal Warmth</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Face-to-face</li> </ul>	<p><b>Low Personal Warmth</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Memos</li> <li><input type="checkbox"/> Bulletin boards</li> </ul>
<p><b>High Formality</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Postal mail</li> <li><input type="checkbox"/> Publications</li> </ul>	<p><b>Low Formality</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Face-to-face</li> <li><input type="checkbox"/> Telephone</li> <li><input type="checkbox"/> Voice mail</li> </ul>
<p><b>High Scanability</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Memos</li> <li><input type="checkbox"/> Postal mail</li> <li><input type="checkbox"/> Fax</li> <li><input type="checkbox"/> Publications</li> <li><input type="checkbox"/> Bulletin boards</li> </ul>	<p><b>Low Scanability</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Formal presentations</li> <li><input type="checkbox"/> Face-to-face</li> <li><input type="checkbox"/> Telephone</li> <li><input type="checkbox"/> Group meetings</li> <li><input type="checkbox"/> Audio-videotapes</li> <li><input type="checkbox"/> Hotlines</li> <li><input type="checkbox"/> E-mail</li> <li><input type="checkbox"/> Computer conference</li> <li><input type="checkbox"/> Voice mail</li> <li><input type="checkbox"/> Teleconference</li> <li><input type="checkbox"/> Videoconference</li> </ul>

## 7.4 Barriers to Communication

No matter how good the communication system in an organization is, unfortunately barriers can and do often occur. This may be caused by a number of factors which can usually be summarized as being due to physical barriers, system design faults or additional barriers.

### 1. Filtering

Filtering is the deliberate manipulation of information to make it appear more favourable to the receiver.

*For Example:* When a person tells his or her manager what the manager wants to hear, information is being filtered.

### 2. Emotions

How a receiver feels when a message is received influences how he or she interprets it. Extreme emotions are likely to hinder effective communication.

### 3. Information Overload

Means when information exceeds our processing capacity.

*Example:* A marketing manager goes on a week-long sales trip to Spain where he does not have access to his e-mail and faces 1,000 messages on his return.

It's not possible to fully read and respond to each message without facing Information Workload.

### 4. Defensiveness

When people feel they are being threatened, they tend to react in ways that hinder effective communication and reduce their ability to achieve mutual understanding.

They become defensive- verbally attacking others, making sarcastic remarks, being overly judgemental, or questioning others' motives.

### 5. Language

Word means different things to different people. In an organization, employees come from diverse backgrounds and have different patterns of speech. Leading to barrier to effective communication.



#### *Case Study:*

Eva and Sara conducted a field study of cross-cultural cooperation between India and Sweden. Swedish managers were not very receptive to the informal hierarchy among Indian employees. Indians were not particular about punctuality and meeting work deadlines. This trait could potentially cause a lack of cooperation because the Sweden believed that extending deadlines resulted in wasted time and money, and loss of face to the customer. In terms of comfort with uncertainty, Swedes preferred safety over taking risks in business, whereas Indians had a greater level of comfort in this area. This aspect of difference led to discontentment among Indians, since they felt that analysing risks before starting business, as preferred by Swedes, could prove to be quite costly.

### How to become more effective communicators?

#### 1. Use Feedback:

If the manager gets the feedback, both verbal and nonverbal reduces the level of communication problems in any organization. A manager can ask questions about a message to determine whether it was received and understood as intended. Feedback also does not have to be verbal only every time.

#### 2. Simplify language:

Always take care of the audience to whom the message is directed and tailor the language to them. Effective communication is achieved when a message is both received and understood.

#### 3. Listen Actively:

When someone talks, we hear, but too often we don't listen. Listening is an active search for meaning, whereas hearing is passive. In listening, the receiver is also putting effort into the communication. Active listening is developed by empathy with the sender.

#### 4. Watch non-verbal Cues:

An effective communicator watches his or her non-verbal cues to ensure that they convey the desired message. Because if actions speak louder than words, then it's important to make sure your actions align with and reinforce the words that go along with them.



#### Think upon

What advice would you give Mr. Mishra?

Mr Mishra manages a diverse team of corporate security system installer. On his most recent evaluation, his boss told him that his employees have complained that he never listens to what they are telling him. Because Mr Mishra hopes to eventually move into positions with more responsibility, he knows he needs to work on this.

Advice:

- Receive feedback
- Understand feedback

### Summary

- Communication establishes relationships and makes organizing possible.
- Every message has a purpose or objective.
- The sender intends -- whether consciously or unconsciously -- to accomplish something by communicating.
- Communication is the process by which a message or information is exchanged from a sender to a receiver.
- Effective communication is all about conveying your messages to other people clearly and unambiguously.
- It's also about receiving information that others are sending to you, with as little distortion as possible.

### Keywords

- Communication
- Formal communication
- Informal Communication
- Encoding
- Decoding

### Self Assessment

1. In the communication process, decoding should precede encoding.

- A. True
- B. False

2. The \_\_\_\_\_ initiates a message by encoding a thought.

- A. Channel
- B. Sender

- C. Receiver
- D. Medium

3. Both encoding and decoding of message are influenced by our emotions.

- A. True
- B. False

4. \_\_\_\_\_ means to impart understanding of the message.

- A. Encoding
- B. Receiver
- C. Decoding
- D. Feedback

5. \_\_\_\_\_ is the enemy of communication process.

- A. Noise
- B. Clarity
- C. Politeness
- D. Completeness

6. In communication process, the encoder becomes a decoder when there is

- A. Noise
- B. Audience
- C. Criticality
- D. Feedback

7. The response to a sender's message is called \_\_\_\_\_

- A. Feedback
- B. Noise
- C. Encoding
- D. Decoding

8. Which is not a function of communication?

- A. Control
- B. Plan
- C. Motivation
- D. Information

9. Which of the following is NOT a barrier to effective communication?

- A. Filtering
- B. Emotions
- C. Channel Richness
- D. Language

10. Which of these is the external sounds present in the channels of communication?

- A. Noise
- B. Semantic Problems
- C. Cultural Barriers
- D. Over Communication

11. In which of these problems, is the actual message lost in the abundance of transmitted information?

- A. Filtering
- B. Information overload
- C. Language
- D. Emotions

12. Communication problems are known as \_\_\_\_\_.

- A. Barriers
- B. Enquire
- C. Feedback
- D. None of the above

13. The clarity in communication could be achieved by which of the following techniques?

- A. Use feedback
- B. Simplify Language
- C. Listen Actively
- D. All of the above

14. Communication barriers are

- A. A receiver's response to a message.
- B. Avenues through which messages are delivered.
- C. Obstacles that interfere with the understanding of a message.
- D. The circumstances under which communication takes place.

15. Extreme emotions are likely to hinder effective communication.

- A. True
- B. False

### **Answers for Self Assessment**

- |       |       |       |       |       |
|-------|-------|-------|-------|-------|
| 1. B  | 2. B  | 3. A  | 4. C  | 5. A  |
| 6. D  | 7. A  | 8. B  | 9. C  | 10. A |
| 11. B | 12. A | 13. D | 14. C | 15. A |

## **Review Questions**

1. Explain the various barriers in communication.
2. Discuss various types of communication in detail.
3. Define Communication.
4. What do you mean by Communication Process? Discuss the flow of communication.
5. Describe about the different functions of communication.
6. What methods can be done for becoming effective communicator?



## **Further Readings**

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**Unit 08: Functional Area of Marketing Management****CONTENTS**

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- 8.3 Maslow's Hierarchy of Needs
- 8.4 Evolution of Marketing Philosophies
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Summary

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**Objectives**

After studying this chapter, you will be able to:

- Understand the core concept of marketing.
- Understand the relation between need and Marketing.
- Understand the concept of Marketing Mix
- Understand the components of Marketing Mix
- Understand the concept of product.
- Understand the new product development strategy.
- Understand the product life cycle process.
- Understand the concept of pricing.
- Analyze the factors affecting pricing decisions.
- Understand the pricing setting methods.

**Introduction**

Most of the people define marketing as selling or advertising. It is true that these are parts of the marketing. But marketing is much more than advertising and selling. In fact, marketing comprises of a number of activities which are interlinked and the decision in one area affects the decision in other areas. Your morning tea, your newspaper, your breakfast, the dress you put on for the day, the vehicle you drive, the mobile in your pocket, the quick lunch you have at the fast-food joint, the PC at your desk, your internet connection, your e-mail ID almost everything that you use and everything that is around you, has been touched by marketing.



Do you believe Business has only two functions-Marketing and Innovation?  
Did you know?

## 8.1 What is Marketing?

Marketing refers to the various groups of activities that take place in a market. These activities are either planned or spontaneous.

The management process responsible for identifying, anticipating and satisfying customer requirements profitably is known as marketing.

### Definition of Marketing

“Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others.”

*Kotler*

Marketing is the process that seeks to influence voluntary exchange transactions between a customer and a marketer.

*William G. Zikmund and Michael d'Amico*

### Why study Marketing?

- 1. Important Role in Society:** It is instrumental in improving the living standards. Marketing continuously identifies the needs and wants satisfying products or services which can propel the people to do an extra to earn money which can be exchanged for the desired products or services. The people are likely to spend the additional income over and above the disposable income on the products or services which helps in minimizing the physical efforts. Thus, marketing by indirectly increasing the earning ability will help in improving the standard of living of the customers.
- 2. Important to Business:** Marketing sustains the company by bringing in profits. Marketing is the only activity that brings revenue to the firm, whereas other activities incur expenditure. If the company's products or services satisfy the customer's requirements, then the satisfied customers will keep the company in business by repeat orders and recommending other profitable customers. Thus, marketing is the driving force behind a successful company. Marketing is the source of new ideas. New product or service ideas usually come from the research laboratories, employees or from marketplace.
- 3. Marketing affects our everyday life:** Meeting the unmet needs or wants. Marketing identifies those needs or wants which were not satisfied and helps in developing the product or service which can satisfy those unmet needs or wants of the people. Marketing helps in popularizing the product or service which attracts the customers as well as competitors towards that product or service categories. Due to increase in demand, the manufacturing capacity increase which brings down per unit fixed costs of the product or service. Furthermore, increase in competition led to decrease in the prices charged by the firm.
- 4. Outstanding Career Opportunities:** Marketing generates gainful employment opportunities both directly and indirectly. Directly, marketing provides employment to the people in various areas like in advertising agency, in the company sales force, in the distributor's sales force, in public relation firms etc. Indirectly, marketing is responsible for selling the offerings of the organization. If the organization's products or services are able to satisfy the customers, then customers will demand organization's products or services again and again, thereby sustaining the production activities. Thus, marketing indirectly provides employment in other functional areas like finance, production, research and development, human resource management etc.

### Core Concept of Marketing

The core concept of Marketing is Needs, Wants and Demands.

*Unit 08: Functional Area of Marketing Management*

NEEDS	The basic human requirements such as for air, food, water, clothing, and shelter. It is a state of felt deprivation.
WANTS	Specific objects that might satisfy the need
DEMANDS	Wants for specific products backed by an ability to pay

The marketer must try to understand the target market's needs, wants, and demands. Needs describe basic human requirements. People need food, air, water, clothing and shelter to survive. People also have strong needs for recreation, education, and entertainment. These needs become wants when they are directed to specific object that might satisfy the need. An Indian needs food but wants a rice, chapatti's vegetable and dal. A person in Mauritius needs food but wants a mango, rice, lentils and beans. Wants are shaped by one's society.

Demands are wants for specific products backed by an ability to pay. Many people want a big & beautiful house; only a few are able and willing to buy one. Companies must measure not only how many people want their product but also how many would actually be willing and able to buy it.

These distinctions shed light on the frequent criticism that "marketers create needs" or "marketers get people to buy things they don't want." Marketers do not create needs: Needs preexist marketers. Marketers, along with other societal influences, influence wants. Marketers might promote the idea that a Mercedes would satisfy a person's need for social status. They do not, however, create the need for social status.

When a need is not satisfied, a person will do one of two things:

- look for an object that will satisfy it; or
- try to reduce the need.



### *Case Study: The Story of Segway*

At its public unveiling in 2001, inventor Dean Kamen promised the Segway – which used computerized gyroscopes to allow standing riders to speed around by shifting their body weight – "will be to the car what the car was to the horse and buggy." Segway's factory was to have stamped out 10,000 machines a week and posted sales of \$12 billion by 2002.

As everyone knows, that never happened. And the reasons why are about as simple – and complicated – as a Segway. "First of all, it was too expensive," said James Canton, CEO of the Institute for Global Futures, referring to the Segway's \$6,000 asking price. The machine was also heavy. Its batteries limited its range. Cities couldn't figure out where the Segway belonged – street, sidewalk or neither.

### *The Bitter End: Wheel of misfortune*

Ultimately, Segway's problem was that it filled a need that didn't really exist. "It was counterintuitive to biking or walking," Canton said, "an elite micro transport that struggled to find its place." And, unless you count mowing down Olympic runners, Segway still hasn't.

## 8.2 Types of Needs

Needs are basic or advanced urges or demands that lead us to take an appropriate action to fulfill them. In terms of marketing, needs are the gaps which the companies try to fulfill with their products and services.

Different types of needs are as under:

1. **Stated Needs:** Stated Needs are the ones which are specified clearly by the customer or the market. They are also the expected needs for a particular product or service. These needs are at the most basic level without which the need cannot be qualified.



I need food to eat and I feel like having a sandwich.

2. **Real Needs:** Real needs are at one level above the stated needs and put a boundary on the above. Real needs define the parameter which are immediate to defining and fulfilling the need.



I need a cheese sandwich at affordable price.

3. **Unstated Needs:** Unstated needs are which are not obvious but are expected by the customer. These are the needs which can be used to differentiate by the companies while designing the products to fulfil the needs of the customer.



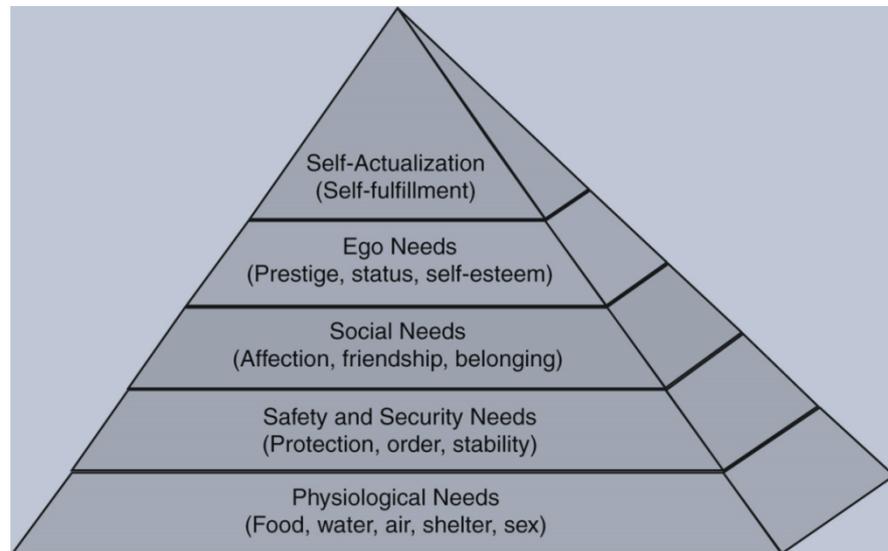
I need basic vegetables to be added as part of my sandwich. It should not be just a single slice cheese plain sandwich.

4. **Delight Needs:** Delight needs are the needs which provide the 'wow' factor. These needs like unstated needs can make some products more popular than the other if they meet these needs.



The quality of the cheese used to be the best one with special sauce but still the price of the sandwich would be below 2\$.

### 8.3 Maslow's Hierarchy of Needs



The buying behaviour of the consumer depends on his position in the hierarchy. The behaviour changes as he moves up in the hierarchy.

Example:

If a consumer can fulfil his basic needs i.e., Physiological Needs he will then move one step up and look for safety needs.

For a business, knowing the needs and the stage in the hierarchy is very important. The entire strategy and innovation of the product along with differentiation would be to meet this need. The companies have to offer more than the basic needs. They have to understand all the needs along with the 'wants' of the customer. If the product or service offering cannot meet the needs of the customer, then the customer would not buy it more than once (or even once) but on the other hand if the product meets the expected needs, then the customer might not only buy it but also become a regular customer and inform other customers about the product.

### 8.4 Evolution of Marketing Philosophies

Marketing activities should be carried out under a well-thought-out philosophy of efficient, effective, and socially responsible marketing. However, there are five competing concepts under which organizations conduct marketing activities: the production concept, product concept, selling

concept, marketing concept, and holistic marketing concept.

1. **The Production Concept:** This is the oldest concept of marketing. It emphasizes that consumers will favor those products that are available and highly affordable and therefore management should focus on improving production and distribution activities. This holds good when

- i. the demand for a product exceeds the supply and
- ii. the product cost is high.

To overcome the problem of cost, production should take place in large scale to meet the demand. At the same time, price should also be addressed so that by making available large quantity, buyer who wants to buy the product would be able to buy. But there are occasions when the product is not attractive, even at low price, the buyers may not buy the product.

2. **The Product Concept:** This concept believed that the consumers would favor those products that offer the best quality, performance and features and therefore the organization should devote its energy to making continuous product improvements. This concept implies that there is no effort required for marketing a product, as long as the product is good, and its price is reasonable.

3. **Selling Concept of Marketing:** In this concept the importance of sales efforts to be undertaken to make the consumers buy the products which otherwise will remain unsold. So, every organization has to make substantial selling and promotional effort to push the sales of its product. Even the best product cannot have desired sales without the help of sales promotion and aggressive salesmanship. This concept points out that goods are not bought but they must be sold through organized advertisement and sales promotion efforts.

4. **Profit Concept of Marketing:** According to profit concept of marketing, there is a necessity for the marketing function to generate profit for the organization. But it is the production activities which would determine the cost of manufacturing and so profit generation becomes the ultimate responsibility of the marketing function. For this purpose, the marketing personnel have to identify the right product and take it to the right people at the right time at right price through the right channel and with right promotion. This would indicate the extent to which the marketing function has to ensure profit realization for a firm. This in turn will force the production function to minimize its cost of production so that marketing function can try to optimize its activities by maximizing profit at minimum cost.

5. **Social Marketing Concept:** This philosophy of marketing underlines the importance of marketing activities to support and ensure social well-being. Marketing should determine the needs, wants and interests of target markets and deliver the desired satisfaction effectively. Only through this marketing can keep the competitors at bay. This broadened role of marketing is prescribed for marketing as in modern days, a number of products and services hasten environmental pollution, scarcity and inflation.



Did you Know?

What is the difference between a Kirayana store and an organized retail store?

## 8.5 Marketing Mix

Marketing Mix is a set of marketing tool or tactics, used to promote a product or services in the market and sell it. It is about positioning a product and deciding it to sell in the right place, at the right price and right time. The product will then be sold, according to marketing and promotional strategy.

According to Philip Kotler “Marketing Mix is the set of controllable variables that the firm can use to influence the buyer’s response”.

### Components of Marketing Mix

The components of marketing mix will be : 4Ps of Marketing Mix and 7Ps of Marketing Mix.



### *4Ps of Marketing*



### *7Ps of Marketing*

Let's discuss each component of marketing as under:

#### **A. Product-**

A product is anything that can be offered to a market for attention, acquisition, use, or consumption and that might satisfy a want or need. It includes physical objects, services, persons, places, organizations, and ideas.'

#### ***Product Concept:***

The total product concept includes Potential Product, Augmented Product, Expected Product, Generic Product and Core Product.

All these concepts will be explained with the help of example: Coca-Cola.

##### **1. Core Benefit-**

The core benefit of Coca-Cola is to quench a thirst.

##### **2. Generic Product-**

The generic product is a burnt vanilla smelling, black carbonated, and sweetened fizzy drink.

##### **3. Expected Product-**

The expected product is that the customer's Coca-Cola is cold. If this is not the case then expectations won't be met and the drink will not taste its best in the mind of the customer.

##### **4. Augmented Product-**

Coca-Cola's augmented product is that it offers Diet-Coke. How does Coca-Cola exceed customers expectations with this product? By offering all the great taste of Coca-Cola, but with zero calories.

### 5. Potential Product-

One way in which Coca-Cola delights customers is by running competitions. The prizes in these competitions are often things that, "money can't buy", such as celebrity experiences. To continue to delight customers over time the competition prizes change frequently.

#### Types of products

Products can be classified based on usage into two types: Consumer Products and Industrial Products.

##### 1. Consumer Products:

Consumer products are those products bought by final consumers for personal consumption.

Based on consumers' buying behavior the consumer products can be further classified as:

###### a) Convenience Products-

Do you remember, the last time when did you buy a packet of butter or a soft drink or a grocery item? Perhaps you don't remember, or you will say last week or yesterday. Reason is these goods belong to the categories of convenience goods which are bought frequently without much planning or shopping effort and are also consumed quickly. Buying decision in case of these goods does not involve much pre-planning. Such goods are usually sold at convenient retail outlets.

###### b) Shopping Goods-

These are goods which are purchased less frequently and are used very slowly like clothes, shoes, household appliances. In case of these goods, consumers make choice of a product considering its suitability, price, style, quality and products of competitors and substitutes, if any. In other words, the consumers usually spend a considerable amount of time and effort to finalize their purchase decision as they lack complete information prior to their shopping trip. It may be noted that shopping goods involve much more expenses than convenience goods.

###### c) Specialty Products-

Because of some special characteristics of certain categories of goods people generally put special efforts to buy them. They are ready to buy these goods at prices at which they are offered and put in extra time to locate the seller to make the purchase. The nearest car dealer may be ten kilometers away, but the buyer will go there to inspect and purchase it. In fact, prior to making a trip to buy the product he/she will collect complete information about the various brands. Examples of specialty goods are cameras, TV sets, new automobiles etc

##### 2. Industrial Products:

Industrial products are those purchased for further processing or for use in conducting a business.

For Example: If a consumer buys a lawn mower for use around home, the lawn mower is a consumer product. If the same consumer buys the same lawn mower for use in a landscaping business, the lawn mower is an industrial product.

There are three types of Industrial Products:

###### 1. Materials and Parts-

Include raw materials and manufactured materials and parts.

a) Raw materials consist of farm products (wheat, cotton, livestock, fruits, vegetables) and natural products (fish, lumber, crude petroleum, iron ore).

b) Manufactured materials and parts consist of component materials (iron, yarn, cement, wires) and component parts (small motors, tires, castings).

###### 2. Capital Items

Industrial products that aid in the buyer's production or operations, including installations and accessory equipment.

a) Installations consist of major purchases such as buildings (factories, offices) and fixed equipment (generators, drill presses, large computer systems, elevators).

b) Accessory equipment includes portable factory equipment and tools (hand tools, lift trucks) and office equipment (fax machines, desks). They have a shorter life than installations and simply aid in the production process.

### **3. Supplies and Services**

Supplies include operating supplies (lubricants, coal, paper, pencils) and repair and maintenance items (paint, nails, brooms).

Supplies are the convenience products of the industrial field because they are usually purchased with a minimum of effort or comparison.

Business services include maintenance and repair services (window cleaning, computer repair) and business advisory services (legal, management consulting, advertising).

#### **B. Price-**

Pricing (determination of price to be charged) is another important element of marketing mix and it plays a crucial role in the success of a product in the market. If the price fixed is high, it is likely to have an adverse effect on the sales volume. If, on the other hand, it is too low, it will adversely affect the profitability. Hence, it must be fixed after taking various aspects into consideration.

Refers to the value that is put for a product. It depends on costs of production, segment targeted, ability of the market to pay, supply - demand and a host of other direct and indirect factors. There can be several types of pricing strategies, each tied in with an overall business plan. Pricing can also be used a demarcation, to differentiate and enhance the image of a product.

#### **C. Place-**

Placement or distribution is a very important part of the marketing mix strategy. We should position and distribute our product in a place that is easily accessible to potential buyers/customers. In every industry, catching the eye of the consumer and making it easy for her to buy it is the main aim of a good distribution or 'place' strategy. Retailers pay a premium for the right location. In fact, the mantra of a successful retail business is 'location, location, location'.

#### **D. Promotion-**

It is a marketing communication process that helps the company to publicize the product and its features to the public. It is the most expensive and essential components of the marketing mix, that helps to grab the attention of the customers and influence them to buy the product. Most of the marketers use promotion tactics to promote their product and reach out to the public or the target audience. The promotion might include direct marketing, advertising, personal branding, sales promotion, etc.

#### **E. People-**

Who provides services to customers? In most cases, it's people. The quality of the service being provided by a company's people largely contributes to the customer's overall experience, which is why many service-based businesses view their employees as an investment.

#### **F. Process-**

For every service-based business, there is a process that happens behind the scenes to make that service possible. Your processes contribute to the overall experience you offer and are also a great way to differentiate yourself from the competition.

#### **G. Physical Evidence-**

Since services are intangible, businesses often make up for this by putting additional effort into the physical environment where the service is being offered. Basically, physical environment is the appearance and overall vibe of the area where the service is received.



Did you know?

Zoom Udyog, a car manufacturing Co., has started its business with Zoom 800 and slowly launched Zoom-1000, Wagon-Z, Swy-fy etc. and offered various services like after sale services, availability of spare parts etc.

Identify the element of marketing mix referred here.



Did you know?

Good Living Ltd. manufactures mosquito repellent tablets. These tablets are packed in strips of 12 tablets each. Each of these strips are packed in a cardboard box, 48 such boxes are then placed in a big, corrugated box and delivered to various retailers for sale.

State the purpose of packaging the tablets in a corrugated box.



### Case Study

India's Refrigerator market estimated at Rs. 2750 Cr. is catered mainly by 10 brands. The annual capacity is estimated at around 4.15 million units is running head of demand of 1.5 millions. As there is a demand and a surplus supply, all the manufacturers are trying out for new strategies in the market. Times have changed and also the buying behaviour of the customer. Earlier it was cash and carry system. Now dealers play an important role in selling; now the systems is exchange for old "bring your old refrigerator and take a new one with many gifts". A new company by name Electrolux has entered the market which has acquired Allwyn, Kelvinator and Voltas brand. Researchers have revealed that urban and city sales are declining and hence all manufacturers are trying to concentrate on rural markets.

Electrolux strategy is customisation of market, with special attention to the Northern and Southern India markets, while Godrej the main player thinks that dealer network in rural market for sales and service will be beneficial and is trying to give more emphasis on dealer network, whereas Whirlpool has adopted the strategy of increasing the dealer network by 30%.

- The market shares of the major players are as follows: •
- Godrej 30% •
- Videocon 13% •
- Kelvinator 12%
- Allwyn 10%
- Voltas 5%
- Whirlpool 27%
- Daewoo 1%
- L.G 1%
- Others 1%



### Question for Discussion

What would be the marketing mix for rural market?

## 8.6 Meaning of Product

Product is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need.

A product may be defined in a narrow as well as broad sense. In a narrow sense, it is a set of tangible physical and chemical attributes in an identifiable and readily recognizable form. In a broader sense we may look at it in the form of an object, idea, service, person, place, activity, goods, or an organization. It can even be a combination of some of these factors.

## Definition of Product

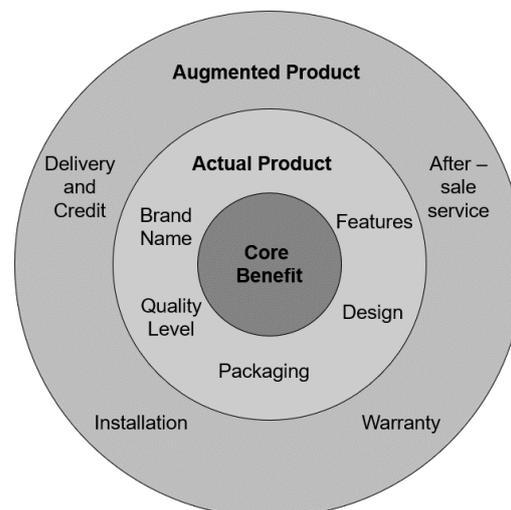
According to Philip Kotler, a product is anything that can be offered to a market for attention, acquisition, use of consumption; it includes physical objects, service, personalities, place, organization, and ideas.

## Essential Attributes of Product

Few are the essential characteristic of a product as follows:

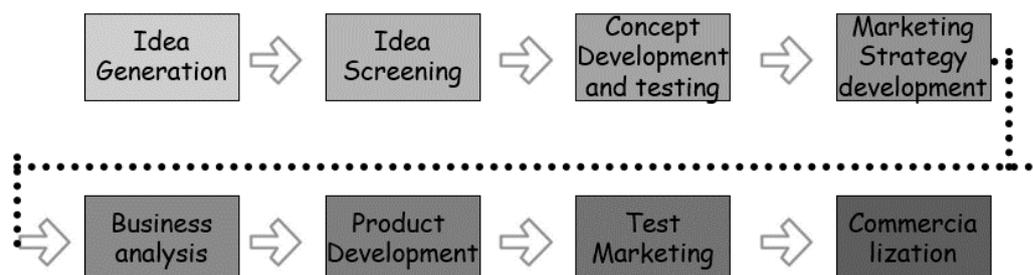
- 1) **Tangible or Intangible:** It may be capable of being touched, seen and presence felt. For example, products like a comb, refrigerator and motorcycle are tangible. At the same time, a product need not necessarily be tangible. It can be intangible but capable of providing a service. For instance, repairing, hairdressing, insurance, etc., are intangible but provide satisfaction to the customers.
- 2) **Associated Attributes:** A product consists of various product features and accompanying services. Thus, a product is comprised of attributes including color, package, brand name, accessories, installation, instructions to use, manufacturer's prestige, retailer's prestige, after sale service, etc. These attributes differentiate the products from each other.
- 3) **Exchange Value:** A product must be capable of being exchanged between a buyer and a seller at a mutually acceptable cost.
- 4) **Satisfaction:** It should be capable of providing satisfaction to the buyer, both real and psychological. As far as the seller is concerned, it should provide the much-needed business profit.

## Levels of Product



## New Product Development Strategy:

Before its launch in a market, a new product passes through several distinct phases and the process may vary across different companies. The steps involved in the development of a new product are:



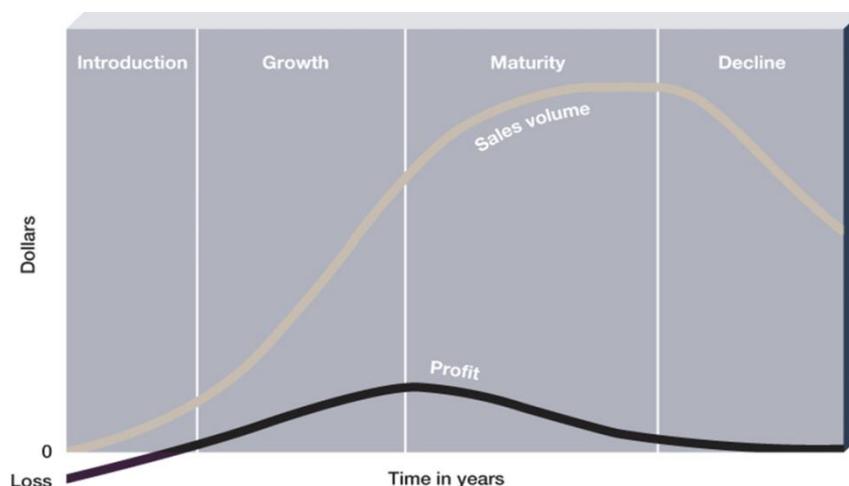
## Unit 08: Functional Area of Marketing Management

1. **Idea Generation:** The systematic search for new-product ideas.
2. **Idea Screening:** Screening new-products ideas to spot good ideas and drop poor ones as soon as possible.
3. **Product Concept:** A detailed version of the product of the new-product idea stated in meaningful consumer terms.
4. **Product Testing:** Testing new-product concepts with a group of target consumers to find out if the concepts have strong consumer appeal.
5. **Marketing Strategy Development:** Designing an initial marketing strategy for a new product based on the product concept.
6. **Business Analysis:** A review of the sales, costs, and profit projections for a new product to find out whether these factors satisfy the company's objectives.
7. **Marketing Strategy Development:** Designing an initial marketing strategy for a new product based on the product concept.
8. **Business Analysis:** A review of the sales, costs, and profit projections for a new product to find out whether these factors satisfy the company's objectives.
9. **Product Development:** Developing the product concept into a physical product in order to ensure that the product idea can be turned into a workable product.
10. **Test Marketing:** The stage of new-product development in which the product and marketing program are tested in more realistic market settings.
11. **Commercialization:** Introducing a new product into the market.

### 8.7 Product Life Cycle

The concept of the product life cycle (PLC) is based on the following facts:

1. Product has a limited life
2. A product sale passes through distinct stages
3. Profits rise and fall at different stages of Product Life Cycle
4. Products require different marketing, financial, manufacturing, purchasing and human resource strategies in each life cycle stage.



#### Stages of Product Life Cycle

The lifetime of every product is typically divided into four stages:

1. **Introduction stage:** A period of slow sales growth as the product is introduced in the market. Profits are non-existent because of heavy expenses incurred in connection with product introduction

2. **Growth Stage:** A period of rapid market acceptance and substantial profit improvement.
3. **Maturity Stage:** A period of a slowdown in sales growth because the product has achieved Notes acceptance by most potential buyers. Profits stabilize or decline because of increased competition.
4. **Decline Stage:** The period when the sales show a downward drift and profits set eroded/plateau off.

### Strategies at each stage of Product Life Cycle

#### 1. Introduction:

SALES	Low Sales
COSTS	High Cost per customer
PROFITS	Negative
MARKETING OBJECTIVES	Create product awareness and trial
PRODUCT	Offer a basic product
PRICE	Use cost-plus
DISTRIBUTION	Build selective distribution
ADVERTISING	Build product awareness among early adopters and dealers

#### 2. Growth:

SALES	Rapidly Rising Sales
COSTS	Average Cost per customer
PROFITS	Rising profits
MARKETING OBJECTIVES	Maximize Market Share
PRODUCT	Offer product extensions, service, warranty
PRICE	Price to penetrate market
DISTRIBUTION	Build intensive distribution
ADVERTISING	Build awareness and interest in the mass market

**3. Maturity:**

SALES	Peak Sales
COSTS	Low Cost per customer
PROFITS	High Profits
MARKETING OBJECTIVES	Maximize profit while defending market share
PRODUCT	Diversify brands and models
PRICE	Price to match or best competitors
DISTRIBUTION	Build more intensive distribution
ADVERTISING	Stress brand differences and benefits

**4. Decline:**

SALES	Declining Sales
COSTS	Low Cost per customer
PROFITS	Declining Profits
MARKETING OBJECTIVES	Reduce expenditure and milk the brand
PRODUCT	Phase out weak items
PRICE	Cut price
DISTRIBUTION	Go selective: phase out unprofitable outlets
ADVERTISING	Reduce to level needed to retain hard-core loyal customers

**Case Study:**

The product lifecycle shows the period over which customers will want to buy a product. It goes through different stages depending on the level of sales.

ASOS is the UK's market leader in online fashion retailing. It has more than 22,000 product items on its website and introduces up to 1,000 new ones each week. ASOS must be aware of the product lifecycle to ensure that the products it is offering continue to meet the needs of its customers. ASOS introduces new styles all the time because customers want the most up-to-date fashions. By understanding the product lifecycle ASOS can determine how long products are likely to continue to sell for and can plan for future ranges.

Businesses can use extension strategies to prolong the lifecycle of its products. Following a trend started by Apple, mobile phone suppliers now provide apps (short for applications) to extend the possible lifecycle of its products. Apps are mini programs which can be downloaded by the mobile phone user, often for free. Starbucks released an app which shows users their nearest outlet and the nutritional values of its drinks.

By providing these additional features, more customers may be encouraged to buy the handsets that support them. Some products will have relatively short product lifecycles whereas other products may continue to sell for years. As ASOS is in the fashion industry, the lifecycles of its ranges will be limited, although there are techniques it can use extend them, for example, using its newsletter facility to remind customers about certain styles. Technology also changes rapidly, and the mobile phone industry is no exception.

The introduction of apps means that the same handsets will continue to sell, thereby extending the product lifecycle, but the users can personalize them with their own favourites.

**Questions:**

1. What are the different stages of the product lifecycle?
2. Explain the different methods that a business like ASOS could adopt to extend the product lifecycle.

**8.8 What is Pricing?**

Price is commonly confused with the notion of cost.

Price is what a buyer pays to acquire products from a seller whereas cost concerns the seller's investment (e.g., manufacturing expense) in the product being exchanged with a buyer.

Price is a component of an exchange or transaction that takes place between two parties and refers to what must be given up by one party (buyer) in order to obtain something offered by another party (seller).

Major influences on pricing decisions

1. Customers influence prices through their effect on demand.
2. Competitors influence prices through their actions.
3. Costs influence prices because they affect supply.

**Factors Affecting Pricing Decisions****1. Internal Factors:**

When setting price, marketers must take into consideration several factors which are the result of company decisions and actions. To a large extent these factors are controllable by the company and, if necessary, can be altered. However, while the organization may have control over these factors making a quick change is not always realistic.

**2. External Factors:**

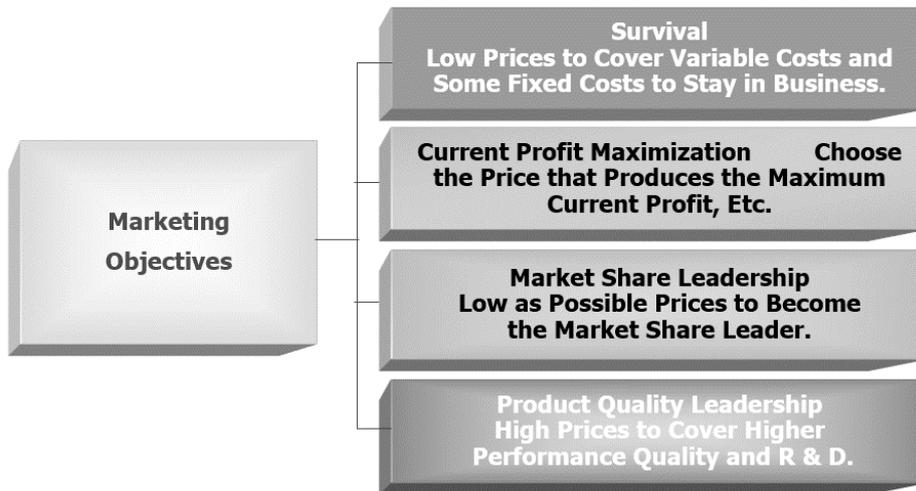
There are a number of influencing factors which are not controlled by the company but will impact pricing decisions. Understanding these factors requires the marketer conduct research to monitor what is happening in each market the company serves since the effect of these factors can vary by market.

**Pricing Setting Process**

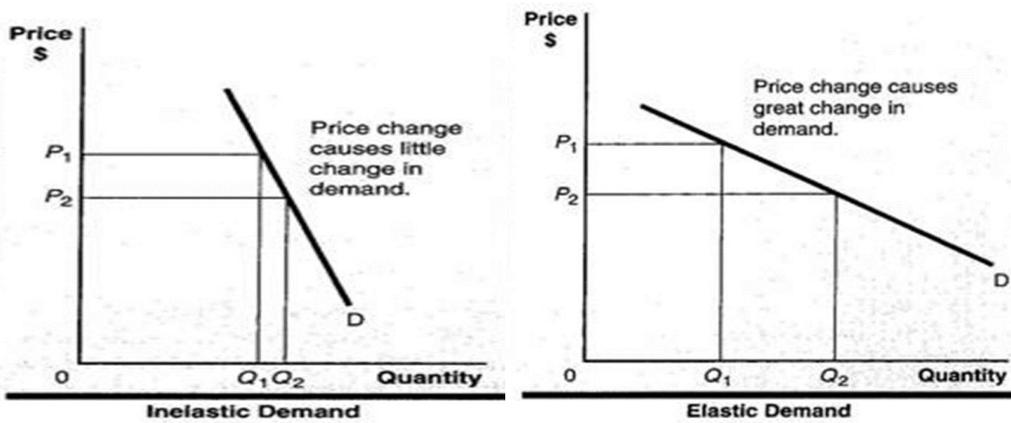
The steps in the price setting process are:

- Selecting the pricing Objective
- Determining Demand
- Estimating Costs
- Analyzing Competitors Costs, Prices and offers
- Selecting Pricing Method
- Selecting final Price

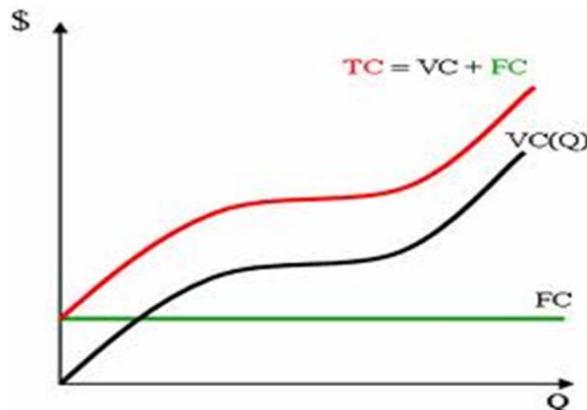
1. Pricing Objectives:



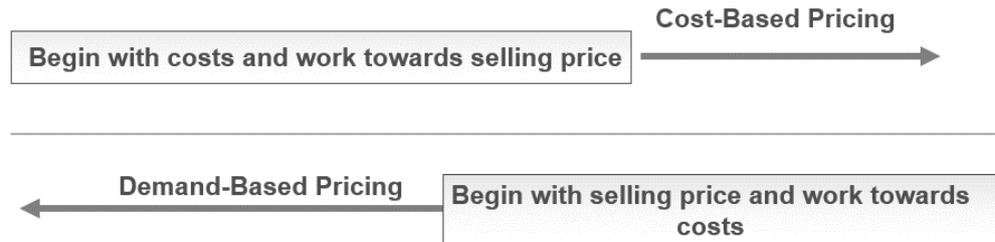
2. Determining Demand



3. Estimating Costs



#### 4. Selecting Pricing Method



**Markup Pricing:** In markup pricing a certain predetermined percentage of product's cost, called markup, is added to the cost of the product to determine the price.

**Target Return Pricing:** In this method firm determines the price that yields its target rate of return on investment.

**Perceived Value Pricing:** It is made up of a host of inputs, such as the buyer's image of the product performance, the channel deliverables, the warranty quality, customer support and softer attributes such as supplier's reputation, trustworthiness, and esteem.

**Value Pricing:** Value pricing means setting lower prices without sacrificing quality to attract large number of value conscious customers.

**Going Rate Pricing:** In this firm bases its price largely on competitors prices. In industries that sell a commodity such as steel, paper, or fertilizer, all firms normally charge the same price.

### Summary

Marketing is a dynamic and all-pervasive subject in business, that makes the whole organization ready to serve the customers. So, success of a business largely depends on the success of marketing.

Price represents the value that is exchanged in a marketing transaction. A marketer usually sells a specific combination of need-satisfying product or service, and additional services like warranty or guarantee.

Pricing should never be seen as an isolated component of a company's marketing decision making. Companies spend large amounts of money on product development, promotion, and distribution and face risks.

Price is often the only marketing mix element that can be changed quickly to respond to changes in demand or competitive moves.

Product life cycle is one of the enduring and widely publicized frameworks in marketing literature. Both, theory of innovations and diffusion, as well as theory of monopolistic competition endorse this framework

### Keywords

- Marketing Concept
- Product Concept
- Marketing
- Going rate pricing
- Target Return Pricing

**Self Assessment**

1. Which is not a type of need?
  - A. Stated
  - B. Real
  - C. Delight
  - D. Artificial
  
2. As per Maslow Hierarchy of Needs, social needs come on which level in pyramid?
  - A. 2nd level
  - B. 3rd level
  - C. 4th level
  - D. 1st level
  
3. Which marketing orientation is based on “selling aggressively products” belief?
  - A. Product Concept
  - B. Selling Concept
  - C. Production Concept
  - D. Marketing Concept
  
4. Which is not a component of Marketing Mix?
  - A. Product
  - B. Price
  - C. Place
  - D. Plan
  
5. Toothpaste is an example of which category of consumer products?
  - A. Shopping
  - B. Convenience
  - C. Specialty
  - D. Unsought
  
6. Customers influence prices through:
  - A. Effect on demand
  - B. Actions
  - C. Supply
  - D. Costs
  
7. Which component of marketing mix grabs the attention of customers and influences them to buy the product?
  - A. Place
  - B. Physical Evidence
  - C. Promotion
  - D. People
  
8. What cannot be included under augmented level of product?
  - A. Installation

- B. After-sale service
  - C. Packaging
  - D. Delivery and Credit
9. How many stages exist in Product Life Cycle?
- A. Three
  - B. Four
  - C. Five
  - D. Six
10. In which stage of product life cycle, profits will be at high level?
- A. Maturity
  - B. Growth
  - C. Introduction
  - D. Decline
11. Undifferentiated product strategy is being used under which stage of life cycle?
- A. Maturity
  - B. Growth
  - C. Introduction
  - D. Decline
12. Begin with costs and work towards selling price is \_\_\_\_\_ pricing method.
- A. Cost-based pricing
  - B. Demand-based pricing
  - C. Mark up pricing
  - D. Going rate pricing
13. Which is not a factor affecting pricing decisions?
- A. Costs
  - B. Competition
  - C. Marketing mix strategy
  - D. None of the above
14. Price is commonly confused with the notion of cost.
- A. True
  - B. False
15. Analysis of the competitors' costs and prices need to be done before setting the price of any product.
- A. True
  - B. False

**Answers for Self Assessment**

1. D      2. B      3. B      4. D      5. B  
6. A      7. C      8. C      9. B      10. A  
11. C      12. A      13. D      14. A      15. A

**Review Questions**

1. If developing new products is risky, why do companies bother to spend huge sums of money on it?
2. Define a new product. Give example of three products you consider as 'new'.
3. Explain the relevance of ideas in new product development.
4. Give relevant examples of certain brands for each stage of the PLC.
5. Define marketing and explain the relevance of customers' needs and wants to the marketers.
6. Discuss the concept of marketing mix. Explain the marketing mix of any one FMCG company, in brief.
7. How is price of a product related to the customer value?

**Further Readings**

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## Unit 09: Functional Area of Financial Management

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9.6 Concept of SEBI

9.7 Functions of SEBI

9.8 Mutual fund regulations by SEBI

Summary

Keywords

Self Assessment

Answers for Self Assessment

Review Questions

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### Objectives

After studying this chapter, you will be able to:

- Understand the concept of financial management.
- Learn the objectives of financial management.
- Learn the types and scope of financial management.
- Understand the concept of funding.
- Explore the different sources of funds.
- Understand about concept of SEBI.
- Learn about the structure of SEBI.
- Learn about the powers and functions of SEBI.

### Introduction

Finance is one of the basic foundations of all kinds of economic activities; it is the master key which provides access to all the sources for being employed in manufacturing and merchandising activities. However, it is also true that money begets more money, only when it is properly managed. Hence, efficient management of finances is very important. In short, we can say that "Finance is the backbone of every business".

### 9.1 What is Financial Management?

Financial Management means planning, organizing, directing, and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise.

## Business Organization and Management

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At its core,

Financial management is the practice of making a business plan and then ensuring all departments stay on track. Solid financial management enables the CFO or VP of finance to provide data that supports creation of a long-range vision, informs decisions on where to invest, and yields insights on how to fund those investments, liquidity, profitability, cash runway.

### **Definition of Financial Management**

According to Van Horne and Wachowicz, "Financial Management is concerned with the acquisition, financing and management of assets with some overall goal in mind."

### **Meaning of Financial Management System**

A financial management system combines several financial functions, such as accounting, fixed-asset management, revenue recognition and payment processing.

By integrating these key components, a financial management system ensures real-time visibility into the financial state of a company while facilitating day-to-day operations, like period-end close processes.

### **Levels in Financial Management**

There are basically two levels in Financial Management: Strategic and Tactical Financial Management.

1. **Strategic Financial Management-** On a more strategic level, financial management feeds into vital FP&A (financial planning and analysis) and visioning activities, where finance leaders use data to help line-of-business colleagues plan future investments, spot opportunities, and build resilient companies.
2. **Tactical Financial Management-** On a tactical level, financial management procedures govern how you process daily transactions, perform the monthly financial close, compare actual spending to what's budgeted and ensure you meet auditor and tax requirements.

### **Importance of Financial Management**

Based on three pillars of sound fiscal governance, the importance of financial management can be discussed in three ways: Strategizing, Decision-Making and Controlling.

1. **Strategizing-** Identifying what needs to happen financially for the company to achieve its short- and long-term goals. For Example: Leaders need insights into current performance for scenario planning.
2. **Decision-Making-** Helping business leaders decide the best way to execute on plans by providing up-to-date financial reports and data on relevant KPIs.
3. **Controlling-** Ensuring each department is contributing to the vision and operating within budget and in alignment with strategy.

## **9.2 Types of Financial Management**

Let us define the different types of financial management: Capital Budgeting, Capital Structure and Working Capital Management.

1. **Capital Budgeting-** Capital budgeting, which relates to identifying what needs to happen financially for the company to achieve its short- and long-term goals?



Where capital funds should be expended to support growth?

2. **Capital Structure-** Capital structure, determining how to pay for operations and/or growth. If interest rates are low, taking on debt might be the best answer. A company might also seek funding from a private equity firm, consider selling assets like real estate or, where applicable, selling equity.

### Unit 09: Functional Area of Financial Management

3. **Working Capital Management-** Working capital management, as discussed above, is making sure there's enough cash on hand for day-to-day operations, like paying workers and purchasing raw materials for production.



#### **Case Study:**

Say the CEO of a toothpaste company wants to introduce a new product: toothbrushes. She'll call on her team to estimate the cost of producing the toothbrushes and the financial manager to determine where those funds should come from – for example, a bank loan.

What financial manager will do?

The financial manager will acquire those funds and ensure they're allocated to manufacture toothbrushes in the most cost-effective way possible.

Assuming the toothbrushes sell well, the financial manager will gather data to help the management team decide whether to put the profits toward producing more toothbrushes, start a line of mouthwashes, pay a dividend to shareholders or take some other action.

Throughout the process, the financial manager will ensure the company has enough cash on hand to pay the new workers producing the toothbrushes. She'll also analyse whether the company is spending and generating as much money as she estimated when she budgeted for the project.

### **9.3 Scope of Financial Management**

Study of the changes that have taken place over the years is known as “scope of financial management.” In order to have an easy understanding and better exposition to the changes, it is necessary to look into different aspects.

1. **Planning-** The financial manager projects how much money the company will need in order to maintain positive cash flow, allocate funds to grow or add new products or services and cope with unexpected events, and shares that information with business colleagues.
2. **Budgeting-** The financial manager allocates the company's available funds to meet costs, such as mortgages or rents, salaries, raw materials, employee T&E and other obligations. Ideally there will be some left to put aside for emergencies and to fund new business opportunities. Companies generally have a master budget and may have separate sub documents covering, for example, cash flow and operations; budgets may be static or flexible.
3. **Managing and Assessing Risk-** Line-of-business executives look to their financial managers to assess and provide compensating controls for a variety of risks, including:
  - a. **Market risk:** Affects the business' investments as well as, for public companies, reporting and stock performance. May also reflect financial risk particular to the industry, such as a pandemic affecting restaurants or the shift of retail to a direct-to-consumer model.
  - b. **Credit risk:** The effects of, for example, customers not paying their invoices on time and thus the business not having funds to meet obligations, which may adversely affect creditworthiness and valuation, which dictates ability to borrow at favorable rates.
  - c. **Liquidity risk:** Finance teams must track current cash flow, estimate future cash needs and be prepared to free up working capital as needed.
  - d. **Operational risk:** This is a catch-all category, and one new to some finance teams. It may include, for example, the risk of a cyber-attack and whether to purchase cyber security insurance, what disaster recovery and business continuity plans are in place and what crisis management practices are triggered if a senior executive is accused of fraud or misconduct.
4. **Procedures-** The financial manager sets procedures regarding how the finance team will process and distribute financial data, like invoices, payments and reports, with security and accuracy. These written procedures also outline who is responsible for making financial decisions at the company – and who signs off on those decisions. Companies don't need to

start from scratch; there are policy and procedure templates available for a variety of organization types, such as this one for non-profits.

#### **9.4 Objectives of Financial Management**

In order to understand the concept of financial management, the objectives need to be clearly understood by any individual.

There are main objectives which will be explained under:

1. **Profit Maximization-**The finance manager tries to earn maximum profits for the company in the short-term and the long-term. He cannot guarantee profits in the long term because of business uncertainties. However, a company can earn maximum profits even in the long-term, if:
  - a. The Finance manager takes proper financial decisions
  - b. He uses the finance of the company properly
2. **Wealth Maximization-** Wealth maximization (shareholders' value maximization) is also a main objective of financial management. Wealth maximization means to earn maximum wealth for the shareholders. So, the finance manager tries to give a maximum dividend to the shareholders. He also tries to increase the market value of the shares.
3. **Proper estimation of total financial requirements-** Proper estimation of total financial requirements is a very important objective of financial management. The finance manager must estimate the total financial requirements of the company. He must find out how much finance is required to start and run the company. He must find out the fixed capital and working capital requirements of the company. His estimation must be correct. If not, there will be shortage or surplus of finance.
4. **Profit Mobilization-** Mobilization (collection) of finance is an important objective of financial management. After estimating the financial requirements, the finance manager must decide about the sources of finance. He can collect finance from many sources such as shares, debentures, bank loans, etc. There must be a proper balance between owned finance and borrowed finance. The company must borrow money at a low rate of interest.
5. **Proper utilization of finance-** Proper utilization of finance is an important objective of financial management. The finance manager must make optimum utilization of finance. He must use the finance profitably. He must not waste the finance of the company. He must not invest the company's finance in unprofitable projects. He must not block the company's finance in inventories. He must have a short credit period.
6. **Maintaining proper cash flow-** Maintaining proper cash flow is a short-term objective of financial management. The company must have a proper cash flow to pay the day-to-day expenses such as purchase of raw materials, payment of wages and salaries, rent, electricity bills, etc. If the company has a good cash flow, it can take advantage of many opportunities such as getting cash discounts on purchases, large-scale purchasing, giving credit to customers, etc. A healthy cash flow improves the chances of survival and success of the company.
7. **Survival of Company-** Survival is the most important objective of financial management. The company must survive in this competitive business world. The finance manager must be very careful while making financial decisions. One wrong decision can make the company sick, and it will close down.
8. **Creating Reserves-** One of the objectives of financial management is to create reserves. The company must not distribute the full profit as a dividend to the shareholders. It must keep a part of its profit as reserves. Reserves can be used for future growth and expansion. It can also be used to face contingencies in the future.
9. **Proper Coordination-** Financial management must try to have proper coordination between the finance department and other departments of the company.
10. **Create Goodwill-** Financial management must try to create goodwill for the company. It must improve the image and reputation of the company. Goodwill helps the company to survive in the short-term and succeed in the long-term. It also helps the company during bad times.

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*Unit 09: Functional Area of Financial Management*

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**11. Increase efficiency-** Financial management also tries to increase the efficiency of all the departments of the company. Proper distribution of finance to all the departments will increase the efficiency of the entire company.

**12. Financial Discipline-** Financial management also tries to create a financial discipline. Financial discipline means:

1. To invest finance only in productive areas. This will bring high returns (profits) to the company.
2. To avoid wastage and misuse of finance.

**13. Reduce Cost of Capital-** Financial management tries to reduce the cost of capital. That is, it tries to borrow money at a low rate of interest. The finance manager must plan the capital structure in such a way that the cost of capital is minimized.

**14. Reducing Operating Risks-** Financial management also tries to reduce the operating risks. There are many risks and uncertainties in a business. The finance manager must take steps to reduce these risks. He must avoid high-risk projects. He must also take proper insurance.

**15. Prepare Capital Structure-** Financial management also prepares the capital structure. It decides the ratio between owned finance and borrowed finance. It brings a proper balance between the different sources of capital. This balance is necessary for liquidity, economy, flexibility and stability.

## 9.5 Concept of Funding

Funding, also called financing, represents an act of contributing resources to finance a program, project, or a need. Funding can be initiated for either short-term or long-term purposes. Companies always seek sources of funding to grow the business. Funds are specifically required for various purchase types of tangible assets such as furniture, machinery, buildings, offices, factories, or intangible assets like patents, technical expertise, and trademarks, etc.

### **Classification of Sources of Funds**

The type and amount of funds required usually differs from one business to another. For instance, if the size of business is large, the amount of funds required will also be large. Likewise, the financial requirements are more in manufacturing business as compared to trading business. The business needs funds for a longer period to be invested in fixed assets like land and building, machinery etc.

The three different bases to classify the sources of funds are:

1. Based on Time
2. Based on Ownership & Control
3. Based on Source of Generation

#### **I. Based On Time:**

There are various sources of finance on the basis of time which are explained as under:

1. **Long term sources of finance-** This long-term fund is utilized for more than five years. The fund is arranged through preference and equity shares and debentures etc. and is accumulated from the capital market.

**Example:** Capital expenditures in fixed assets like plant and machinery, land and building, etc. of business are funded using long-term sources of finance.

Long-term Sources are:

- Share Capital or Equity Shares
- Preference Capital or Preference Shares
- Retained Earnings or Internal Accruals
- Debenture / Bonds

### ***Business Organization and Management***

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- Term Loans from Financial Institutes, Government, and Commercial Banks
  - Venture Funding
  - Asset Securitization
  - International Financing by way of Euro Issue, Foreign Currency Loans, ADR, GDR, etc
2. ***Medium term sources of finance-*** These are short term funds that last more than one year but less than five years. The source includes borrowings from a public deposit, commercial banks, commercial paper, loans from a financial institute, and lease financing, etc.

Required for two reasons:

1. When long-term capital is not available for the time being and
2. When deferred revenue expenditures like advertisements are made which are to be written off over a period of 3 to 5 years.

#### **Medium term sources are:**

- Preference Capital or Preference Shares
  - Debenture / Bonds
  - Medium Term Loans from
  - Financial Institutes
  - Government, and
  - Commercial Banks
  - Lease Finance
  - Hire Purchase Finance
3. ***Short-term sources of finance-*** These are funds just required for a year. Working Capital Loans from Commercial bank and trade credit etc. are a few examples of these sources. Short-term financing is also named as working capital financing. Short-term finance arises to finance the current assets of a business like an inventory of raw material and finished goods, debtors, minimum cash and bank balance etc.

#### **Short-term sources are:**

- Trade Credit
- Short Term Loans like Working Capital Loans from Commercial Banks
- Fixed Deposits for a period of 1 year or less
- Advances received from customers
- Creditors
- Payables
- Factoring Services
- Bill Discounting etc.

## **II. Based On Ownership And Control**

There are various sources of finance based on ownership and control which are explained as under:

1. ***Owner's fund-*** This fund is financed by the company owners, also known as owner's capital. The capital is raised by issuing preference shares, retained earnings, equity shares, etc. These are for long term capital funds which form a base for owners to obtain their right to control the firm's management and operations.

Sources of fund:

- Equity

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- Preference
  - Retained Earnings
  - Convertible Debentures
  - Venture Fund or Private Equity
2. **Borrowed funds-** These are the funds accumulated with the help of borrowings or loans for a particular period of time. This source of fund is the most common and popular amongst the businesses. For example, loans from commercial banks and other financial institutions.

**Sources of funds are:**

- Financial institutions,
- Commercial banks or
- The general public in case of debentures

**III. Based On Sources Of Generation**

There are various sources of finance based on sources of generation which are explained as under:

1. **Internal Sources-** The owners generated the funds within the organization. It is generated internally by the business. The example for this reference includes selling off assets and retained earnings, etc.

**Advantage:**

Internal sourcing of capital is that the business grows by itself and does not depend on outside parties.

**Disadvantage:**

Both equity and debt are not present in this form of financing. Neither ownership dilutes nor does fixed obligation/bankruptcy risk arise.

2. **External Sources-** The fund is arranged from outside the business. For instance, issuance of equity shares to public, debentures, commercial banks loan, etc. Deciding the right source of funds is a crucial business decision taken by top-level finance managers.

## **9.6 Concept of SEBI**

SEBI is a statutory regulatory body established on the 12th of April, 1992. It monitors and regulates the Indian capital and securities market while ensuring to protect the interests of the investors, formulating regulations and guidelines. The head office of SEBI is at Bandra Kurla Complex, Mumbai. SEBI has regional offices in New Delhi, Chennai, Kolkata and Ahmadabad along with other local regional offices across prominent cities in India.

**Watchdog of stock market in India: SEBI**

For every stock market across the world, there is a watchdog which keeps a close eye on the market activities to ensure that the interests of every participant are not impacted by frivolous activities of any other participants. In India, SEBI has been created to ensure that the market activities are free and fair.

**Structure of SEBI**

SEBI has a corporate framework comprising of various departments each managed by a department head. There are about 20 departments under SEBI.

**Hierarchical Structure of SEBI**

- The chairman of SEBI is nominated by the Union Government of India.
- Two officers from the Union Finance Ministry will be a part of this structure.
- One member will be appointed from the Reserve Bank of India.
- Five other members will be nominated by the Union Government of India.

**Important Departments of SEBI**

The important departments of SEBI:

- The Information Technology Department.
- The Foreign Portfolio Investors and Custodians.
- Office of International Affairs.
- National Institute of Securities Market.
- Investment Management Department.
- Commodity and Derivative Market Regulation Department.
- Human Resource Department

**Powers of SEBI**

The powers of SEBI are divided into three categories: Quasi-Judicial, Quasi-Executive and Quasi-Legislative powers.

1. **Quasi-Judicial Powers:** SEBI has the authority to deliver judgements related to fraud and other unethical practices in terms of the securities market. This helps to ensure fairness, transparency, and accountability in the securities market.
2. **Quasi-Executive Powers:** SEBI is empowered to implement the regulations and judgements made and to take legal action against the violators. It is also authorized to inspect Books of accounts and other documents if it comes across any violation of the regulations.
3. **Quasi-Legislative Powers:** To protect the interest of investors, the authoritative body has been entrusted with the power to formulate suitable rules and regulations. Such rules tend to encompass the listing obligations, insider trading regulations and essential disclosure requirements. The body formulates such rules and regulation to get rid of malpractices that are prevalent in the securities market.

**9.7 Functions of SEBI**

SEBI functions are moving into three directions as :Protective, Regulatory and Development function.

**1. Protective Function:**

These functions are performed by SEBI to protect the interest of investors and other financial participants.

It includes:

- i. Checking price rigging
- ii. Prevent insider trading
- iii. Promote fair practices
- iv. Create awareness among investors
- v. Prohibit fraudulent and unfair trade practices

**2. Regulatory Function:**

These functions are basically performed to keep a check on the functioning of the business in the financial markets.

It includes:

- i. Designing guidelines and code of conduct for the proper functioning of financial intermediaries and corporate.
- ii. Regulation of takeover of companies

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- iii. Conducting inquiries and audit of exchanges
- iv. Registration of brokers, sub-brokers, merchant bankers etc.
- v. Levying of fees
- vi. Performing and exercising powers
- vii. Register and regulate credit rating agency

## **2. Development Function:**

SEBI performs certain development functions also that include but they are not limited to-

- i. Imparting training to intermediaries
- ii. Promotion of fair trading and reduction of malpractices
- iii. Carry out research work
- iv. Encouraging self-regulating organizations
- v. Buy-sell mutual funds directly from AMC through a broker

## **9.8 Mutual fund regulations by SEBI**

SEBI has also made few policies and laid down guidelines for the mutual funds in order to safeguard the interests of the investors. These guidelines have been laid to bring uniformity in the working of the similar mutual funds' scheme which will help the investors to make their investment decisions more clearly.

### **Summary**

Business finance is the activity concerned with planning, raising, controlling and administering of the funds used in the business.

Financial Management is concerned with the acquisition, financing and management of assets with some overall goal in mind. The main activities of a financial manager are (1) anticipating financial needs, (2) acquiring financial resources, and (3) allocating funds in the business.

Investment decision relates to the selection of assets, that a firm will invest fund to procure. The required assets fall into two groups, long-term assets (fixed assets), and short-term assets (current assets)

Financial management decisions are of different kinds but they are inter-related because the underlying objective of all the three decisions is (same) the maximization of shareholders' wealth.

Every business requires money to start and run the business. 'Business finance' refers to the money required for business purpose and the ways by which it is raised.

Every business need funds to purchase fixed assets, must day-to-day expenses, to fund business growth, bridge the time gap between production and sales, to meet contingencies and to avail of business opportunities.

### **Keywords**

- Deferred Income
- Equity Share
- Factoring, Preference Share
- Financial Management
- Dividend, Finance
- Wealth Maximization.

**Self Assessment**

1. How many levels exist in financial management?
  - A. Two
  - B. Three
  - C. Four
  - D. Five
  
2. Which is not a strong pillar of sound fiscal governance system?
  - A. Strategizing
  - B. Decision making
  - C. Controlling
  - D. Planning
  
3. \_\_\_\_\_ relates to identifying what needs to happen financially for the company to achieve its short- and long-term goals.
  - A. Capital Structure
  - B. Capital Budgeting
  - C. Working Capital Management
  - D. All of the above
  
4. \_\_\_\_\_ - is making sure there's enough cash on hand for day-to-day operations, like paying workers and purchasing raw materials for production.
  - A. Capital Structure
  - B. Capital Budgeting
  - C. Working Capital Management
  - D. All of the above
  
5. Which cannot be considered as an objective of financial management?
  - A. Reduce Cost of Capital
  - B. Create Goodwill
  - C. Increase Operating Risks
  - D. Increase Efficiency
  
6. Funding cannot be initiated for either short-term or long-term purposes.
  - A. True
  - B. False
  
7. What is the different basis of classifying the sources of funds?

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- A. Time
  - B. Ownership & Control
  - C. Source of Generation
  - D. All of the above
8. Internal sourcing of capital is that the business grows by itself and does not depend on outside parties.
- A. True
  - B. False
9. Which cannot be considered as a medium-term source of funding?
- A. Preference Capital or Preference Shares
  - B. Debenture / Bonds
  - C. Lease finance
  - D. Trade Credit
10. \_\_\_\_\_are the funds accumulated with the help of borrowings or loans for a particular period of time.
- A. Borrowed funds
  - B. Owner's fund
  - C. Control fund
  - D. None of the above
11. How many members will be appointed from the Reserve Bank of India?
- A. Two members
  - B. One member
  - C. Three members
  - D. Four Members
12. In which year SEBI has been established as statutory regulatory body?
- A. 1992
  - B. 1993
  - C. 1994
  - D. 1995
13. Which function is performed by SEBI to protect the interest of investors and other financial participants?
- A. Protective Function
  - B. Regulatory Function

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- C. Development Function
- D. All of the above

14. What does not come under the categorization of mutual funds as per SEBI?

- A. Equity Schemes
- B. Debt Schemes
- C. Hybrid Schemes
- D. Problem Oriented Schemes

15. SEBI has the authority to deliver judgments related to fraud and other unethical practices in terms of the securities market.

- A. True
- B. False

**Answers for Self Assessment**

- |       |       |       |       |       |
|-------|-------|-------|-------|-------|
| 1. A  | 2. D  | 3. B  | 4. C  | 5. C  |
| 6. B  | 7. D  | 8. A  | 9. D  | 10. A |
| 11. B | 12. A | 13. A | 14. D | 15. A |

**Review Questions**

1. Write a note on the evolution of finance function
2. Discuss in detail the scope of financial management.
3. "Finance functions of a business is closely related to its other functions". Discuss
4. Should the goal of financial decision-making be profit maximization or wealth maximization? Discuss
5. Briefly discuss the sources of short-term finance.
6. Discuss in detail the sources of long-term finance.
7. What are the sources of working capital finance? Discuss.



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**Objectives**

After studying this chapter, you will be able to:

- Understand the concept of human resource management.
- Learn about the objectives of human resource management.
- Understand the functions of human resource management.
- Learn the evolution of human resource management.
- Understand industrial relations concept and its evolution.
- Understand the approaches and models of Industrial relations.

**Introduction**

HRM is concerned with managing the people resources of an organization. In fact, managing human resources is the most crucial and challenging task that management has to perform, crucial because it is the key to sustainability in the present competitive world and challenging because no two individuals are same (they have different set of needs, ambitions, aspirations, mental make-up, backgrounds. Can you recall more differences!!). Now imagine the task of the human resource manager who has to satisfy not only the different set of needs of its people but also meet the overall organizational objective.

**10.1 Concept of Human Resource Management**

To get the better understanding about the concept of Human Resource Management, firstly discuss about meaning of Human Resources.

Human resources mean the collection of people and their characteristics at work. These are distinct and unique to an organization in several ways.

**Why and How Human Resources are superior?**

1. HR alone appreciates over a period.
2. HR achieves in higher performance output than its actual input.

3. HR brings value to all other assets.
4. Operational flexibility is possible with HR.

### **Meaning of Human Resource Management**

Human resource management is concerned with policies and practices that ensure the best use of the human resources for fulfilling the organizational and individual goals.

Human Resource Management is a process of bringing people and organization together so that the goals of each are met. It is that part of the management process which is concerned with the management of human resource in an organization. It tries to secure the best from people by winning their wholehearted co-operation.

It may be defined as the art of processing, developing and maintaining competent workforce to achieve the goals of an organization in an effective and efficient manner.

It is concerned with the most effective use of people to achieve organizational and individual goals.

Human Resource Management is the process of managing the vibrating human resource in an organization, so that the employee and employer will be able to achieve their respective objectives. In fact, human resource management is the most important asset for an organization. The quality of human resource will determine its fate.

### **Definition of Human Resource Management**

According to M L Cuming, "Human Resource Management is concerned with obtaining the best possible staff for an organization and having got them looking after them, so that they want to stay and give their best to their jobs."

Dale Yoder defines Human Resource Management as that part of the phase of management dealing effectively with control and use of manpower as distinguished from other source of power.

According to F. E. L. Brech, Human Resource Management is that part of management progress which is primarily concerned with the human constituents of an organization.

Edison defines, Human Resource Management as the science of human engineering.

According to Leon C. Megginson, the term human resource can be thought of as, "the total knowledge, skill, creative abilities, talents and aptitudes of an organization's workforce, as well as the values, attitudes and beliefs of the individuals involved."

### **Objectives of Human Resource Management**

The different objectives of Human Resource Management are:

- 1.Societal Objectives
- 2.Organizational Objectives
- 3.Functional Objectives
- 4.Personal Objectives

#### **1.Societal Objectives-**

To be ethically and socially responsible to the needs and challenges of the society while minimizing the negative impact of such demands upon the organization.

#### **2.Organizational Objectives-**

To recognize the role of HRM in bringing about organizational effectiveness.

#### **3.Functional Objectives-**

To maintain the department's contribution at a level appropriate to the organization's needs.

#### **4.Personal Objectives-**

To assist employees in achieving their personal goals, at least insofar as these goals enhance the individual's contribution to the organization.

## 10.2 Functions of Human Resource Management

All managers are, in a sense, HR managers, since they all get involved in activities like recruiting, interviewing, selecting, and training. The functions of HRM can be divided into managerial and operative functions.

MANAGERIAL FUNCTIONS are Planning, Organizing, Staffing, Directing and Controlling.

OPERATIVE FUNCTIONS are Procurement, Development, Compensation, Integration, Industrial Relations and Maintenance & Innovation.

### 1. Managerial Functions:

**Planning-** Planning is necessary to give the organization its goals and directions to establish best procedure to reach the goals. Planning staff levels requires that an assessment of present and future needs of the organization be compared with present resources and future predicted resources. Appropriate steps then be planned to bring demand and supply into balance.

**Organizing-** After objectives have been established and plans been developed then personnel manager must design and develop organization structure to carry out various operations. Such as-

- Grouping of personnel activity
- Assignment of different groups of activities to different individuals
- Delegation according to task assigned
- Co-ordination of activities of different individuals.

**Directing-** The directing function of the personnel manager involves encouraging people to work willingly and effectively for the goals of the organization.

**Controlling-** Controlling helps to evaluate and control the performance of the department in terms of various operative functions.

### 2. Operative Functions:

The main areas of operative functions of HRM are: Procurement, Development, Compensation, Integration, Maintenance and Motivation

**Procurement-** Acquisition of human resources is the primary function of a manager. This includes all requirements of personnel, recruitment, and selection of suitable candidates, an appointment to the right place of the workforce, and estimation of orientation.

**Development-** Providing proper training to managers to develop the necessary skills and talents within the employees and ensuring the correct development of the selected candidates is an important function of HR. Overall, the success of an organization depends on how well employees have trained for the job and their growth opportunities within the organization. The role of HR is to ensure that new employees acquire company-specific knowledge and skills so that they can perform their tasks efficiently. This increases the overall efficiency and productivity of the workforce, resulting in better business as well as greater profitability for the company.

**Compensation-** Benefits and compensation are a major part of the total cost expenditure of any organization. It is necessary to plug expenses, and at the same time, it is very necessary to pay employees well. Therefore, the role of human resource management is to create packages such as bonuses, benefits, and compensation for them to attract more employees in the workplace without disturbing the company's finances. By which he will be able to give more good production to the company by doing his work with more interest.

**Integration-** Integration means introducing new employees to the organization and their work or process. This includes motivating employees through various financial and non-financial incentives, providing job satisfaction, dealing with employee complaints through formal grievance procedures, collective bargaining, labor participation in management, conflict resolution, development of sound human relations, employee consultation, improving quality of work-life, etc.

**Maintenance-** It is the most important function, it is related to saving and promoting the physical and mental health of the employees, which aims to provide many types of fringe benefits like PF, life insurance, accident insurance, health insurance, pension to the employees. It is necessary to

provide gratuity with various benefits and facilities such as allowances and other health and safety measures.

**Task-** Create the organization of HR department with respect to objectives and functions.

### **10.3 Evolution of Human Resource Management**

The historical evolution of HR can be drawn into six stages:

Stage I : Pre-Industrial Era (1400-1700 AD)

Stage II: Industrial Revolution and Factory System (1700-1900 AD)

Stage III: Scientific Management, Welfare Work and Industrial Psychology (1900-1935 AD)

Stage IV: Golden Age of Industrial Relations and Personnel Management Maintenance Function (1935-1970)

Stage V: Control of Labour Tradition (1970-1990)

Stage VI: Professional Tradition (1990- till date)

#### **STAGE I:**

Beginning around 1400 AD and continuing until 1700 AD. This period is marked by an absence of any formal Human Resource Management function within the organization. Several dramatic changes occurred during this first stage that represent seeds from which modern Human Resource Management later grew.

First, there was cessation of feudalism, release of labour from land and beginning of free employment relationship on which modern labour markets are based.

Second, there was a shift from subsistence agriculture to a commercial mixed economy, the rise of urban economy, a diffusion economic control and distribution of wealth and income.

Third, there was a spectacular growth of towns and villages along with a middle class that included skilled craftsmen and merchants who were the forerunners of factory owners.

#### **STAGE II:**

The Industrial relations began in 18th century in the UK, in 19th century in the USA and in the second half of 20th century in India. It was made possible by the replacement of human effort and skill by the work of machines. One of the contributions of industrial relations was the development of the 'factory' system. Factories greatly expanded production and created a new class of workers and managers. It brought about division of work. It necessitated supervising large number of workers. With the advent of factory system, personnel practices became autocratic, based on Commodity concept of Labour. Labour was purchased at terms designed to maximize the employer's profit. Consequently, there was a total neglect of "Human Factor"; the focus was upon materials, market and production.

#### **STAGE III:**

Scientific Management and Welfare Work represent two separate and concurrent movements that began in the 19th century and along with contribution from Industrial Psychology, merged around the time of World War I to form the field of Human Resource Management.

Scientific management represents an effort to deal with labour and management inefficiencies through re-organization of production methods and rationalization of work.

Welfare work is defined as anything done for comfort and improvement, intellectual or social for the employees over and above wages paid, which is not the necessity of industry, not required by law. It represents efforts to deal with labour problems by improving workers' conditions.

Industrial psychology represented the application of psychological principles towards increasing the efficiency of industrial workers.

#### **STAGE IV:**

After the World War I, there was great depression. Following the depression, there was an increased need for the practice of Human Resource Management as a result of a growth in unions

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and collective bargaining. At this time, there was a shift in emphasis towards the Industrial Relation Function of Human Resource Management.

During the period from 1945 to 1970, the primary focus of the employment relationship was on industrial relations and this human resource management function rose in prominence. The pro-union legislation was followed by World War II, which created an extraordinary demand for labour, resulted in unprecedented union prestige and fueled a phenomenal growth in union membership.

The industrial relation side of human resource management experienced its golden age between 1948 and 1958. The general focus of human resource management was on industrial relations because the primary need of many organizations was to operate in collective bargaining framework of labour relations.

### **STAGE V:**

The institution of the trade union, which is a product of capitalist industrialization, emerged in Britain and other developed countries in the West in the 19th century, basically to protect against the injustice and exploitation meted out to workers by the owners of Capital during the course of industrialization. Labour movement in many countries started its own political parties and engaged in struggle at both the political and economic fronts. Gradually, over the years, the labour class got integrated into the larger society with the acceptance of their demands by the employers, first for collective bargaining and then for worker's participation in management. This led to their rise to prominence and power in industry and society in the 20th century. But trade unions witnessed significant loss of membership during the 1980s and 1990s.

### **STAGE VI:**

With the passage of time, personnel management has become mature and professionalized. Professional management is that management where decision-making rests with professional managers, where there has been a divorce between capital and control and where owners of business are functionless owners.

## **Difference between Human Resource Management and Personnel Management**

- HRM is proactive in nature while PM is reactive.
- HRM is a resource-centred activity whereas PM is an employee-centred activity.
- HRM emphasizes on flexible, open-ended contracts but PM emphasizes the strict observance of defined rules, procedures and contracts.
- HRM views better performance as a cause of job satisfaction whereas PM considers job satisfaction as a source of better performance.
- HRM seeks to develop the competencies of the employees on a sustained basis while PM is a regular, status quo-based administrative function.

### **Think Upon**

What are the qualities of HR Manager?

## **Factors affecting Human Resource Management**

The factors which are responsible for affecting human resource management function in any organization has been divided into two major areas: Internal and External.

### **1. Internal Factors:**

**1. Organizations Size:** The size of organization has immense impact on HR practices. Larger the firm more complex the HR practices. Large firms, such as international or multinational have additional scope to their HR implementations. To put it another way, smaller firms generally have personnel management functions, which could include either simple or less complicated. The style of management, whether autocratic or democratic depends on the size of the firms.

**2. Organizational Structure:** Organizational structure is a system used to define a hierarchy within an organization. It identifies each job, its function and where it reports to within the organisation. A firm's strategy and structure are important in determining HR practices. With increase in global

competition and highly changing business environment HR practices are becoming more flexible and integrated. There are important structural differences among firms that affect the way in which HR practices are designed and implemented.

**3. Business Strategy:** To gain competitive advantage, firms use different competitive strategies. In order that the strategies prove advantageous they have to very well be synchronized with the HR policies.

**4. Organization Culture:** Organizational culture is a system of shared assumptions, values, and beliefs, which direct how people behave in organizations. These shared values have a strong influence on the people in the organization and dictate how they dress, act, and perform their jobs. Every organization develops and maintains a unique culture, which provides guidelines and boundaries for the behavior of the members of the organization.

**5. Top Management and Line Managers:** The directives of top management and their concerns could be another factor that impact HRM practices. HRM Policies depend upon the importance which top management assign to HR function. The top managements set the course for formulation and implementation of HR activities.

**6. Power and Politics:** Organizational power and politics are crucial determinants of HR practices. While executing new policies and procedures in the organization, the role of power and politics is assumed. HR manager must identify the critical element of the HR practices and accurately determine their source of power.

## **2.External Factors:**

**1. Economic Environment:** These are those forces which have a bearing on the organization. These are those factors that have a bearing on economic activity. General economic conditions, economic policies, and various factors of production have a bearing on the organization. Factors such as Population and workforce, workforce market condition, national income and inflationary pressures have an impact on the working of the organization.

**2. Technological Changes:** With the advancement in technology there has been a paradigm shift in the way businesses are run. Development in science and technology will help the business organizations grow. Technological advancements in business functions might enhance the image of firms and result in increased revenue generation. Furthermore, changes in technology can help improve the implementation of human resource functions such as selection, recruitment, educating, training, performance appraisal, determining wages and salaries. Thus, making the HR function more efficient.

**3. Legal Environment:** The HRM function is highly impacted by the legal environmental factors of a country. Legal environment consists of the various laws framed by governments, both at the centre and at state Level. The HR Departments have to comply with the laws of the land. These laws are formulated to ensure that there is no discrimination among employees on the basis of sex, caste, religion or place of origin. These laws also regulate employee remuneration, safety, working conditions and industrial relation systems.

**4.Workforce Demographics:** The workforce is highly impacted by workforce demographics. Demographics include factors such as gender, age, ethnicity, occupation, seniority, salary levels, marital and family status. Today we find a lot of diversity in the workforce. The generation Y and Generation Y pose a challenge to the HR. The number of women in the work force has increased significantly, as have the proportion of different ethnic groups. Due to these diversity issues in the workforce, human resources department must look for different ways to hire, attract and retain this new set of candidates.

**5. Competitors Action:** The war for talent is on and the firms must be equipped with the right set of HR practices to win this war for talent and help themselves survive in the competitive environment by developing and retaining talent by creating a sustainable advantage.

**6. Industry/Sector Characteristics:** Industry characteristics affect HRM activities in different ways. Sectors such as manufacturing, retail, construction, food and health etc have to tailor the HR activities to suit their organizational need.

**7. Union Action:** Unions play a pivotal role in maintaining harmonious industrial relations. They harness their power to influence the HR policies of a company.

### Case Study

Roger was ecstatic. The city administration had just approved his development plan to build a mega retail store/service garage across the street from his current location. The store would contain many new product lines, and the service garage would now offer state-of-the-art computer diagnostic equipment. He had thought of everything: the financing, a marketing plan, the slick new building, and the grand opening.

And now, three months before the grand opening, he has hired you to see if there are any improvements that he could possibly make to his HRM practices. Roger's Tire Experts has no HR department or manager because Roger insists on making all HR-related decisions himself. The business currently employs 50 people and would likely need another 100 or more.

The thought of hiring people makes Roger cringe. According to Roger, employees cost money and they usually didn't have a "customer service" attitude, especially "the young ones."

Roger's policy had been to hire his staff in a local hotel bar based on two criteria:

- a) They must belong to the men's club of which he is a member; and
- b) They must beat him in an arm wrestling match.

Roger uses the hotel bar to do business regularly. In fact, every Saturday, he buys the boys a beer after work and tells them what he thinks of their work. He figures that the beer will dull the impact of the performance review. Last Monday evening, Jimmy, a farmer in the surrounding area, approached Roger in the bar and asked for a job. He met Roger's stringent criteria, and Roger happened to have an opening. Roger recently fired the service manager, Larry, for spending an hour in the only toilet stall that the store had. Although this was the first incident of this nature in Larry's five years of employment, Roger felt that he had to take a stand. Because Jimmy had a large family, Roger agreed to pay him what Larry was being paid when he was dismissed.

Tuesday morning, Roger showed Jimmy where the Service Centre was, introduced him to the 10 mechanics that would be reporting to him, and then left Jimmy to himself. Jimmy, not knowing what he was supposed to do, groaned as he saw a number of customers heading his way. As he turned away from the customers, he overheard the mechanics complaining about the limited possibilities for moving up in the company. The other day a female mechanic with five years' experience asked Roger for a job in his new store, but Roger laughed and told her, "Go home where you belong. Women don't belong in a tire store; it's too dangerous." In fact, it is dangerous.

That very day a junior mechanic (Nathan, a 14 year old boy) was seriously injured when he tried to change a muffler without stopping the car's engine and while the car was held up only with a chain tied to the track of the overhead door. The customer was in a rush, and Roger had insisted that Nathan do the work quickly (for extra cash under the table). Nathan had never done this type of work before and didn't really want to do the work (but he knew he would get fired if he didn't). While doing the work, Nathan tripped over several used tires and knocked himself out on the cans of house paint that were being stored next to the welding equipment in the garage.

"I just can't get good staff anymore; they either want to join a union, fight over whose getting paid the most, or leave," Roger grumbled, "Where has the work ethic gone?" He had overheard his Sporting Goods manager, Colette, talking to the Hardware staff about joining a union. Roger noted to himself that he must give Colette an extra poor performance evaluation next year. Also, Roger planned to tell his staff that, if they continue with this union business, he would fire them all. However, with an annual turnover rate of 66%, Roger's store had a revolving door.

Question for Discussion:

What are all the HRM problems that exist?

## 10.4 Concept of Industrial Relations

The term industrial relations explain the relationship between employees and management which stem directly or indirectly from union-employer relationship.

Industrial relations are the relationships between employees and employers within the organizational settings. The field of industrial relations looks at the relationship between management and workers, particularly groups of workers represented by a union. Industrial relations are basically the interactions between employers, employees and the government, and the institutions and associations through which such interactions are mediated.

The term industrial relations have a broad as well as a narrow outlook. Originally, industrial relations was broadly defined to include the relationships and interactions between employers and employees. From this perspective, industrial relations cover all aspects of the employment relationship, including human resource management, employee relations, and union management (or labor) relations. Now its meaning has become more specific and restricted. Accordingly, industrial relations pertain to the study and practice of collective bargaining, trade unionism, and labor-management relations, while human resource management is a separate, largely distinct field that deals with nonunion employment relationships and the personnel practices and policies of employers.

The term 'Industrial Relations' comprises of two terms: 'Industry' and 'Relations'. "Industry" refers to "any productive activity in which an individual (or a group of individuals) is (are) engaged". By "relations" we mean "the relationships that exist within the industry between the employer and his workmen."

The term, industrial relations, refers to industry and relations. "Industry" means "any organization in which an individual is engaged" and "relations" mean "the relations that exist in the industry between the employer and his workmen."

The term, industrial relations, explains the relationship between employees and management, which stem directly or indirectly from union employer relationship" – V. Agnihotri

### **Approaches to Industrial Relations**

Industrial relations are the result of several socio-economic, psychological, and political factors. Various approaches have, therefore, been used to explain the multidimensional nature of industrial relations:

#### ***1. Psychological Approach:***

According to psychologists, the problems of industrial relations are attributable to the differences in the perceptions of labor and management. Both parties tend to look at factors influencing their relations – i.e. wages, benefits, working conditions, etc. – in different ways. Dissatisfaction with pay, benefits, services, conditions of work compel workers to turn aggressive and resort to strikes, gheraos, etc. Employers adopt rigid postures and draw the shutters down when they find the regulatory framework to be restrictive, workers to be highly demanding and market forces to be unmanageable. Apart from economic issues, motives such as the need to gain prestige, power, status, recognition also compel people to go in different directions, sacrificing the broader organizational interests.

#### ***2. Sociological approach:***

A number of sociological factors such as the value system, customs, and traditions affect the relations between labour and management. Problems such as urban congestion, chronic shortage of affordable dwelling units, convenient transportation system, pollution, disintegration of joint family system, etc., add misery to the lives of workers. Accepted societal norms, traditions and customs are pushed to the wall in such a scenario. Culture pollution sets in, rubbing workers the wrong way. Such sociological changes impact industrial life significantly, forcing parties to assess, analyse and find solutions to conflictful situations on a continuous basis.

#### ***3. Human relations approach:***

According to the human relations approach, individuals are motivated by a variety of social and psychological factors, not just earnings. Human behaviour is influenced by feelings, sentiments, and attitudes. Informal work groups play an important role in shaping the attitudes and performance of individual workers. People do not like the idea of being treated as machines. To reduce friction and conflict in the workplace, managers need to possess effective social skills. They must explain why a particular job is important, allow workers to participate in work processes fully, encourage work groups to flourish and try their best to keep workers happy. Economic and noneconomic rewards must be used to meet the physiological and psychological requirements of workers from time to time. Every attempt must be made to integrate the individual objectives with overall organisational objectives to avoid conflict and controversy in industrial life.

#### ***4. Gandhian approach:***

Gandhi ji accepted the worker's right to strike but cautioned that this right be exercised in just cause and in a peaceful, non-violent fashion. The trusteeship theory advocated by him highlights the fact that wealth belongs to society and not to the owners of an enterprise. Owners are there to serve the

interests of society. If they fail to pay minimum wages to workers, workers must appeal to their conscience. If this does not produce results, they should resort to non-violent non-cooperation (Satyagraha). Before adopting this strategy, workers must believe in their collective strength and note the crucial point that without their active cooperation, capitalists cannot achieve results. The capitalist, in his own self-interest, is expected to hold industry in trust for the society, treating workers as partners and co-trustees in a progressive venture.

## **10.5 Role of Employee, Employer and Government in Industrial Relations**

### **1.Role of Employee in Industrial Relations**

Securing better terms and conditions for their members.Redress the bargaining advantage on one-on-one basis.Obtaining improved status for the worker in his/her work.Increase implementation of democratic way of decision making at various levels.

### **2.Role of Employer in Industrial Relations**

Creating and sustaining employee motivation for ensuring commitment from employees. Negotiating terms and conditions of employment with Trade Union leaders for sharing decision-making with employees.

### **3.Role of Government in Industrial Relations**

Labor Laws, Labor policies, Industrial tribunals, Wage boards and Industrial Relations Policy will be included in terms of government role in Industrial Relations.

### **Models of Industrial Relations**

Let us discuss the two major models of Industrial Relations: Dunlop's Model, IILS Model.

#### **1.Dunlop Model:**

John T. Dunlop developed a "System Approach" to Industrial Relations.

#### **Main task of Industrial Relations:**

1. To explain why particular rules are established in particular IR system
2. How and why, they change in response to changes affecting the system.

#### **Focus of attention**

Formulation of rules governing workplace and the community involved in the work.These rules are result of the interplay of certain specific factors namely Actors, Environmental Context and Ideology.

#### **Equation: $R=f [A,E,I]$**

#### **Rules: 3 types**

- 1.Substantive Rules: concerned with terms and conditions of employment and rights and obligations of workers. (social security and welfare schemes, rules of discipline, physical working conditions...)
2. Procedural Rules: concerned with the procedures and manner in which substantive rules are framed and established.
- 3.Rules relating to their administration and enforcement.

#### **Actors:**

- 1.Management and hierarchy of managers.
- 2.Workers and the hierarchy of their organizations.
3. Specialized governmental and mutually agreed non-governmental agencies concerned with workers, enterprises and their relationship.

**Environmental Context****Actors Interact**

1. Technological characteristics of workplace and work community
2. The Market and Budgetary constraints
3. The Locus and distribution of power in larger society.

**Ideology**

A body of ideas which defines the role of each actor and the perception that each actor holds towards the place and function of others in the system.

**2. International Institute of Labour Studies Model:**

Having 4 elements:

1. Environment: denotes the conditions under which industries or industrial establishments operate.
2. Parties: State, Workers' Organizations or Trade Unions, and Employers or Managerial hierarchies.
3. Process: Include Negotiation, Collaboration and Resolution of Conflict.
4. Rules: all rules of Dunlop Model.

**Case Study**

A Multinational Company specialized in food processing has been operating in India for about 3 decades. The Company has recently decided to expand its production. It was decided to shift the factory to a new location about 20 kms. away from its present site. As the workers transferred to the new site were living in town, the union demanded an increase of Rs. 60/- per month in the salary, but the Company offered to give Rs. 25/- only to cover the transport cost. When the plant was being shifted to the new site, negotiations went on uninterrupted between the Management and the Union on this issue. However, both the parties could not come to a settlement even after 6 months. The Management was firm on their decision even though the union indicated some flexibility. The Union refused to compromise fully on the issue. They adopted go-slow tactics to pressurize the Management. The production went down drastically, but still the Management was firm on their stand. In the meanwhile the Management charge-sheeted some of the Trade Union leaders and suspended them till pending enquiry.

Question:

Elucidate the problem and causes.

**Summary**

Industrial relations or labour relations are the outcome of the employment relationship in an industrial unit.

It underscores the importance of compromise and accommodation in place of conflict and controversy in resolving disputes between labour and management.

The basic objective of industrial relations is to maintain sound relations between employers and employees.

There are four different approaches to study industrial relations, namely, the psychological approach, the sociological approach, the human relations approach and the Gandhian approach.

**Keywords**

- Human Resource Management
- Managerial Function
- Operative Function
- Industrial relations

- Trade Union
- Dunlop model.

### **Self Assessment**

1. \_\_\_\_\_ is employee-centric and reactive activity.
  - A. Human Resource Management
  - B. Personnel Management
  - C. Human Capital Management
  - D. All of the above
2. Is empathy a quality of HR manager?
  - A. True
  - B. False
3. What does not come under a scope of Human Resource Management?
  - A. Personnel Management
  - B. Industrial Relations
  - C. Employee Welfare
  - D. None of the above
4. Which is not the internal factor that affects Human Resource Management?
  - A. Organizational Culture
  - B. Organizational Climate
  - C. Unions
  - D. Legal Environment
5. From which year onwards contemporary HRM era starts?
  - A. 1960-1980
  - B. 1980 onwards
  - C. 1927-1932
  - D. 1939-1945
6. What does not come under the operative functions of Human Resource Management?
  - A. Procurement
  - B. Compensation
  - C. Industrial Relations
  - D. Planning
7. The \_\_\_\_\_ function of the personnel manager involves encouraging people to work willingly and effectively for the goals of the organization.
  - A. Directing
  - B. Planning
  - C. Organizing
  - D. Controlling

8. \_\_\_\_\_ refers to the study of relations among employees, employers, the government and trade unions.
- A. Industrial relation
  - B. Human Resource Management
  - C. Personnel Management
  - D. Organizational Behavior
9. Which approach to Industrial Relation is based on the assumption that the organization is an integrated group of people with a single authority/loyalty structure?
- A. Gandhian approach
  - B. Unitary Approach
  - C. Pluralistic Approach
  - D. Marxist Approach
10. Which is not a role of employee in Industrial Relations?
- A. Securing better terms and conditions for their members.
  - B. Redress the bargaining advantage on one-on-one basis.
  - C. Obtaining improved status for the worker in his/her work.
  - D. Ensuring commitment from employees.
11. Which approach to Industrial Relation is based on assumption that organization exist within a capitalist society?
- A. Gandhian approach
  - B. Unitary Approach
  - C. Pluralistic Approach
  - D. Marxist Approach
12. What is not the role of government in Industrial Relations?
- A. Wage Boards
  - B. Labor Laws
  - C. Labor Policies
  - D. Increase implementation of democratic way of decision making at various levels
13. Which is the role of employer in Industrial Relations?
- A. Securing better terms and conditions for their members.
  - B. Redress the bargaining advantage on one-on-one basis.
  - C. Obtaining improved status for the worker in his/her work.
  - D. Ensuring commitment from employees.
14. Which is known as a model of Industrial Relation?
- A. Dunlop Model
  - B. IIMS Model
  - C. Gandhian Model
  - D. All of the above

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15. Which approach to Industrial Relation is based on the fundamental principles of truth, non-violence and non-possession?

- A. Gandhian Approach
- B. Marxist Approach
- C. Unitary Approach
- D. Pluralistic Approach

**Answers for Self Assessment**

- |       |       |       |       |       |
|-------|-------|-------|-------|-------|
| 1. B  | 2. A  | 3. D  | 4. D  | 5. B  |
| 6. D  | 7. A  | 8. A  | 9. B  | 10. D |
| 11. D | 12. D | 13. D | 14. A | 15. A |

**Review Questions**

1. Define the term HRM. Discuss its objective, nature and scope.
2. In this era of free economy, what should be the objectives of HRM?
3. Are people always an organisation most valuable asset? Why or why not?
4. Identify the typical features of human resource management in today's competitive world.
5. What do you mean by labour relations? What measures would you suggest to improve labour relations in a firm?
6. Discuss the different approaches to Industrial Relations.
7. What are the two models of Industrial Relations?



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## Unit 11: Organizational Culture

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### Objectives

After studying this chapter, you will be able to:

- Understand the concept of culture.
- Explore how organizational culture forms
- Learn about the characteristics of Culture
- Understand the different types of organizational culture.
- Understand the different levels of organizational culture.
- Explore the dimensions of organizational culture.
- Explore the elements of organizational culture.
- Learn how to create an organizational culture.
- Learn how to sustain an organizational culture.

### Introduction

Organizational culture is an idea in the field of organizational studies and management which describes the psychology, attitudes, experiences, beliefs and values, both personal and cultural, of an organization. It can also be defined as the specific collection of values and norms that are shared by people and groups in an organization and that control the way they interact with each other and with stakeholders outside the organization.

The culture of an organization can be further expanded as beliefs and ideas about what kinds of goals and objectives, the members of an organization should pursue. It also covers the ideas about the appropriate kinds or standards of behavior organizational members should use to achieve these goals as objectives as determined earlier. These values in turn help determine the organizational norms, guidelines or expectations that prescribe appropriate kinds of behavior by employees in particular situations and control the behavior of organizational members towards one another.

Since we know that the culture is comprised of the assumptions, values, norms and tangible signs (artifacts) of organization members and their behaviors. Members of an organization soon come to sense the particular culture of that organization. For example, the culture of a large, for profit corporation is quite different than that of a hospital which is quite different that of a university.

## 11.1 Meaning of Organizational Culture

Organizational culture is defined as “the set of shared, taken-for-granted implicit assumptions that a group holds and that determines how it perceives, thinks about, and reacts to its various environments.

### Characteristics of Organizational Culture

The different characteristics of organizational culture are as under:

1. **Detail Orientation:** This characteristic of organizational culture dictates the degree to which employees are expected to be accurate in their work. A culture that places a high value on attention to detail expects its employees to perform their work with precision. A culture that places a low value on this characteristic does not.
2. **Results/Outcome Orientation:** Companies that focus on results, but not on how the results are achieved, place a high emphasis on this value of organizational culture. A company that instructs its sales force to do whatever it takes to get sales orders has a culture that places a high value on the emphasis on outcome characteristics.
3. **People Orientation:** Companies that place a high value on this characteristic of organizational culture place a great deal of importance on how their decisions will affect the people in their organizations. For these companies, it is important to treat their employees with respect and dignity.
4. **Collaboration orientation:** Companies that organize work activities around teams instead of individuals place a high value on this characteristic of the organizational culture. People who work for these types of companies tend to have a positive relationship with their coworkers and managers.



Did you know?

Do organizations have uniform cultures?

Answer: No because organizational culture represents a perception that the organization’s member share.

### What do Cultures do?

For better understanding of Organizational culture, let’s take an example of Southwest Airlines.

#### Function1: Culture Provides Employees with an Organizational Identity

- Southwest Airlines is known as a fun place to work that values employee satisfaction and customer loyalty over corporate profits.
- Gary Kelly, Southwest’s CEO, highlighted this theme by noting that “our people are our single greatest strength and our most enduring long-term competitive advantage.”

#### Function 2: Culture Facilitates Collective Commitment

- The mission of Southwest Airlines “is dedicated to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit.
- Southwest’s employees are committed to this mission.

### Function 3: Culture Promotes Social System Stability

- Southwest is noted for its philosophy of having fun, having parties, and celebrating.
- For example, each city in which the firm operates is given a budget for parties.
- Southwest also uses a variety of performance-based awards and service awards to reinforce employees.

### Function 4: Culture Shapes Behaviors by Helping Members Make Sense of their surroundings

This function of culture helps employees understand why the organization does what it does and how it intends to accomplish its long-term goals.



Did you know?

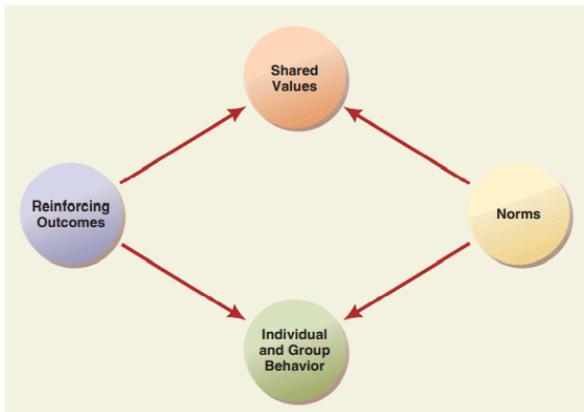
Have you worked with someone whose positive attitude inspired you to do your best?

Have you worked with a lackluster team that drained your motivation?

### How to develop organizational culture?

For developing an organizational culture, mainly four components are responsible i.e., shared values, norms, individual and group behavior and reinforcing outcomes. The organization has to focus on set of values shared among the employees as the value system has relation with norms. Norms are like rules and regulations in an organization which build a base for behavior both in terms of individual and group behavior.

And which kind of behavior need to be reinforced has to be analyzed for developing an organizational culture.



Did you know?

Are cultures soul of an organization or not?

## 11.2 How employees learn culture?

There are mainly four ways with the help of which an organization can make their employees to learn about their organizational culture. These are:



1. **Stories:** Stories include narratives about the organization's founders, rule breaking, rags to riches successes, workforce reductions and many more.

Example:

- Nike executives spend much of their time serving as Corporate storytellers.

## Business Organisation

- Companies like Accenture, Microsoft and Capgemini expose their employees to the art of storytelling.
2. **Rituals:** Rituals are repetitive sequences of activities that express and reinforce the key values of the organization, which goals are most important, which people are important, and which are expendable.



Example:

Kimpton Hotels & Restaurants maintains its customer-oriented culture with traditions like a Housekeeping Olympics that includes blindfolded bed making and vacuum races.

In United Entertainment Group, marketing firm, employees work unusual hours a few times a year, arriving in the late afternoon and working until early morning. CEO does this to support a culture of creativity.

He says “You mess with somebody’s internal clock and some interesting ideas come out.”

3. **Symbols:** It conveys to employees who is important, the degree of egalitarianism top management desires, and the kinds of behaviour that are appropriate.



Example:

Adidas, having a large gym for free use by all its employees at its corporate office in Gurugram. The office space is open with a lot of visual design effects which make the space interesting.

At Zee News, though employees sit in an open plan office, the space is strewn with TVs, cameras, cranes, monitors and mock up studio layouts.

“Great culture should provide continuous alignment to the vision, purpose, and goals of the organization.”

What does it mean?

It means:

- Workplaces need cultural flexibility and ongoing evolution.
- Leaders need to aim for and encourage the most creative and productive workplace culture – or usually a combination of cultures – for their business.

**This is why understanding the different types of organizational culture and their strengths and weaknesses are so essential.**

### 11.3 Culture Framework

There are different types of organizational culture in the corporate world. This depends on the way of working, strategy formulated by an organization, and also its core values. Most companies or corporations in their style or plan can fall into one of these four general types as under:



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 Unit 11: Organizational Culture
 

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1. **Clan culture:** This type of culture is visible in those organizations which are very friendly place to work where people share a lot of themselves. It is like an extended family.

A culture based on human affiliation. Employees value attachment, collaboration, trust and support.

**Advantages:**

- Clan culture breaks down barriers and results in strong, tight-knit teams.
- Mentoring relationships flourish, people share knowledge, and leaders readily turn to their people for feedback and ideas.
- It's also a model that embraces change – think of the flexibility of start-ups.
- For companies relying on remote working or with a high proportion of frontline or deskless workers, like salespeople and other offsite employees, this particular type of organizational culture can be hugely powerful, unifying teams and encouraging loyalty.

**Disadvantages:**

- As a company gets bigger, this horizontal structure can cause limitations as it lacks the strong, decisive leadership needed to drive the business forward and provide clear direction.
- Leaders who try to be everyone's best friend can find it harder to exert authority or make unpopular decisions.
- The focus on individuality can also lead to personality clashes without the hierarchy often needed for decision-making.

2. **Adhocracy culture:** This type of culture is visible in those organisations which are dynamic entrepreneurial and creative places to work. People stick their necks out and take risks.

A culture based on change. Employees value growth, variety, attention to detail, stimulation, and autonomy.

**Advantages:**

- This organizational culture aims high and frequently achieves those heights, both in terms of profit margins and employee engagement.
- This cultural model rewards confidence and creativity, and the door is always open for people with bright ideas, whatever their position in the company.
- Adhocracy offers excellent flexibility but adopts an outwards focus with a keen eye on the future.

**Disadvantages:**

- Adhocracy can ramp up competition in the workplace.
- This can be highly motivating, but there's also the danger of excessive stress and anxiety among employees who are afraid of being outdone by their peers and losing out financially or reputationally.

3. **Market Culture:** This type of culture is visible in those organisations which are results oriented organisations whose major concern is with getting the job done. People are competitive and goal-oriented.

A culture based on achievement. Employees value communication, competence, and competition.

**Advantages:**

- Results, results, results. With a focus on success - and driven by ambitious leaders pushing people to achieve - teams often meet targets, exceed expectations, and help maximize profits.

### Business Organisation

- This is an organizational culture that unites teams in the quest for a big win to benefit its customers or its shareholders.
- And it can be a rewarding environment for employees too.

#### **Disadvantages:**

- Burnout.
- Being constantly pushed to achieve in a highly competitive environment can significantly impact employees' health and well-being and their ability to collaborate.
- It can affect productivity and morale, which can have a damaging effect on the bottom line.

4. **Hierarchy culture:** This type of culture is visible in those organisations which are much formalized structured place to work. Procedures govern what people do.

A culture based on stability. Employees value communication, formalization and routine.

#### **Advantages:**

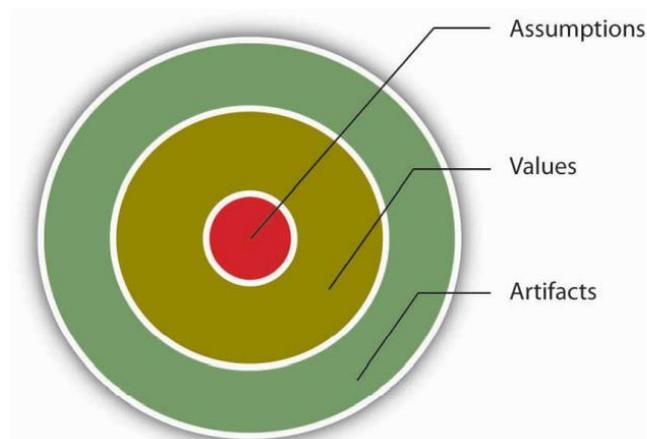
- Along with the clarity of roles and responsibilities comes efficiency, coordination and organization.
- This model is all about policy, planning, process and precision.
- Its aim is steady growth through an incremental change where stability and a smooth-running business are the priority.
- For those who like clear direction, this is the perfect working environment.
- The structure creates a sense of security and lays out a clear path for promotion – and the increased status and influence that comes with it.
- This can be very motivating for employees.

#### **Disadvantages:**

- Stability can quickly turn into rigidity.
- Hierarchy culture is also known as control culture. There's little or no room for spontaneous creativity, and without this innovative spirit, companies can be slow to adapt and risk becoming less competitive.
- This model can often fail to accommodate someone's need for flexibility – for example, around childcare or sickness.

## **11.4 Levels of Organizational Culture**

There are three levels of organizational culture existing in any business undertaking. These are Assumptions, Values and Artifacts.



## Level 1: Observable Artifacts

This level consists of the physical manifestation of an organization's culture.

Example:

- Acronyms
- Manner of dress
- Awards
- Myths and stories told about the organization
- Published lists of values
- Observable rituals and ceremonies
- Special parking spaces
- Decorations

### FACEBOOK:

- At Facebook, for example, the word "hack" is pasted all around offices.
- The term "hack" is symbolic of "the hacker way" of pursuing continuous improvement and challenging the status quo.

## Level 2: Values

### 1. Espoused values:

The explicitly stated values and norms that are preferred by an organization.

**2. Enacted Values:** The values and norms that actually are exhibited or converted into employee behavior.

## Level 3: Basic Underlying Assumptions

Constitute organizational values that have become so taken for granted over time that they become assumptions that guide organizational behavior.



### Case Study: Unilever strives to promote a Sustainability Culture

When Paul Polman took over as CEO of Unilever in 2009, he told Wall Street analysts that the company would no longer provide earnings guidance and quarterly profit statements. This is unheard of! Analysts revolted and the stock price immediately dropped.

What was Polman trying to accomplish?

Polman wanted to instill a deep-seated belief regarding sustainability within all employees at Unilever. He started this effort by creating a "Sustainable Living Plan." The plan contained goals to "double its sales even as it cuts its environmental footprint in half and sources all its agricultural products in ways that don't degrade the earth by 2020." The company also set a goal to improve the well-being of 1 billion people by influencing them to wash their hands and brush their teeth and by selling foods with less salt and fat. Polman told investors that "if you don't buy into this, I respect you as a human being, but don't put your money in our company." He believes that shareholder return should not override nobler goals. He also said, "Our purpose is to have a sustainable business model that is put at the service of the greater good. It's as simple as that."

What are the results of Unilever's push for a sustainability culture?

Polman believes that employees are more engaged and the company is a more desirable place to work.

As evidence, Unilever "is one of the five most-searched-for employers, behind Google, Apple, Microsoft, and Facebook."

In 2012, sales grew in every region Unilever operates in around the globe, and the company cut costs through its Sustainable Living plan.

Employees at Unilever "say that doing good is in the company's DNA."

This is what we call a basic underlying assumption!

## **11.5 Elements of Organizational Culture**

The few elements of Organizational Culture are Purpose, Ownership, Community, Effective Communication and Good Leadership.

### **1. Purpose:**

- Young professionals want to be a part of solving a problem greater than themselves, so they need to understand the “**why**” of what they do.
- A strong mission statement can help a company articulate its’ “**why**”.



Example:

Mission statement of Space X is:

“Space X was founded in 2002 to revolutionize space technology, with the ultimate goal of enabling people to live on other planets.”

### **2. Ownership:**

Ownership refers to the practice of giving people the opportunity to be accountable for their results without requiring micromanagement and giving people the autonomy on their own time to accomplish goals.



Example:

- Base camp is a company that builds software for project management.
- They are a great example of a company that promotes ownership.
- They have a physical office, but allow employees to work remotely.
- The CEO doesn’t know how many hours employees work.
- Managers set overall expectations and allow people to build their own schedules around their projects.

### **3. Community:**

This is that sense of belonging to a group of people that shares similar principles, goals, and values. Community is a place where there is camaraderie.



Example:

- Focus Lab is a branding and design agency.
- They have company standards instead of values.
- Their argument is that you can’t change a person’s values when they walk into your company, but you can keep everyone accountable to specific standards.
- Those standards include: work to live, ask more questions, and never stop learning.

### **4. Effective Communication:**

- Effective communication sounds like common sense, but is not such a common practice.
- It means ensuring consistency in processes and investing time to learn the personalities and communication dynamics of team members.



Example:

- Google did a research project called Project Aristotle, where they found that the most collaborative teams are the ones where everyone speaks equally and often interacts with one another.
- Within many of their teams, they count to be certain that everyone is speaking the same number of times during their meetings.
- How people interact in a team is just as important as who is on the team.

### 5. *Good Leadership:*

- The backbone of the cultural dynamics of any organization, the leader has to constantly be pushing the mission, standards, community, and processes of the company.
- Without effective leadership, the other four elements cannot thrive.
- People want leadership with integrity and compassion.
- People want authenticity.
- People want a leader who is clear on expectations.
- People want to know they have a leader who cares about them.

## 11.6 Dimensions of Organizational Culture

The dimension of organizational culture is very essential to understand. Let's understand these:

### 1. **Organizational Effectiveness:**

This dimension is closely connected to the effectiveness of the organization.

#### **Means Oriented vs Goal Oriented**

##### *Means Oriented:*

1. People identify with the "how"
2. People perceive themselves as avoiding risks and making only a limited effort in their jobs

##### *Goal Oriented:*

1. People identify with the "what"
2. Employees are primarily out to achieve specific internal goals or results

### 2. **Customer Orientation:**

#### *Internally Driven*

In a highly internally driven culture employees perceive their task towards the outside world as a given, based on the idea that business ethics and honesty matter most and that they know best what is good for the customer and the world at large.

#### *Externally Driven*

In a very externally driven culture, the only emphasis is on meeting the customer's requirements; results are most important, and a pragmatic rather than an ethical attitude prevails.

### 3. **Level of Control**

#### *Easygoing Work Discipline*

- i. This dimension refers to the amount of internal structuring, control, and discipline.
- ii. A very easygoing culture reveals a fluid internal structure, a lack of predictability, and little control and discipline; there is a lot of improvisation and surprises.

***Strict Work Discipline***

A very strict work discipline reveals the reverse. People are very cost-conscious, punctual and serious.

**4. Focus*****Local***

- i. In a local company, employees identify with the boss and/or the unit in which one works.
- ii. Employees are very short-term directed, they are internally focused.

***Professional***

- i. In a professional organization, the identity of an employee is determined by his profession and/or the content of the job.
- ii. Employees are very long-term directed, they are externally focused.

**5. Approachability*****Open System***

In a very open culture newcomers are made immediately welcome, one is open both to insiders and outsiders.

***Closed System***

In a close culture newcomer are not welcome properly.

**6. Management Philosophy*****Employee Oriented***

In very employee-oriented organizations, members of staff feel that personal problems are taken into account and that the organization takes responsibility for the welfare of its employees.

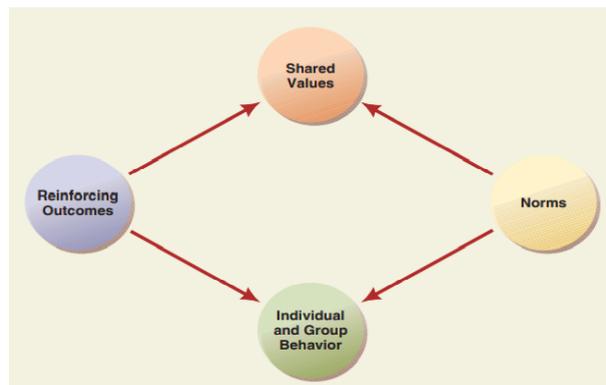
***Work Oriented***

In very work-oriented organisations, there is heavy pressure to perform the task even if this is at the expense of employees.

**11.7 Create and Sustain Organizational Culture****How to develop organizational culture?**

For developing an organizational culture, mainly four components are responsible i.e., shared values, norms, individual and group behavior and reinforcing outcomes. The organization has to focus on set of values shared among the employees as the value system has relation with norms. Norms are like rules and regulations in an organization which build a base for behavior both in terms of individual and group behavior.

And which kind of behavior need to be reinforced has to be analyzed for developing an organizational culture.



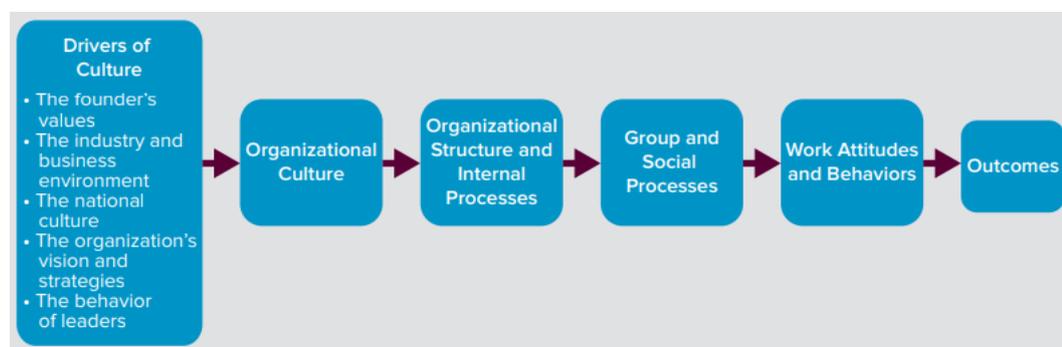


Did you know?

Are cultures souls of an organization or not?

## 11.8 Conceptual framework of an organizational culture

Organizational culture influences the type of organizational structure adopted by a company and a host of internal processes (including human resource practices, policies, and procedures) implemented in pursuit of organizational goals. These organizational characteristics then affect a variety of group and social processes. This sequence ultimately affects employees' work attitudes and behaviors and a variety of organizational outcomes.



## 11.9 Sustaining an Organizational Culture

Basic Approach for sustaining an organization's culture:

1. The organization hires individuals who seem to fit its culture and
2. The organization sustains its culture by removing employees who consistently or markedly stray from accepted behaviors and activities.

### Methods of Sustaining Organizational Culture

#### 1. What leaders and teams pay attention to:

One of the more powerful methods of sustaining organizational culture involves the processes and behaviors that leaders, individual employees, and teams pay attention to—that is, the events that get noticed and commented on. Dealing with events systematically sends strong signals to employees about what is important and expected of them.

#### 1. Reactions to Incidents and Crises:

The manner in which the crisis is dealt with can either reinforce the existing culture or bring out new values and norms that change the culture in some way.

#### 2. Role Modeling, Teaching, and Coaching:

Aspects of an organization's culture are communicated to employees by the way leaders treat them. At the Ritz-Carlton Hotels and Resorts, all new trainees are shown films that emphasize customer service. Leaders also demonstrate good customer or client service practices in their interactions with customers.

#### 3. Allocation of Rewards and Status:

Employees also learn about an organization's culture through its reward system. The rewards and punishments attached to various behaviors convey to employees the priorities and values of both individual leaders and the organization.

#### 4. Recruitment, Selection, Promotion, and Removal

One of the fundamental ways in which organizations maintain a culture is through the recruitment process.

### 5. *Organizational Rites and Ceremonies*

Organizational rites and ceremonies are planned activities or rituals that have personal and emotional meaning to employees. Certain managerial or employee activities can become rituals that are interpreted as part of the organizational culture. Rites and ceremonies that sustain organizational culture include rites of passage, degradation, enhancement, and integration.

### **Summary**

Organizational culture is the consciously or subconsciously accepted and followed way of life or manner of performing day-to-day activities in an organization.

The strength of an organizational culture depends on the sharedness and intensity of the core values of the organization.

A strong culture tends to enhance employee commitment and loyalty towards the organization.

Organizational cultures have been classified into four major types - market culture, adhocracy, clan culture and hierarchical culture.

The presence of a strong and appropriate organisational culture has become essential for an organisation to function effectively and efficiently in the modern era.

It plays an important role in determining and controlling employee behaviour at workplace.

### **Keywords**

Clan Culture, Adhocracy Culture, Organizational Culture, Hierarchy culture, Market culture, Sustaining Culture, Shared Values, Artifacts.

### **Self Assessment**

1. Culture consists of shared beliefs and values that are established by leaders and then communicated and reinforced through various methods, ultimately shaping employee perceptions, behaviors and understanding.
  - A. True
  - B. False
  
2. HR professionals have many tools for developing and sustaining a high-performance organizational culture, including hiring practices, onboarding efforts, recognition programs and performance management programs.
  - A. True
  - B. False
  
3. Which of the following terms is NOT included in the definition of organizational culture?
  - A. sensible procedures
  - B. shared, often implicit assumptions
  - C. guides the behavior and thinking of organizational members
  - D. beliefs and values
  
4. -----is a set of values that states what an organisation stands for
  - A. Organization behavior
  - B. Organizational culture
  - C. Organizational spirit
  - D. Organizational effectiveness

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*Unit 11: Organizational Culture*

5. Handling of crises by managers and employees reveals an organizational .....
- A. Culture
  - B. Society
  - C. Environment
  - D. Structure
6. Organizational culture includes:
- A. Organizational rituals and ceremonies
  - B. Norms shared by the teams
  - C. Commonly used language
  - D. All of the above
7. Which of the following is one of the characteristics of Organizational Culture?
- A. Department Formalization
  - B. Institutionalization
  - C. Reward Complexity
  - D. Outcome Orientation
8. At work, Betty is able to understand what goals are important and which people are important by observing her company's repetitive activities, such as celebrations, announcements. She is observing the company's
- A. Artifacts
  - B. Beliefs
  - C. Rituals
  - D. Material symbols
9. \_\_\_\_\_ is a culture based on human affiliation.
- A. The Market
  - B. The Clan
  - C. The Adhocracy
  - D. The Hierarchy
10. \_\_\_\_\_ is a culture based on achievement.
- A. The Market
  - B. The Clan
  - C. The Adhocracy
  - D. The Hierarchy
11. What is not a key element of Organizational Culture?
- A. Purpose
  - B. Community
  - C. Effective Communication
  - D. Approachability
12. In a very open culture newcomers are made immediately welcome.
- A. True
  - B. False

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13. For developing an organizational culture, which element has no role to play?  
A. Shared Values  
B. Norms  
C. Individual and group behavior  
D. Removal of employees
14. It is possible to create and sustain an organizational culture.  
A. True  
B. False
15. Cultures are not the soul of any organization.  
A. True  
B. False

**Answers for Self Assessment**

- |       |       |       |       |       |
|-------|-------|-------|-------|-------|
| 1. A  | 2. A  | 3. A  | 4. B  | 5. A  |
| 6. D  | 7. D  | 8. C  | 9. B  | 10. A |
| 11. D | 12. A | 13. D | 14. A | 15. B |

**Review Questions**

1. Why should companies need to focus on creating company's organizational culture?
2. Differentiate between strong culture and weak culture.
3. How organizational culture can be created in any organization?
4. Discuss the characteristics of organizational culture.
5. Define the term organizational culture.
6. Explain the concept of creating organizational culture.
7. How to sustain the organizational culture in any organization?



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## Unit 12: Organizational Change

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Summary

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### Objectives

After studying this chapter, you will be able to:

- Learn the concept of organizational change.
- Explore the reasons for change.
- Understand the different types of change.
- Learn planned change model and systems model of change
- Understand the eight-step model of change
- Understand the organizational development
- To understand the concept of resistance to change.
- To explore the different sources of resistance to change.
- To analyze the ways to overcome resistance to change.

### Introduction

Organizational culture is an idea in the field of organizational studies and management which describes the psychology, attitudes, experiences, beliefs and values, both personal and cultural, of an organization. There is nothing permanent except change. It has become an inescapable fact of life; a fundamental aspect of historical evolution. Change is inevitable in a progressive culture. Change in fact, is accelerating in our society. Change is induced by the internal and external forces. Meeting this challenge of change is the primary responsibility of management. An organization lacking adaptability to change has no future. Adaptability to change is a necessary quality of good management. Modern managers have the responsibility to devise management practices that best meet the new challenges and make use of the opportunities for the growth of the organization.

## 12.1 What is Organizational Change?

Organizational change refers to the actions in which a company or business alters a major component of its organization, such as its culture, the underlying technologies or infrastructure it uses to operate, or its internal processes.

### Why to change?

This question can be answered by discussing forces for change or it can also be said as pressure for change. And further on, these forces can be divided into external and internal forces.

1. **External Forces-** External forces for change originate outside the organization. Such forces often apply to your organization and its competitors or even entire industries.



Example:

- External changes can either present new opportunities for organizations to realize and grow (e.g., smartphones for consumers and Apple's iPhone), or
- They can cause the ultimate demise or failure of a business (e.g., smartphones for consumers and Blackberry).

1.1 **Demographic characteristics:** Organizations have introduced products and marketing tactics designed to appeal to a broader mix of individuals or to a particular targeted niche that has grown in importance. Age and income distribution are additional demographic characteristics of importance for workforce composition and marketplace opportunities.

1.2 **Technological Advances:** Organizations must adapt to technological advances or risk becoming outdated and ineffective. Organizations that failed, or were slow, to take advantage of computer-aided manufacturing, computer-aided design, and modern manufacturing resource planning experienced competitive disadvantages.

1.3 **Shareholder, Customer, and Market Changes:** Shareholders have become more involved with pressing for organizational change in response to ethical lapses from senior management and anger over executives' compensation packages. Customers also are increasingly sophisticated and demand the companies with whom they do business to deliver higher value products and services.



Example: Walmart collects feedback from millions of customers to help improve service and merchandising.

1.4 **Social and Political Pressures:** Companies have gone "green," looking for ways to use less energy themselves and to sell products that consume less energy and are safer to use.



Example: Esquel, one of the world's largest producers of premium cotton shirts, received pressure from retail customers such as Nike and Marks & Spencer to improve its environmental and social performance. These retailers pressed Esquel to produce more cotton organically.

2. **Internal Forces:** Internal forces for change come from inside the organization. Internal forces for change come from both human resource problems and managerial behavior and decisions.

1.1 **Human Resource Problems or Prospects:** These problems stem from employee perceptions about how they are treated at work and the match between individual and organization needs and desires.



Example:

- Employees at Foxconn, one of Apple's major Chinese suppliers, went on strike after managers required harsh production demands for the iPhone 5.

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- Workers slowed production to a halt and even had violent clashes with management and inspectors.
- Tensions with the incredibly stringent quality standards were intensified when the company disallowed vacation time during the holidays to meet production goals.
- Apple has since taken a more active role in assuring higher wages and better working conditions at Foxconn and other suppliers.

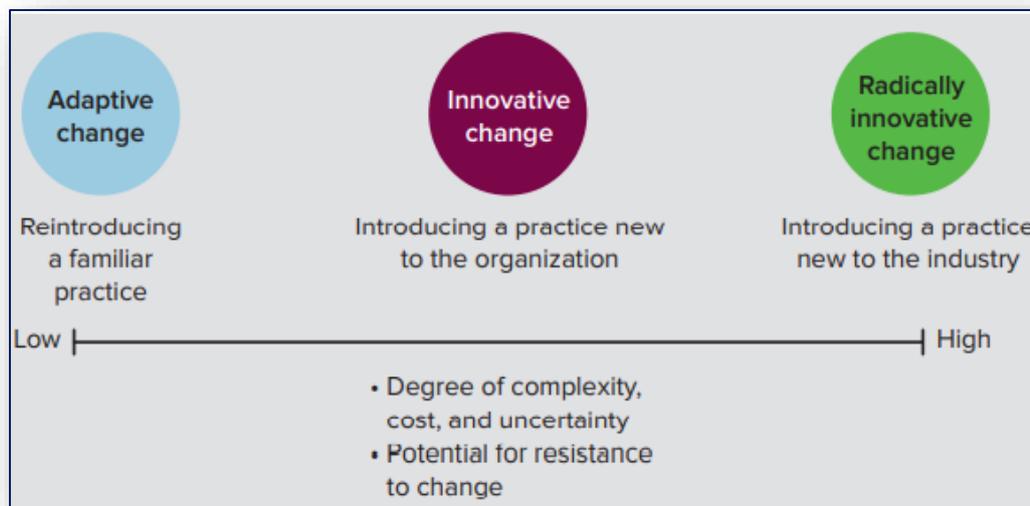
1.2 **Managerial Behaviors and Decisions:** Excessive interpersonal conflict between managers and their subordinates or the board of directors is a sign that change is needed.



Example:

- Andrew Mason, founder and former CEO of Group on, was fired due to his strategy and underperformance.
- He decided to take the firm aggressively into selling goods and not just coupons for discounts with local merchants.
- These actions, combined with underperforming international expansion, led the board to conclude that his decisions and direction were not right for the company.

## 12.2 Types of Change



1. **Adaptive Change:** Adaptive change is the least complex, costly, and uncertain. It involves reimplementation of a change in the same organizational unit at a later time or imitation of a similar change by a different unit. Adaptive changes are not particularly threatening to employees because they are familiar.



**Example:** An adaptive change for a department store would be to rely on 12-hour days during the annual inventory week. The store's accounting department could imitate the same change in work hours during tax preparation time.

2. **Innovative Change:** Falls midway on the continuum of complexity, cost, and uncertainty. Innovative changes are more complex, as organizations need to learn new behaviors, as well as create, implement, and enforce new policies and practices.



**Example:** Intel is embarking on innovative changes as they try to compete in the Smartphone and tablet markets. While these are quite different from the PC markets where Intel made its name, many of its competitors (e.g., ARM Holdings) are doing the same.

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3. **Radically innovative change:** Radically innovative change is at the high end of the continuum of complexity, cost, and uncertainty. Changes of this sort are the most difficult to implement and tend to be the most threatening to managerial confidence and employee job security. At the same time, however, radically innovative changes potentially realize the greatest benefits. Radical changes must also be supported by an organization's culture.

## **12.3 What is Planned Change?**

A process involving deliberate efforts to move an organization or a unit from its current undesirable state to a new, more desirable state.

### **Goals of Planned Change**

- It seeks to improve the ability of the organization to adapt to changes in its environment.
- It seeks to change employee behavior.

Task

Which situation according to you is Planned change?

#### **Situation 1:**

- A group of housekeeping employees who work for a small hotel confronted the owner.
- "Its very hard for most of us to maintain 7-to-8 work hours" said their spokeswoman.
- "Each of us has significantly family and personal responsibilities. Rigid hours don't work for us. We're going to begin looking for some place else to work if you don't set up flexible working hours."

Change-

- The owner listened thoughtfully to the group's ultimatum and agreed to make changes.
- Flexi-timing for these employees was introduced.

#### **Situation 2:**

- A major automobile manufacturer spent several billion years to install state-of-the-art robotics.
- One area that received the new equipment was quality control.
- Where sophisticated computers significantly improved the company's ability to find and correct defects.

Change in Job Structure-

- Because the new equipment dramatically changed the jobs in the quality-control area.
- And because the management anticipated considerable employee resistance to it.
- Executives developed a program to help people become familiar with change and deal with anxieties they might be feeling.

Answer: Situation 2

## **12.4 Who in organizations is responsible for managing change activities?**

Persons who act as catalyst and assume the responsibility for managing change activities are known as change agents. Change in organization's is inevitable, but change is a process that can be managed. The individual or group that undertakes the task of introducing and managing a change in an organization is known as a change agent.

Change agents can be of two types:

- (a) **Internal Change Agents:** Change agents can be internal, such as managers or employees who are appointed to oversee the change process.

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Internal change agents have certain advantages in managing the change process.

They are:

- (i) They know the organization's past history, its political system, and its culture.
- (ii) Internal change agents are likely to be very careful about managing change because they must live with the results of their change efforts.

There are also disadvantages of using internal change agents. They are:

- (i) They may be associated with certain factions within the organization and may easily be accused of favoritism.
- (ii) Internal change agents may be too close to the situation to have an objective view of what needs to be done.

- (b) External Change Agents:** Change agents can also be external, such as outside consultants. They bring an outsider's objective view to the organization.

External change agents have certain advantages:

- (i) They may be preferred by employees because of their impartiality.
- (ii) They have more power in directing changes if employees perceive the change agents as being trustworthy, possessing important expertise, and having a track record that establishes credibility.

There are also disadvantages of using external change agents. They are:

- (i) External change agents face certain problems, including their limited knowledge of the organizations' history.
- (ii) They may be viewed with suspicion by organization members.

## 12.5 Models of Change

There are mainly four models of change which need to be discussed:

1. Kurt Lewin Model
  2. Systems Model of change
  3. Kotter's Model for leading Organizational Change
  4. Organizational Development
1. **Planned Change Model-Kurt Lewin:** Kurt Lewin a social psychologist, noted for his work in organizational theory, developed a model of the change process that has stood the test of time and continues to influence the way organizations manage planned change. Lewin's model is based on the idea of force field analysis.



## 1. Unfreezing:

A phase in the change process in which leaders help managers and associates move beyond the past by providing a rationale for change, by creating guilt and/or anxiety about not changing, and by creating a sense of psychological safety concerning the change.

## 2. Changing /Transforming:

A phase in the change process in which leaders help to implement new approaches by providing information that supports proposed changes and by providing resources and training to bring about actual shifts in behavior.

## 3. Refreezing:

A phase in the change process in which leaders lock in new approaches by implementing evaluation systems that track expected behaviors, by creating reward systems that reinforce expected behaviors, and by ensuring that hiring and promotion systems support the new demands.

2. **Systems Model of Change:** A systems approach to change is based on the notion that any change, no matter how large or small, has a cascading effect throughout an organization.



Example:

- Promoting an individual to a new work group affects the group dynamics in both the old and new groups.
- Creating project or work teams may necessitate the need to revamp compensation practices.
- These examples illustrate that change creates additional change.

## 1. Inputs: Why Change?

Mission statements	Represent the “reason” organizations exist
Vision	a compelling future state for an organization
Readiness for change	beliefs, attitudes, and intentions regarding the extent to which changes are needed and the capacity available to successfully implement those changes.

## 2. Strategic Plans

A strategic plan outlines an organization’s long-term direction and the actions necessary to achieve planned results.

## 3. Target Elements of change:

- Represent change levers that managers can push and pull to influence various aspects of an organization.
- The target elements of change are used to diagnose problems and to identify change-related solutions.

## 4. Outputs:

- Outputs represent the desired end results or goals of a change.
- These end results should be consistent with an organization’s strategic plan.

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- Change efforts are more complicated and difficult to manage when they are targeted at the organizational level.

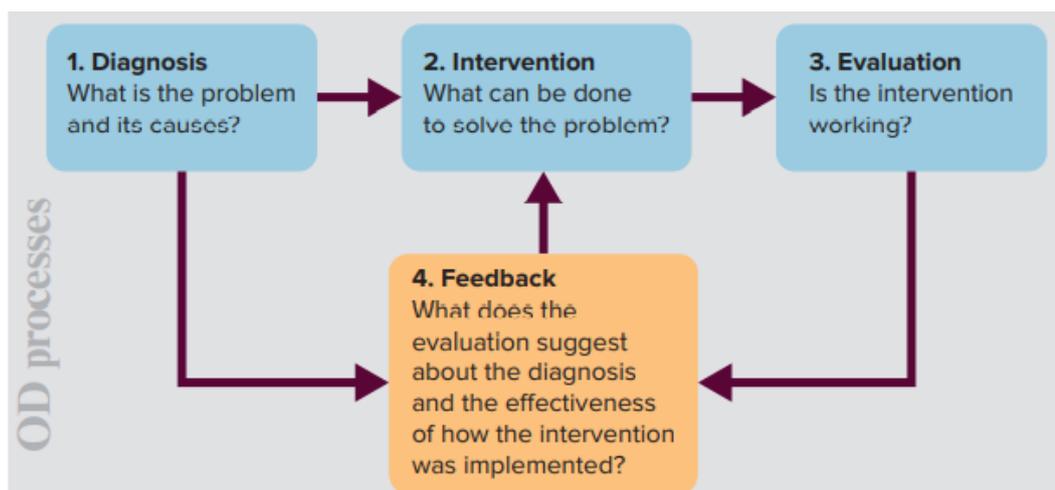
### 3. Kotter's: For leading Organizational Change

Organizational change most often fails not because of inadequate planning but because of ineffective implementation. This approach guides managers through the process of effective organizational change.

STEP	DESCRIPTION
1. Establish a sense of urgency.	Unfreeze the organization by creating a compelling reason for why change is needed.
2. Create the guiding coalition.	Create a cross-functional, cross-level group of people with enough power to lead change.
3. Develop a vision and strategy.	Create a vision and strategic plan to guide the change process.
4. Communicate the change vision.	Create and implement a communication strategy that consistently communicates the new vision and strategic plan.
5. Empower the broad-based action.	Eliminate barriers to change and use target elements of change to transform the organization. Encourage risk and creative problem solving.
6. Generate short-term wins.	Plan for and create short-term "wins" or improvements. Recognize and reward people who contribute to the wins.
7. Consolidate gains and produce more change.	The guiding coalition uses credibility from short-term wins to create more change. Additional people are brought into the change process as change cascades throughout the organization. Attempts are made to reinvigorate the change process.
8. Anchor new approaches in the culture.	Reinforce the changes by highlighting connections between new behaviors and processes and organizational success. Develop methods to ensure leadership development and succession.

### 4. Organizational Development

OD is about planned change aimed at increasing "an organization's ability to improve itself as a humane and effective system."



## 12.6 Resistance to change

As the manager contemplates and initiates change in the organisation, one phenomenon that is quite likely to emerge anytime in the change process is the resistance to change. People often resist change in a rational response based on self-interest. Resistance to change doesn't necessarily surface in standardized ways. Resistance can be overt, implicit, immediate, or deferred. It is easiest for management to deal with resistance when it is overt and immediate. The greater challenge is managing resistance that is implicit or deferred.

### Forms of Resistance:

1. **Overt resistance**-expressed through strikes, reduced productivity, shoddy work, and even sabotage

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**2. Covert resistance-** expressed by increased tardiness and absenteeism, requests for transfers, resignations, loss of motivation, lower morale, and higher accident or error rates.

**3. Passive resistance-** a lack of participation in formulating change proposals and ultimately a lack of commitment to the proposals, even when they have had an opportunity to participate in making such decisions.

## **12.7 Why do people resist to change?**

The sources of resistance to change can be categorized into two sources: individual and organizational.

### **Individual Resistance:**

One aspect of mankind that has remained more or less constant is his innate resistance to change. Individuals resist change because they attach great preference to maintaining the status quo. Individual sources of resistance to change reside in basic human characteristics such as perceptions, personalities and needs. The following are the reasons:

#### **1. Disrupted Habits-**

To cope with life's complexities, we rely on habits or programmed responses. But when confronted with change, this tendency to respond in our accustomed ways becomes a source of resistance.

#### **2. Fear of failure-**

People also resist change when they feel that their performance may be affected under the new system.

People who are experts in their jobs may be less than welcoming of the changes, because they may be unsure whether their success would last under the new system.

#### **3. Personality-**

People who have a positive self-concept are better at coping with change, probably because those who have high self-esteem may feel that whatever the changes are, they are likely to adjust to it well and be successful in the new system. People with a more positive self-concept and those who are more optimistic may also view change as an opportunity to shine as opposed to a threat that is overwhelming.

#### **4. Perception-**

Individuals are guilty of selectively processing information in order to keep their perceptions intact. They hear what they want to hear and they ignore information that challenges the world they have created.

#### **5. Security-**

People with a high need for security are likely to resist change because it threatens their feeling of safety.

## **12.8 Organizational Resistance**

Organizations, by their very nature are conservative. They actively resist change. Some of the organizational resistances are explained below:

#### **1. Structural Inertia-**

Organizations have built-in mechanisms-such as their selection processes and formalized regulations-to produce stability. When an organization is confronted with change, their structural inertia acts as a counterbalance to sustain stability.

#### **2. Limited focus to change-**

Organizations consist of a number of interdependent subsystems. One can't be changed without affecting the others. So limited changes in subsystems tend to be nullified by the larger system.

**3. Group Inertia-**

Even if individuals want to change their behavior, group norms may act as a constraint.

**4. Threat to expertise-**

Changes in organizational patterns may threaten the expertise of specialized groups.

**12.9 Overcoming Resistance to Change**

Although resistance to change is a common phenomenon in organisations, it must be noted that not all changes are resisted. In fact, if we look at any organisation closely we would probably find that far more changes are accepted than resisted. The traditional view of resistance to change treated it as something to be overcome, and many organisational attempts to reduce the resistance have only served to intensify it. The contemporary view holds that resistance is simply a form of feedback and that this feedback can be used very productively to manage the change process. One key to managing resistance is to plan for it and to be ready with a variety of strategies for using the resistance as feedback and helping employees negotiate the transition. Some tactics have been suggested for use in dealing with resistance to change.

- 1. Communication-**Changes are most effective when a company communicates a rationale that balances the interests of various stakeholders. Providing high-quality information about the change increase the commitment to change.
- 2. Participation-** It is difficult to resist a change decision in which people participate. Their involvement reduce resistance, obtain commitment, and increase the quality of change decision.
- 3. Building Support and Commitment-** Motivating employees and emphasizing their commitment to the organization will help them commit emotionally to the change rather than embrace the status quo.

When employees' fear and anxiety are high:

- a. Counselling and Therapy,
  - b. New skills training or
  - c. a short paid leave of absence may facilitate adjustment to change.
- 4. Develop positive relationships-** People are more willing to accept changes is they trust the managers. Employees who had a more positive relationship with their supervisor, and who felt that the work environment supported development are more positive about the change process.
  - 5. Implementing changes fairly-** Organizations should minimize the negative impact of changes and the biggest negative impact is unfair implementation of changes.
  - 6. Selecting people who accept change-** Ability to adapt and accept easily to change is related to personality. So higher people who are having this ability both on individual basis and team basis.

**EXERCISE: Are you ready to change?**

Instructions:

- Read each of the following statements and then use the scale shown to reflect your opinion.
- Record your answer in the blank at the left of the question's number.

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>
Completely Disagree	Neither agree nor disagree				Completely Agree	

_____1.	I believe that an expert who doesn't come up with a definitive answer probably doesn't know much.
_____2.	I think it would be fun to live in foreign country for a period of time.
_____3.	The sooner we all agree on some common values and ideals, the better.
_____4.	A good teacher is one who makes you wonder about your way of looking at things.
_____5.	I enjoy parties where I know most of the people more than ones where all or most of the people are strangers.
_____6.	A manager who hands out a vague assignment gives me a chance to show initiative and originality.
_____7.	People who lead even, regular lives - in which few surprises or unexpected events arise - really have a lot to be grateful for.
_____8.	Many of our most important decisions are based on insufficient information.
_____9.	There is really no such thing as a problem that can't be solved.

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_____10.	People who fit their lives to a schedule probably miss most of the joy of living.
_____11.	A good job is one in which what is to be done and how it is to be done are always clear.
_____12.	It is more fun to tackle a complicated problem than to solve a simple one.
_____13.	In the long run, it is possible to get more done by tackling small, simple problems than large, complicated ones.
_____14.	Often the most interesting and stimulating people are those who don't mind being different or original.
_____15.	What we are used to is always preferable to what is unfamiliar.
_____16.	People who insist on a "yes" or "no" answer just don't know how complicated things really are.

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**Interpretation:**

To get your total score, you need to do several things.

- First, sum your responses to the odd-numbered items and write your score here:\_\_\_\_\_.
- Second, add 64 points to that score to create the first subtotal and record it here: \_\_\_\_\_.
- Third, sum your responses to the even-numbered items and write your score here: \_\_\_\_\_.
- Then subtract that number from the subtotal for the odd-numbered items to determine your overall score.

Your overall score is \_\_\_\_\_.

**Analysis: You may range from 16 to 112.**

- The lower your overall score, the more willing you may be to deal with the uncertainty and ambiguity that typically go with change.
- Higher scores suggest a preference for more predictable and structured situations and indicate that you may not respond as well to change.

**Summary**

Organizational Change occurs when an organization evolves through various life cycle.

Significant organizational change occurs, when an organization changes its overall strategy for success, adds or removes a major section or practice, and/or wants to change the very nature by which it operates.

The changes that bring a complete overhaul are most often than not resisted by the others first.

Whatever resistances or objections, if the change is essential and justified, it must be undertaken, as they say- the only constant factor is change.

**Keywords**

Change, Unfreeze, Refreeze, Change Agent, Resistance.

**Self Assessment**

1. . \_\_\_\_\_ are responsible for initiating and managing change within an organization.
  - A. Change Agents
  - B. Innovators
  - C. Team Leaders
  - D. Consultants
  
2. \_\_\_\_\_ is a paradigm that values human and organizational growth, collaborative processes and a spirit of inquiry.
  - A. Organizational Development
  - B. Change Management
  - C. Action research
  - D. Employee wellness

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3. The Lewin's process consists of
  - A. Unfreezing stage
  - B. Moving Stage
  - C. Refreezing stage
  - D. All of the above
  
4. Which is not an internal force as a need for change?
  - A. Job Dissatisfaction
  - B. Technological Advancements
  - C. Rewards systems
  - D. Participation
  
5. When an organization is introducing a practice which is new in the organization then it is known as \_\_\_\_\_
  - A. Innovative Change
  - B. Adaptive Change
  - C. Radical Change
  - D. Radical Innovative change
  
6. The Lewin's process consists of
  - A. Unfreezing stage
  - B. Moving Stage
  - C. Refreezing stage
  - D. All of the above
  
7. \_\_\_\_\_ are responsible for initiating and managing change within an organization.
  - A. Change Agents
  - B. Innovators
  - C. Team Leaders
  - D. Consultants
  
8. \_\_\_\_\_ is a paradigm that values human and organizational growth, collaborative processes and a spirit of inquiry.
  - A. Organizational Development
  - B. Change Management
  - C. Action research
  - D. Employee wellness

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9. \_\_\_\_\_ approach to change is based on the notion that any change, no matter how large or small, has a cascading effect throughout an organization.
- A. Kurt Lewin model
  - B. Systems model
  - C. Kotter's Model
  - D. Organizational Development
10. \_\_\_\_\_ approach guides managers through the process of effective organizational change.
- A. Kurt Lewin model
  - B. Systems model
  - C. Kotter's Model
  - D. Organizational Development
11. Which type of employee resistance aims at ensuring the complete failure of change initiatives of the organization?
- A. Positive resistance
  - B. Negative resistance
  - C. Passive resistance
  - D. Active resistance
12. Which of the following is not a symptom of employee resistance to change?
- A. increase in employee absenteeism
  - B. non-participative and indifferent behavior
  - C. increase in performance and productivity
  - D. unprofessional conduct
13. Which method can be used for overcoming resistance to change?
- A. Building Support & Commitment
  - B. Implementing changes with biasedness
  - C. Lack of Participation
  - D. Lack of Communication
14. Ability to adapt and accept easily to change is related to personality.
- A. True
  - B. False
15. People with a high need for security are likely to resist change because it threatens their feeling of safety.
- A. True

B. False

### **Answers for Self Assessment**

- |       |       |       |       |       |
|-------|-------|-------|-------|-------|
| 1. A  | 2. A  | 3. D  | 4. B  | 5. A  |
| 6. D  | 7. A  | 8. A  | 9. B  | 10. C |
| 11. B | 12. C | 13. A | 14. A | 15. A |

### **Review Questions**

1. Discuss the different models of change,
2. What are the reasons behind showing resistance to change by individual?
3. What do you mean by planned change?
4. How can you define change agents in any organization?
5. What do you mean by Organizational Change?
6. What are the different forces affecting Organizational Change?



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## Unit 13: Conflict Management

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### Objectives

After studying this chapter, you will be able to:

- Understand the concept of conflict.
- Explore the different sources of conflict.
- Understand the perspectives of conflict
- Learn the different types and levels of conflict
- Learn the process of conflict.
- Learn strategic way of handling conflict.
- Learning negotiation and bargaining as conflict resolution styles.

### Introduction

All of us have experienced conflict of various types, yet we probably fail to recognize the variety of conflicts that occur in organisations. Conflict can be a serious problem in any organisation. A better understanding of the important areas of conflict will help managers to use the people in the organisation more effectively to reach the organisation's objectives. Failure to be concerned about conflict is very costly, since ignoring it will almost guarantee that work and interpersonal relations will deteriorate.

### 13.1 What is conflict?

It is a process that begins when one party perceives that another party has negatively affected or is about to negatively affect something that the first party cares about.

#### Definition of conflict

According to **Gray and Starke**, "Conflict is behavior by a person or group that is purposely designed to inhibit the attainment of goals by another person or group. This 'purposeful inhibition' may be active or passive."

**R.W. Woodman** defines conflict "As any situation in which incompatible goals, attitudes, emotions or behaviors lead to disagreement or opposition between two or more parties."

**K.W. Thomas** defines conflict as "A process that begins when one party perceives that another party has negatively affected or is about to negatively affect, something the first party cares about."

According to **B. Kabanoff**, "Conflict refers to a disagreement, opposition, or struggle between two or more individuals or groups. It results from incompatible influence attempts between and within individuals, groups or organizations."



Task: Can someone with seemingly no power, little access to the outside world, and almost no economic resources still have the power to bargain?

Answer: Yes



Case study: Bargaining Chips

One prisoner at named X has nothing to negotiate with. This Rohtak's Sonaria Jail inmate and undertrial for murder along with 13 others were upset.

That even the meagre rights of:

- i. going for a walk every day,
- ii. exercise in the fresh air,
- iii. Making daily short call to family
- iv. Meeting family members
- v. Giving bedsheets to spread to sleep were suspended for 7 days.

Jail inmates were distressed when their jail was superintendent was particularly cruel and harassed them. Even the rations were meagre and the quality of food served was very poor. Many inmates were kept in lockdown for days at a time, despite laws that require time for exercise and other recreational activities.

#### Here Comes The Bargaining Chip:

- The inmates tried to negotiate by using the only bargaining chip they had: Their stomach.
- The inmates refused to eat.
- Knowing that health problems from starvation would draw press and state officials' attention.

#### Tactic proved successful

- Officials responded and the jail official was transferred.
- Promise was made to improve facilities.

### 13.2 Sources of Conflict

We can analyze the different sources of conflict in any organization as under:

1. **Resources Scarcity:** Resource scarcity leads to conflict. If there aren't enough material and supplies for every worker, then those who do get resources and those who don't are likely to experience conflict.



Example: If budgets are slim, the marketing department may feel like they can make the most of those dollars by earning new customers. The development team may feel like they can benefit from the dollars by making more products to sell.

2. **Time Pressure:** Time pressure, like deadlines, can increase the performance of an individual or reduce the performance by triggering destructive emotional reactions.
3. **Communications breakdown:** Communication is a complex process. Barriers to communication often provoke conflict. It can happen if one department asks for some information from some other department and that department does not respond to the request.
4. **Personality Clashes:** Individual differences in such personal qualities as values, attitudes, abilities and personality traits are often the cause of conflict. Two managers may learn to despise each other thoroughly for reasons totally unrelated to their work, but their performance on the job may suffer because of it.
5. **Task Interdependence:** When the two parties or two departments are interdependent for supplies, information, direction or help and there is greater need to co-ordinate their activities, we may come across conflicts between them.
6. **Goal Incompatibility:** The research and development team at an electronics company might be instructed to come up with the best new, pie-in-the-sky idea for individual-use electronics—that thing consumers didn't know they needed. The R&D team might come up with something fantastic, featuring loads of bells and whistles that the consumer will put to excellent use.



Example: The manufacturing team gets together to look at this new design. They've been told that management likes it, and that they need to build it by the most economical means possible. They start make adjustments to the design, saving money by using less expensive materials than what were recommended by the R&D team.

### 7. Rewards System:

An organization might set a standard where only a certain percent of the employees can achieve the top ranking for raises and bonuses. This standard, not an uncommon practice, creates heavy competition within its employee ranks. Competition of this nature often creates conflict.

## 13.3 Perspectives of conflict

There are mainly two perspectives of conflict existing in any situation. This can be functional conflict and dysfunctional conflict.

1. **Functional Conflict-** Functional conflict supports the goals of the group, improves its performance, and is thus a constructive form of conflict. Functional conflict can produce new ideas, learning and growth among individuals; when they engage in constructive conflict, they develop a better awareness of themselves and others.



Example: A debate among members of a work team about the most efficient way to improve production can be a functional if unique points of view are discussed.

2. **Dysfunctional Conflict-** Conflict that hinders group performance is destructive, known as dysfunctional conflict. Dysfunctional conflict is an unhealthy, destructive disagreement between two or more people. A key for recognizing a dysfunctional conflict is that its origin is often emotional or behavioral. Disagreements that involve personalized anger and resentment directed at specific individuals rather than specific ideas are dysfunctional. In dysfunctional conflict, the losses to both parties may exceed any potential gain from the conflict.

### Types of Conflict

The types of conflicts can be discussed in three ways: Task conflict, Process Conflict and Relationship conflict.

Is it disagreement about goals?	Task Conflict
Is it about the best way to get things done?	Process Conflict
Is it about people who just do not get along well with one another?	Relationship Conflict

**1. Task Conflict-** This conflict relates to the content and goals of the work. Task conflict is a conflict around a particular task, the content of decisions made in a team, and differing ideas and views on how to approach and interpret a task.

**2. Relationship Conflict-** This conflict is based on interpersonal relationships. Relationship conflict is a conflict around relationships with other team members involving different attitude, preferences, personal styles. Destructive, often underpins task conflict.

**3. Process Conflict-** Conflict over how work gets done. Conflict around the delegation and logistics of task accomplishment, as well as responsibility and strategy. Linked to task and relationship conflict.

### 13.4 Loci of conflict

Loci of conflict are a framework within which the conflict occurs. This can be further explained as Dyadic conflict, Intra-group conflict and Inter-group conflict.

**1. Dyadic Conflict:** Dyadic conflict is a conflict that occurs between two people.

**2. Intra-group conflict:** Conflict that occurs within a group or team is known as intra-group conflict.

In organisations, there are two important situations where individuals find themselves in conflict with groups. The first situation is one in which an individual is violating group norms. The reason for this conflict is that groups have a greater ability to block an individual's goal achievement than the other way around. Only in unusual cases will an individual be able to mobilize the resources to block the group's movement toward its goals.

The second case of individual-group conflict is one in which subordinates of one boss collectively disagree with a course of action the boss wants to take. A conflict exists here because the subordinates are blocking the goal achievement plans of the boss. Although the boss can exercise formal authority to suppress this type of conflict, this is generally an unwise course, since subordinates often find a way to retaliate.

**3. Inter-group conflict:** Conflicts that occur between different groups or teams is known as inter-group conflict.

This involves conflict between groups of people, irrespective of the size of the group. Included in this category, therefore, is interdepartmental conflict within organizations. Inter-group conflict exists between or among groups. Such conflicts can be traced to competing goals, competition for limited resources, cultural differences, power discrepancies and attempts to preserve the groups' separate identities.

### 13.5 Conflict Process

Diagnosing the nature of conflict is aided by considering it as a sequence of conflict episodes. Regardless of the level of conflict, each conflict episode proceeds through one or more of five possible stages.

Stage 1: Potential Opposition or Incompatibility

Stage 2: Cognition and Personalization

Stage 3: Intentions

Stage 4: Behavior

Stage 5: Outcomes

### 1. Potential Opposition or Incompatibility:

The first step in the conflict process is the presence of conditions that create opportunities for conflict to arise. Individuals or groups may have power differences, compete for scarce resources, strive for autonomy, have different goals, or experience diverse role pressures. These differences are the genesis of disagreement and ultimately conflict.

#### Three general categories:

- i. Communication
- ii. Structure
- iii. Personal Variables

Let's understand this with the help of situation.

- i. **Communication-** Sonia had worked in a supply chain management company in Delhi for three years. She enjoyed her work largely because her manager, Mr Khurana, was a great boss. Then Mr. Khurana was promoted and Mr. Rao took his place. 6 months later, Sonia says, her job is frustrating. Mr Khurana and I were on the same wavelength. It's not that way with Rao. He tells me something, and I do it. Then he tells me I did it wrong. I think, he means one thing, but says something else. It's been like this since the day he arrived. I don't think a day goes by when he isn't yelling at me for something. You know, there are some people you just find it easy to communicate with. Well, Rao isn't one of these.

#### What can you interpret from Sonia's comments?

- Communication can be a source of conflict.
  - Her experience represents the opposing forces that arise from semantic difficulties, misunderstandings, and "noise" in the communication channel.
- ii. **Structure-** The term structure in this context includes variables such as the size of the group, degree of specialization in tasks assigned to group members, many more.
    - Geeta is a sales person and Pallavi is the company credit manager at a regional level Furniture Mart, a large discount retailer.
    - The women have known each other for years and have much in common.
    - They live two blocks apart, and their oldest daughters attend the same school and are best friends.
    - If Geeta and Pallavi had different jobs, they might be friends.
    - But they constantly disagree at work.
    - Geeta's job is to sell furniture and she does it well.
    - Most of her sales are made on credit.
    - Because Pallavi's job is to minimize credit losses, she regularly has to turn down the credit applications of Geeta's customers.
    - It's nothing personal between the women; the requirements of their jobs just bring them to conflict.

- iii. **Personal Variables-** It includes personality, emotions and values.



Did you know?

Have you ever worked with someone you dislike?

**2. Cognition and Personalization:**

It can be explained with the help of Perceived conflict and Felt Conflict.

- a. **Perceived Conflict-** Awareness by one or more parties of the existence of conditions that create opportunities of conflicts to arise.

In this stage, (a) Differences of opinion are voiced. (b) Incompatible goals or values become apparent. (c) Individuals demean others or try to enact opposing actions.

- b. **Felt Conflict-** Emotional involvement in a conflict that creates anxiety, tenseness, frustration, or hostility. When one or more parties feel tense or anxious as a result of such disagreements or misunderstandings, conflict has moved beyond 'perceived' to 'felt' conflict. Here, the conflict becomes personalized to the individuals or groups involved: intentions intervene between people's perceptions and emotions and their overt behaviour.

**3. Intentions:**

Intentions intervene between people's perceptions and emotions, and their overt behavior. They are decisions to act in a given way.

There are two dimensions of conflict handling:

- a. **Assertiveness-** Degree to which one party attempts to satisfy his or her own concerns.  
 b. **Cooperativeness-** Degree to which one party attempts to satisfy the other party's concerns.

Using the above-mentioned dimensions, five conflict handling intentions can be identified.

1. **Competing:** A desire to satisfy one's interests, regardless of the impact on the other party to the conflict.
2. **Collaborating:** A situation where the parties to a conflict desire to satisfy fully the concerns of all parties.
3. **Avoiding:** The desire to withdraw from or suppress a conflict.
4. **Accommodating:** The willingness of one party in a conflict to place the opponent's interests above his or her own interest.
5. **Compromising:** A situation in which each party to a conflict is willing to give up something.

**4. Behavior:**

The behaviour stage includes statements, actions and reactions made by conflicting parties. Usually as overt attempts to implement their own intentions. As a result of miscalculations or unskilled enactments, overt behaviours sometimes deviate from original intentions.



**5. Outcomes:**

The conflict episode ends with its aftermath, after the conflict has been managed and the resulting energy heightened, resolved or suppressed. If the conflict is resolved, the parties may experience a new reality as they adjust their perceptions. Unresolved conflict, which exists everywhere, simply sows the seeds for manifest conflict later. The process continues and is a normal part of organisational life.

There can be two types of outcomes: Functional and Dysfunctional outcomes.

**13.6 Strategic Way of Conflict Management**

- A fundamental conflict between environmental organizations and businesses that was once believed to be a zero-sum game, where one side had to win and the other had to lose.
- It was thought that businesses could either act responsibly toward the environment and thus decrease profits (environmentalists win) or they could operate to increase profits at the expense of the environment (business wins).

**How today organizations are handling?**

Environmentalists have learned to work with businesses to develop more environmentally friendly practices rather than to protest and embarrass them.

At the same time, many businesses have come to view being environmentally responsible as a profitable business strategy.

**For Example: Walmart**

One of the largest purveyors of seafood, has developed a program of sustainable fishing practices to maintain commercial stocks of fish, which can become depleted.

**Approaches to Conflict:**

There are mainly two approaches to conflict: Traditional Approach and Modern Approach.

1. Traditional Approach: Conflicts as avoidable-
2. Modern Approach: Conflict as Inevitable

**Traditional Approach: Conflicts as avoidable**

Managers considered conflicts as evil, outright wrong, destructive and negative. Managers wanted to avoid conflicts completely at their workstation. Conflicts bring demotivated workforce, less productivity and dysfunctional work.

**Modern Approach: Conflict as Inevitable**

Not all conflicts are beneficial and healthy. Only functional and constructive forms of conflict support the organization, while the dysfunctional or destructive forms of conflict should always be avoided.

**13.7 What is Negotiation?**

Negotiation is the process through which the parties to a conflict define what they are willing to give and accept in an exchange. Negotiation permeates the interactions of almost everyone in groups and organisations. If the conflict is complex, the negotiation process may incorporate different strategies for different issues: avoiding some, compromising on others, and so on.

Example:

- Managers negotiate with employees, peers and bosses.
- Sales people negotiate with customers.
- Purchasing agent negotiate with suppliers.

### **13.8 Approaches to Negotiation**

There are two major negotiating approaches:

1. **Distributive Bargaining:** Distributive bargaining is an approach in which the goals of one party are in direct conflict with the goals of the other party. Each party wants to maximize its share of the limited resources. Distributive bargaining is a competitive or win-lose approach to negotiations.

Example:

- You see a used car advertised for sale online that looks great.
- You go see the car.
- It's perfect, and you want it.
- The owner tells you the asking price.
- You don't want to pay that much.
- The two of you negotiate.

**This is Distributive Bargaining**

**2. Integrative Negotiation:** Under this approach to negotiation, the parties' goals are not seen as mutually exclusive; the focus is on making it possible for both sides to achieve their objectives. Integrative negotiation focuses on the merits of the issues and is a win-win approach.

- Example:  
Ethos is a 5-year old luxury boutique owned by Rizwan Ahmed and Mir Ali in Ahmedabad.
- In the early days of business, Rizwan and Mir moved merchandise worth crores of rupees from many up-and-coming designers.
- They developed such a good rapport that many designers would send allotments to Ethos without requiring advance payment.
- When the economy soured in 2008, Ethos had trouble selling inventory, and designers were not being paid for what they had shipped to the store.
- Despite fact that many designers were willing to work with the store on a delayed payment plan, Rizwan and Mir stopped returning calls.
- One designer said that he felt sad with Ethos facing a cash crunch and he would have liked to help, but Ethos stopped communication.

**The designer's attitude shows the promise of integrative bargaining.**

### **13.9 Process of Negotiation**

There are steps in negotiating process:

1. Preparation and Planning
2. Definition of ground rules
3. Clarification and justification
4. Bargaining and Problem Solving
5. Closure and implementation

**Step1:**Preparation for negotiations should begin long before the formal negotiation begins. Each party gathers information about the other side –its history, likely behavior, previous interactions and previous agreements reached by the parties. Each party polls its members to determine their wishes, expectations, and preferences regarding a new agreement.

Example:

- If you are a supply manager at Dell computer.

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- Your goal is to get a significant cost reduction from your keyboard supplier.
- Make sure that this goal stays paramount in discussions and does not get overshadowed by other issues.

**Better equipped to counter arguments with facts and figures:****1. Assess the other party goals-**

- What is he or she likely to ask?
- How entrenched is his or her position likely to be?
- What intangible and hidden interests may be important to him or her?
- On what might he or she be willing to settle?

**2. Develop a strategy-**

Determine your and the other side's best alternative to a negotiated agreement (BATNA)

**Step2:** In this step, Parties exchange their initial proposals or demands.

Such questions will be answered in this step:

- Who will do the negotiating?
- Where will it take place?
- What time constraints will apply?
- To what issues will negotiation be limited?

**Step3:** Explain, justify and clarify your original demands. Need not to be confrontational. Provide documentation that supports your position.

**Step4:** Essence of negotiation process: Actual give and take. Both parties need to make concessions.

**Step5:** Formalizing your agreement. Developing procedures necessary for implementing and monitoring.



Did you know?

Are some people better negotiators than others?



Task: Conflict-Handling Style

Indicate how often you rely on each of the following tactics by circling the number you feel is most appropriate. When I have a conflict at work, I do the following:

	Not at All			Very Much	
1. I give in to the wishes of the other party.	1	2	3	4	5
2. I try to realize a middle-of-the-road solution.	1	2	3	4	5
3. I push my own point of view.	1	2	3	4	5
4. I examine issues until I find a solution that really satisfies me and the other party.	1	2	3	4	5
5. I avoid a confrontation about our differences.	1	2	3	4	5
6. I concur with the other party.	1	2	3	4	5
7. I emphasize that we have to find a compromise solution.	1	2	3	4	5
8. I search for gains.	1	2	3	4	5
9. I stand for my own and the other party's goals and interests.	1	2	3	4	5
10. I avoid differences of opinion as much as possible.	1	2	3	4	5
11. I try to accommodate the other party.	1	2	3	4	5
12. I insist we both give in a little.	1	2	3	4	5
13. I fight for a good outcome for myself.	1	2	3	4	5
14. I examine ideas from both sides to find a mutually optimal solution.	1	2	3	4	5
15. I try to make differences loom less large.	1	2	3	4	5
16. I adapt to the other party's goals and interests.	1	2	3	4	5

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17. I strive whenever possible toward a 50-50 compromise.	1	2	3	4	5
18. I do everything to win.	1	2	3	4	5
19. I work out a solution that serves my own as well as the other party's interests as well as possible.	1	2	3	4	5
20. I try to avoid a confrontation with the other party.	1	2	3	4	5

**Scoring:**

Yielding	Compromising	Forcing	Problem solving	Avoiding
1. _____	2. _____	3. _____	4. _____	5. _____
6. _____	7. _____	8. _____	9. _____	10. _____
11. _____	12. _____	13. _____	14. _____	15. _____
16. _____	17. _____	18. _____	19. _____	20. _____
Totals _____	_____	_____	_____	_____

**Interpretation:**

- Your primary conflict-handling style is the category with the highest total.
- Your fallback intention is the category with the second-highest total.

**Summary**

Conflict management refers to the long-term management of intractable conflicts.

A conflict can be internal or external.

Conflict is inevitable and often good. Getting the most out of diversity means often contradictory values, perspectives and opinions.

Conflict helps to raise and address problems, energizes work to be on the most appropriate issues, helps people "be real learn how to recognize and benefit from their differences.

Conflict is a problem when it hampers productivity, lowers morale, causes more and continued conflicts or results in inappropriate behaviours.

There are many reasons for conflicts.

Similarly, there are many reasons to settle a conflict.

One must try to make only the positive use of a conflict and not vice versa.

**Keywords**

- Conflict
- Negotiation
- Avoiding
- Compromising
- Accommodating
- Distributive Bargaining
- Integrative Bargaining
- Functional Conflict
- Dysfunctional Conflict
- Task
- Relationship and Process conflict.

**Self Assessment**

1. Resource scarcity leads to conflict.
  - A. True
  - B. False
  
2. .... is an unhealthy, destructive disagreement between two or more people.
  - A. Conflict
  - B. Functional conflict
  - C. Dysfunctional conflict
  - D. All of the above
  
3. .... conflicts support the goals of the group and improve the performance of the group.
  - A. Conflict
  - B. Functional conflict
  - C. Dysfunctional conflict
  - D. All of the above
  
4. Personality clashes are a source of conflict.
  - A. True
  - B. False
  
5. How many perspectives of conflict based on effects?
  - A. Two
  - B. Three
  - C. Four
  - D. Five
  
6. Conflicts relates to the content and goals of the work is known as\_\_\_\_\_
  - A. Relationship conflict
  - B. Task Conflict
  - C. Process Conflict
  - D. All of the above
  
7. Which conflict occurs between two people?
  - A. Dyadic

- B. Intragroup
  - C. Intergroup
  - D. Task
8. Which is not a stage of conflict process?
- A. Potential Opposition
  - B. Intentions
  - C. Outcomes
  - D. Integrative
9. Which conflict occurs within a group or team?
- A. Dyadic
  - B. Intragroup
  - C. Intergroup
  - D. Task
10. Degree to which one party attempts to satisfy his or her own concerns is which kind of conflict handling dimension?
- A. Assertive
  - B. Co-operative
  - C. Task
  - D. Relationship
11. ....negotiation seeks to achieve a win-win situation for both the parties.
- A. Integrative
  - B. Distributive
  - C. Equality
  - D. All of the above
12. How many stages are in Negotiation process?
- A. Three
  - B. Four
  - C. Five
  - D. Six
13. Negotiation does not permeate the interactions of almost everyone in groups and organizations.
- A. True
  - B. False

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14. People have different negotiation skills and effectiveness.

- A. True
- B. False

15. \_\_\_\_ Negotiation seeks to divide up a fixed amount of resources; a win-lose situation.

- A. Integrative
- B. Distributive
- C. Equality
- D. All of the above

**Answers for Self Assessment**

- |       |       |       |       |       |
|-------|-------|-------|-------|-------|
| 1. A  | 2. C  | 3. B  | 4. A  | 5. A  |
| 6. B  | 7. A  | 8. D  | 9. B  | 10. A |
| 11. A | 12. C | 13. A | 14. A | 15. B |

**Review Questions**

1. What are the various defense mechanisms that you would employ to overcome a conflicting boss? Remember, you don't have the option of leaving the organisation.
2. If the member with the highest performance says "no" to work with another team member with a low performance, how would you tackle the situation as a leader of such a team?
3. If the team of yours is not performing upto the mark because of some internal conflicts, though you know each is a great performer, how would you manage the conflict?
4. Have you ever engaged in a third-party negotiation? If yes, explain the experience, If no, think of such a situation and elucidate upon possible benefits.
5. Can the conflict also have positive consequences? Support your answer with reasons.
6. Conflict among managers is often caused by the fact that there is poor agreement over goals. What should be done to bring an alignment among them.
7. Explain various types of conflicts.
8. Discuss the negotiation process in detail with relevant situation.
9. What are the different approaches to negotiation? Which one is better in your terms?
10. Discuss the changing view of conflict.
11. What are the different sources of conflict?
12. In detail, explain the stages of conflict process.

**Further Readings**

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## Unit 14: Stress Management

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14.2 Consequences of Stress

14.3 Causes of Stress

14.4 Stressors to Outcomes

14.5 Consequences of Stress

14.6 Stress Management

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### Objectives

After studying this chapter, you will be able to:

- Understand the concept of stress.
- Analyze the symptoms of stress.
- Analyze the consequences of stress
- Understand the different types of stress.
- Explore the causes of stress.
- Understand the individual approach to manage stress.
- Understand the organizational approach to manage stress.

### Introduction

A fundamental aspect of historical Stress is an exceedingly complex concept that does not lend itself to a simple definition. It can best be understood in terms of the internal and external conditions necessary for its arousal and the symptoms by which it is identified. Its identifiable symptoms are both psychological and physiological. Stress carries a negative connotation for some people, as though it were something to be avoided. This is unfortunate, because stress is a great asset in managing legitimate emergencies and achieving peak performance.

### 14.1 What is Stress?

Stress can be defined as a feeling of tension that occurs when a person perceives that a situation is about to exceed her ability to cope and consequently could endanger her well-being.

#### *Definition of Stress*

Stress is a feeling experienced when a person thinks that the demands exceed the personal and social resources, the individual is able to mobilize. –**Richard S. Lazarus**

Stress is caused by a multitude of demands (stressors), such as an inadequate fit between what we need and what we are capable of, and what our environment offers and what it demands of us. – **Levi.**

**According to J.C. Quick and J.D. Quick** “Stress, or the stress response, is the unconscious preparation to fight or flee a person experience when faced with any demand”.

**According to Mikhail A.** “Stress refers to a psychological and physiological state that results when certain features of an individual’s environment challenge that person, creating an actual or perceived imbalance between demand and capability to adjust that results in a non-specific response”.

### **Think upon**

Will your answer be YES or NO?

“Am I in trouble/danger?”

“Can I successfully cope with this situation?”

### **Case Study: Is it stressful situation?**

Consider a call-centre representative who has a child in day care who must be picked up at 5:30 p.m. The representative has sole responsibility for picking up his child because his wife is out of town. At 4:58 p.m., as the representative is beginning to close down his station, his supervisor walks over and tells him that he must stay and work for another two hours.

If the representative refuses to stay, he can be put on probation or even be fired, but he cannot think of anyone to call to pick up his child for him

### **Basic Reaction to Stress**

The basic reaction to stress is Fight or Flight response.

Someone cut you off on the highway and you had to swerve and narrowly avoided a collision.

While out for a morning run, an angry dog jumps out onto your path and starts growling and barking at you.

In the second before you turned on the lights in your empty house, your coat rack looked like it was a person standing right next to you.

All three of these scenarios can trigger your body’s natural fight or flight response, which is driven from your sympathetic nervous system. This response is your body’s reaction to danger and was designed to help you survive stressful and life-threatening situations.

### **Symptoms of Stress**

The symptoms of stress can be discussed under two main dimensions: Signs of Stress in Individual and Signs of Stress in Group.

#### **Signs of Stress in Individual:**

The sign of stress is quite visible in every individual which can be further explained as under:

1. **Sensitive Syndrome:** Depression or negative feeling, feeling of loneliness and solitude, getting disappointed with yourself, more emotional reactions like getting more aggressive, sensitive or tearful, mood swings, loss of confidence, and loss of motivation.
2. **Mental:** More confusion, poor memory, and less concentration.
3. **Physical:** Headache problem, frequent infections, muscle beat, and breathlessness.
4. **Changes in Normal Behavior:** Changes in eating habits, arriving late or taking more time do to things, changes in sleep pattern, mood swings that have affected the behavior, increased drinking, drug, and smoking.

#### **Signs of Stress in Group:**

Stress can be found at workplace too and can be contagious.

**Example:** Low job satisfaction. If the stress in the organization is not noted and acted upon by the management at an early stage, then team dynamics may destroy.

## 14.2 Consequences of Stress

An individual who is experiencing a high level of stress may develop high blood pressure, ulcers, loss of appetite, etc. Stress shows itself in a number of ways. All the consequences need not be negative.

The consequences of stress can be explained from Individual as well as Organizational perspective.

### 1. Individual Consequences-

#### *i. psychological consequences:*

Psychological responses to stress include anxiety, depression, low self-esteem, sleeplessness, frustration, family problems, and burnout.

#### *ii. Behavioral consequences:*

Behavioral consequences of stress include excessive smoking, substance abuse (alcohol, drugs), accident proneness, appetite disorders, and even violence.

#### *iii. Physiological consequences:*

Physiological reactions to stress include high blood pressure, muscle tension, headaches, ulcers, skin diseases, impaired immune systems, musculoskeletal disorders (such as back problems), and even more serious ailments, such as heart disease and cancer.

### 2. Organizational Consequences-

Organizational consequences include lower motivation, dissatisfaction, lower job performance, increased absenteeism, increased turnover, and lower quality of relationships at work. Stress-related illnesses cost companies millions of dollars in insurance and worker's compensation claims.



#### *Case Study: Explore the symptoms of stress*

Ali was working with an academic institution of repute. The working environment in the institution was a diversified one as it comprised of staff members from different parts of the world. Ali was perennially a very good performer through-out his professional journey, so far. However, after joining the organization his performance started to dip, not because he was a misfit to the organization in terms of his knowledge, experience, skill sets and abilities, but it was because of the gradual complex he started to develop while facing peer pressure. Ali was known to be dynamic persona till his personality started to change while facing up to the expectation of his colleagues and superior in a multicultural set-up. Ali was trying to adopt the same techniques while interacting with his peers and seniors like he did in his previous assignments.

The difference in terms of the working culture, the profile of the manpower employed with the organization, along with the global setup didn't get due cognizance from Ali as a result of which he was quite often cornered for his viewpoints, perspectives on issues of common interest. Apart from that Ali was witnessing a sense of inferiority complex creeping in gradually as a result of which he was losing his level of confidence, started to have unhealthy arguments with colleagues, trying to impose his attitude of 'my way or highway', culminating in self-inflicted pressure. He started to have headache, frequent health breakdown, shivering of hands, stammering bouts while communicating, apart from intensive sweating.

### Define Stress: Acute or Chronic

1. Acute Stress: short-term reaction to an immediate threat.

**For Example:** An associate might experience acute stress when being reprimanded by a supervisor or when not able to meet a deadline.

2. Chronic Stress: results from ongoing situations.



**Example:** It can result from living in fear of future layoffs or from having continuing problems with a supervisor.



Did you know?

Stress is good for you, or stress is bad for you.

## Types of Stress

There are mainly two types of stress as Eustress and Distress.

1. Eustress- A form of stress having a beneficial effect on health, motivation, performance and well-being.
2. Distress- The type of stress we are referring to when we say stress. It is the form of stress with negative implications.

### 14.3 Causes of Stress

The Sources of stress are found within the environment, the individual, and the interaction between the two. The stress experienced by a given individual is seldom traceable to a single source. Stress has become increasingly common in organisations, largely because individuals experience increased job complexity and increased economic pressures. In exploring the Sources of stress, it is important that a clear distinction be made between stress and the stressor (the source of the stress). It is confusing and technically incorrect to speak of a “stressful situation” as though anyone placed in that situation would experience stress.

For purposes of analysis and understanding, stressors are divided into two classes:

1. Those that lie within the individual, and
2. Those that are a part of the external environment.

#### Internal Stimuli for Stress:

The internal sources of stress are complex and difficult to isolate. There are three internal sources of stress. Each of these internal influences on stress is considered separately, although they function in continual interaction.

**1. Inner Conflicts:** For many people, stress is a constant companion regardless of how favourable or unfavourable external conditions may be. Non-specific fears, anxiety and guilt feelings maintain the body in a state of readiness for emergency action on a continuing basis.

**2. Perceptual Influences:** Perception is influenced by a number of internal factors. Certainly people with inner conflicts sufficient to cause stress are more likely than self-confident people to perceive environmental conditions as threatening. Because the environment is presumed to be full of danger, evidences of danger are perceived everywhere. They are selectively perceived in exaggerated form.

**3. Thresholds of Stress:** The threshold of stress is not independent of the two factors just discussed. People who have few internal conflicts and a minimum of perceptual distortion can withstand external conflict and pressure that weaker personalities would find intolerable. People who have high thresholds for stress have high levels of resistance to it.

**4. Motivational Level:** People who are ambitious and highly motivated to achieve are more likely to experience stress than those who are content with their career status. Persons whose self-expectations exceed their abilities and opportunities are especially stress prone.

#### Environmental Stressors:

Environmental and internal conditions that lie beyond an individual’s control are called environmental stressors. Such stressors can have a considerable impact on work performance and adjustment. We can organize environmental stressors into the following categories:

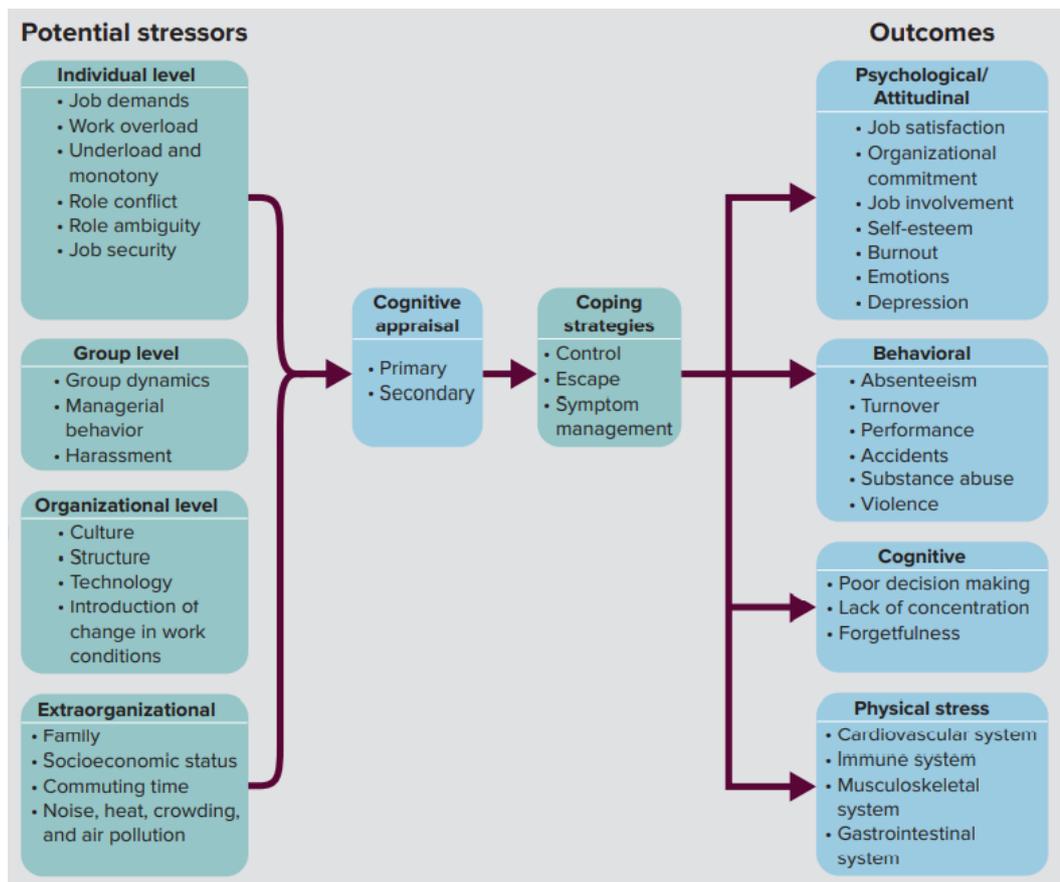
**1. Task Demands:** Task demands are factors related to a person's job. They include the design of the individual's job, working conditions, and the physical work layout. Changes and lack of control are two of the most stressful demands people face at work. Change leads to uncertainty, a lack of predictability in a person's daily tasks and activities and may be caused by job insecurity related to difficult economic times. Technology and technological innovation also create change and uncertainty for many employees, requiring adjustments in training, education and skill development.

**2. Role Demands:** The social-psychological demands of the work environment may be every bit as stressful as task demands at work. Role demands relate to pressures placed on a person as a function of the particular role he or she plays in the organisation. Role conflicts create expectations that may be hard to reconcile or satisfy. Role conflict results from inconsistent or incompatible expectations communicated to a person. The conflict may be an inter-role, intra-role or person-role conflict.

**3. Interpersonal Demands:** These are pressures created by other employees. Lack of social support from colleagues and poor interpersonal relationships can cause considerable stress, especially among employees with a high social need. Abrasive personalities, sexual harassment and the leadership style in the organisation are interpersonal demands for people at work.

**4. Physical Demands:** Non-work demands create stress for people, which carry over into the work environment or vice versa. Workers subject to family demands related to marriage, child rearing and parental care may create role conflicts or overloads that are difficult to manage. In addition to family demands, people have personal demands related to non-work organisational commitments such as religious and public service organisations. These demands become more or less stressful, depending on their compatibility with the person's work and family life and their capacity to provide alternative satisfactions for the person.

#### 14.4 Stressors to Outcomes



**1. Potential Stressors:**

These are the stressors have been explained as antecedents of stress or stressors in the above section.

**2. Cognitive Appraisal:**

The process by which people evaluate the meaning of events and demands (e.g., stressors) for their own well-being.

1. Primary appraisals are perceptions of whether a stressor is irrelevant, positive, or negative
2. Secondary appraisals are perceptions of how able you are to deal or cope with a given demand.

**3. Coping Strategies:****a. Control strategy:**

It consists of using behaviors and cognitions to directly anticipate or solve problems.

**Example:**

Talking to your professor or boss about workload if you feel overwhelmed with your responsibilities and confronting someone who is spreading negative rumors.

**b. Escape strategy:**

Escape strategies are those in which you avoid or ignore stressors. These strategies can be beneficial if you have no control over the stressors or their causes.

**c. Symptom management strategy:**

Symptom management strategies, which focus on reducing the symptoms of stress, are the third type of strategy commonly used, such as relaxation, meditation, medication, or exercise to manage the symptoms of occupational stress.

**4. Outcomes:**

Stress has psychological/attitudinal, behavioral, cognitive, and physical health consequences or outcomes.

**14.5 Consequences of Stress**

An individual who is experiencing a high level of stress may develop high blood pressure, ulcers, loss of appetite, etc. Stress shows itself in a number of ways. All the consequences need not be negative. The consequences of healthy, normal stress (called eustress, for "euphoria + stress") include a number of performance and health benefits to be added to the more commonly known costs of stress listed above known as distress.

**Individual Consequences-****1. Psychological consequences:**

Psychological responses to stress include anxiety, depression, low self-esteem, sleeplessness, frustration, family problems, and burnout.

**2. Behavioural Consequences:**

Behavioural consequences of stress include excessive smoking, substance abuse (alcohol, drugs), accident proneness, appetite disorders, and even violence.

**3. Physiological Consequences:**

Physiological reactions to stress include high blood pressure, muscle tension, headaches, ulcers, skin diseases, impaired immune systems, musculoskeletal disorders (such as back problems), and even more serious ailments, such as heart disease and cancer.

## Organizational Consequences-

Organizational consequences include lower motivation, dissatisfaction, lower job performance, increased absenteeism, increased turnover, and lower quality of relationships at work. Stress-related illnesses cost companies millions of dollars in insurance and worker's compensation claims.

## 14.6 Stress Management

come to perceive the consequences of stress as serious, they have tried to manage it. Some of these efforts have sought to limit the amount of stress employees experience; most are directed at improving employees' coping ability. Both kinds of efforts may be conducted at the individual level and at the organisational level.

### Individual Approach

#### 1. Time Management:

Time Management: A practical way to manage stress is to better control your use of time. Many people manage their time poorly. The well-organised employee can often accomplish twice as much as the person who is poorly organised. The basic principle beyond time management is to decide what tasks are most important, then do those things first. So an understanding and utilization of basic time-management principles can help individuals better cope with tensions created by job demands.

#### Time-management principles:

1. making daily lists of activities to be accomplished,
2. prioritizing activities by importance and urgency,
3. scheduling activities according to the priorities set,
4. knowing your daily cycle and handling the most demanding parts of your job when you are most alert and productive, and
5. avoiding electronic distractions like frequently checking e-mail, which can limit attention and reduce efficiency.

#### 2. Physical Exercise: Noncompetitive

Best way to deal with excessive stress levels: aerobics, walking, jogging, swimming, and riding a bicycle. These activities increase lung capacity, lower the at-rest heart rate, and provide a mental diversion from work pressures, effectively reducing work-related levels of stress.

#### 3. Relaxation techniques

Individuals can also teach themselves to reduce tension through relaxation techniques such as meditation, hypnosis, and deep breathing. The objective is to reach a state of deep physical relaxation, in which you focus all your energy on release of muscle tension.



#### *Example:*

- A group of Chinese working women participate in a yoga class in Beijing as a way to deal with excessive stress levels caused by long working hours and trying to achieve a work/life balance.
- Working women in China have high levels of stress because in Chinese culture women are expected to take more responsibility for family matters than in other cultures.
- As an individual approach to managing stress, yoga is a noncompetitive physical exercise that combines stretching, mental imagery, breathing control, physical postures, and meditation.
- Yoga reduces stress, anxiety, and muscle tension, provides a mental diversion from work pressures, and promotes physical well-being by lowering blood pressure and heart rate.

#### 4. Social Support Network

Friends, family, or work colleagues can provide an outlet when stress levels become excessive. Expanding your social support network provides someone to hear your problems and offer a more objective perspective on a stressful situation than your own.

## **Organizational Approach**

### **1. Selection & Placement**

Individuals with little experience or an external locus of control tend to be more prone to stress. Management shouldn't restrict hiring to only experienced individuals with an internal locus, but such individuals may adapt better to high-stress jobs and perform those jobs more effectively. Selection and placement decisions should take these facts into consideration.

### **2. Training**

Training can increase an individual's self-efficacy and thus lessen job strain.

### **3. Redesigning Jobs**

Redesigning jobs to give employees more responsibility, more meaningful work, more autonomy, and increased feedback can reduce stress. Because these factors give employees greater control over work activities and lessen dependence on others.

### **4. Increasing Employee involvement**

Giving employees a voice in the decisions that directly affect their job performance, management can increase employee control and reduce role stress. Thus, managers should consider increasing employee involvement in decision making.

### **5. Organizational Communication**

Increasing formal organizational communication with employees reduces uncertainty by lessening role ambiguity and role conflict. Given the importance that perceptions play in moderating the stress-response relationship, management can also use effective communications as a means to shape employee perceptions.

### **6. Wellness programs**

Organizationally supported programs that focus on the employee's total physical and mental condition. These typically provide workshops to help people quit smoking, control alcohol use, lose weight, eat better, and develop a regular exercise program.

## **Summary**

Stress management is the need of the hour.

However hard we try to go beyond a stress situation, our work-life seems to find new ways of stressing us out and plaguing us with anxiety attacks.

Immediate disorders such as dizzy spells, anxiety attacks, tension, sleeplessness, nervousness and muscle cramps can all result in chronic health problems.

There are techniques like Naturopathy, Medication and Drugs, Lifestyle and Time Management Skills, Relaxation Techniques, etc., that make stress management quite easy.

Stress, either quick or constant, can induce risky body-mind disorders.

We cope better with stressful situation, when we encounter them voluntarily.

Adopting a humorous view towards life's situations can take the edge off everyday stressors

## **Keywords**

- Stressor
- Distress
- Eustress

- Workplace Stress
- Stress Management
- Antecedents of Stress.

### **Self Assessment**

1. Headache problem, frequent infections, muscle beat, and breathlessness are all signs of \_\_\_\_\_
  - A. Physical symptoms of stress
  - B. Behavioral symptoms of stress
  - C. Emotional symptoms of stress
  - D. Cognitive symptoms of stress
  
2. Josiah is a full-time student who is captain of the football team, and vice president of the biology club. He also works part-time. The primary stressor in his life would be \_\_\_\_\_.
  - A. Exhaustion
  - B. Conflict
  - C. Eustress
  - D. Overload
  
3. \_\_\_\_\_ can be defined as a feeling of tension that occurs when a person perceives that a situation is about to exceed her ability to cope and consequently could endanger her well-being.
  - A. Stress
  - B. Stressor
  - C. Stress Outcomes
  - D. All of the above
  
4. More confusion, poor memory, and less concentration is \_\_\_\_\_ sign of stress in individual.
  - A. Sensitive Syndrome
  - B. Mental
  - C. Physical
  - D. Changes in normal behaviour
  
5. Consequences of stress can be only individual not organizational.
  - A. True
  - B. False
  
6. \_\_\_\_\_ stress can be referred as short-term reaction to an immediate threat.
  - A. Chronic stress
  - B. Acute stress
  - C. Distress
  - D. Eustress

7. Which cannot be known as a cause of organizational stress?
- A. Role Ambiguity
  - B. Role Clarity
  - C. Role Conflict
  - D. Time Pressure
8. Which cannot be known as a cause of non-organizational stress?
- A. High Expectations
  - B. Too Busy Schedule
  - C. Home Demands
  - D. Working Conditions
9. \_\_\_\_\_ stress results from ongoing situations.
- A. Chronic stress
  - B. Acute stress
  - C. Distress
  - D. Eustress
10. \_\_\_\_\_ is the form of stress with negative implications.
- A. Chronic stress
  - B. Acute stress
  - C. Distress
  - D. Eustress
11. Which is not an individual approach to manage the stress?
- A. Time management technique
  - B. Relaxation technique
  - C. Social support network
  - D. Redesigning jobs
12. Managing stress can be done by managing the time.
- A. True
  - B. False
13. Which is not an organizational approach to manage the stress?
- A. Selection & Placement
  - B. Training
  - C. Increasing Employee involvement
  - D. Physical Exercise
14. Friends, family, or work colleagues cannot provide an outlet when stress levels become excessive.

- A. True  
B. False

15. Competitive physical exercise can be an effective individual approach to manage stress.

- A. True  
B. False

### **Answers for Self Assessment**

1. A      2. D      3. A      4. B      5. B  
6. B      7. B      8. D      9. A      10. C  
11. D      12. A      13. D      14. B      15. B

### **Review Questions**

1. How to analyze that you are under stress or not?
2. A little stress is always welcome for better performance. Comment.
3. What do you think stresses more and affects the other domain–Work stress or personal stress?
4. Examine various internal stimuli for stress. Are they necessarily a stimulus for stress always?
5. Suggest some distressing ways at the individual level in teams where the members are hard pressed against meeting deadlines.
6. Is being stressful always counterproductive?



### **Further Readings**

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