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**Module-1**

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# Module-1

**Management:** Nature and Functions of Management- Importance, Definition, Management Functions, Levels of Management, Roles of Manager, Managerial Skills, Management & Administration, Management as a Science, Art & Profession.

**Planning:** Planning- Nature, Importance, Types, Steps and Limitations of Planning:

Decision Making- Meaning, Types and Steps in Decision Making.

- Management is a critical element in the economic growth of a country. By bringing together the four factors of production i.e. men, money, material and machines.
- A country with enough capital, manpower and other natural resources can still be poor if it does not have competent managers to combine and coordinate these resources.
- Every business needs the direction this direction is given by Management.
- Peter Drucker rightly observes that without management, a country's resources of production remain resources and never become production.
- Manager - A manager is one who contributes to the organization's goals indirectly by directing the efforts of others not by performing the task himself.
- Employee - On the other hand, a person who is not a manager makes his contribution to the organization's goals directly by performing the task himself.

## Definition of management

- By Mary Parker Follett - “Management is art of getting things done through people”. Two weaknesses of Mary Parker Follett’s definition are
  1. It uses the word “art” management is merely an art is half-truth. Art deals with the application of knowledge. Management is not merely application of knowledge. It also involves acquisition of knowledge.
  2. This definition does not throw light on the various functions of a manager

By George R. Terry - “Management as a process consisting of planning, organizing, actuating and controlling performed to determine and accomplish the objectives by the use of people and resources”.

The four management activities included in this process are: planning, organizing, actuating and controlling.

- **Planning** means that managers think of their actions in advance.
- **Organizing** means that managers coordinate the human and material resources of the organization.
- **Actuating** means that managers motivate and direct subordinates.
- **Controlling** means that managers attempt to ensure that there is no deviation from the norm or plan.
- By Henry Fayol - “Management is conduct of affairs of business moving towards its objectives through a continuous process of improvement and optimization of resources”
- By Koontz - “Management is a function of guidance and leadership control of efforts of a group or individuals in order to achieve goals/objectives of an organization”

# Nature and characteristics of Management

The success of production depends on effective combination and co-ordination of following factors – land, labor, capital, organization and entrepreneurship.

1. It should be stable
2. It should be applicable to all kinds of Organizations
3. It should be transparent
4. Its approaches are to be clear and goal oriented.
5. It should be simple yet effective.
6. It should have well defined goals.
7. It should have good planning, organizing, staffing, directing and controlling functions..
8. It should provide conducive atmosphere of work.

# Scope of Management

- The management is must for every organization
- The existence of management ensures proper function and running of an enterprise. Management plans the activities, coordinates and utilizes the available recourses effectively and efficiently at minimum cost.
- Scope of management is not limited only to business organization, but it is extended to business establishment such as hospitals, educational institutions, Govt offices, Service organizations, security organizations etc.

Management scope can be extended to the following areas of life

1. Developing Management
2. Financial Management
3. Marketing Management
4. Production Management
5. Transport Management
6. Purchase Management
7. Sales Management
8. Office Management

## Functional Areas of Management / Process of Management

- There is enough disagreement among management writers on the classification of managerial functions. Some classify these functions into four types, some into five and some into six or seven
- **Newman and Summer** - classify these functions into 4 – Organizing, Planning, Leading, Controlling
- **Henry Fayol** - classify these functions into 5 - Planning, Organizing, Commanding, Coordinating and Controlling
- **Luther Gulick** - classifies into 7 functions – (POSDCORB) Planning, Organizing, Staffing, Directing, Coordinating, Reporting, and Budgeting
- **Koontz and O'Donnell** - classifies into 5 types- Planning, Organizing, Staffing, Directing, coordinating.

In general let consider 4 functions of a management

1. Planning

2. Organizing

3. Directing

4. Coordinating Ernest dale adds two additional functions

5. Innovation

6. Representation

# 1. Planning

- Planning is the function that determines in advance what should be done. It is looking ahead and preparing for the future.
- It is a process of deciding the business objectives and charting out the methods of attaining those objectives.
- It is the determination of what is to be done, how and where it is to be done, who has to do it and how results are to be evaluated.
- This is done not only for the organization as a whole but for every division, department or sub-unit of the organization.
- Thus planning is a function which is performed by managers at all levels top, middle and supervisory.
- Plans made by top management for the organization as a whole may cover periods as long as five or ten years.
- Plans made by middle or first line managers, cover much shorter periods. Such plans may be for the next day's work.

## 2. Organizing

- It is a part of management that involves in establishing a structure of roles for people to fill in an organization.
- To organize a business it's necessary to provide it with everything useful to its functioning: personnel, raw materials, tools, capital.
- All this may be divided into two main sections,
  - Human organization and
  - Material organization.
- Once managers have established objectives and developed plans to achieve them, they must design and develop a human organization that will be able to carry out those plans successfully.
- According to Allen, this organization refers to “the structure which results from identifying and grouping work, defining and delegating responsibility and authority, and establishing relationships.”

### 3. Directing

- After plans have been made and the organization has been established and staffed, the next step is to move towards its defined objectives is directing.
- This function can be called by various names: “leading”, “directing”, “motivating”, “actuating”, and so on.
- Directing means leading the people towards the defined objective. Explain the people what they have to do. And help them to do their best.
- It is the act of stimulating or inspiring workers. If the workers of an enterprise are properly motivated they will pull their weight effectively, give their loyalty to the enterprise, and carry out their task effectively.

Two broad categories of motivation are

- **Financial:** Financial motivation takes the form of salary, bonus, profit-sharing, etc.
- **Non-financial:** Non-financial motivation takes the form of job security, opportunity of advancement, recognition, praise, etc.

Directing thus involves three sub-functions:

- **Communication** is the process of passing information and understanding from one person to another.
- **Leadership** is the process by which a manager guides and influences the work of his subordinates.
- **Motivation** means arousing desire in the minds of workers to give their best to the enterprise

## **4. Controlling**

- Controlling is measuring and correcting of activities of subordinates to make sure that the work is going on as per the plan.
- Controlling function of management involves three elements:
  1. Establishing standards of performance.
  2. Measuring current performance and comparing it against the established standards .
  3. Taking action to correct any performance that does not meet those standards.

## **5. Innovating**

- It is not necessary for an organisation to grow bigger.
- But it is necessary that it constantly grows better Innovation means creating new ideas which may either results in developing new products or finding new users for old products.

## 6. Representing

- Manager is required to represent his organization before various outside groups, which have same stakes in organization.
- The stake holders can be Government officials, Labor unions, financial institutions, Suppliers, Customers etc. A manager must win their support by effectively managing the social impact of his organization.
- Every function has two dimensions:
  - Substantive and
  - Procedural.
- Substantive dimension is what is being done;
- procedure is how it is done.

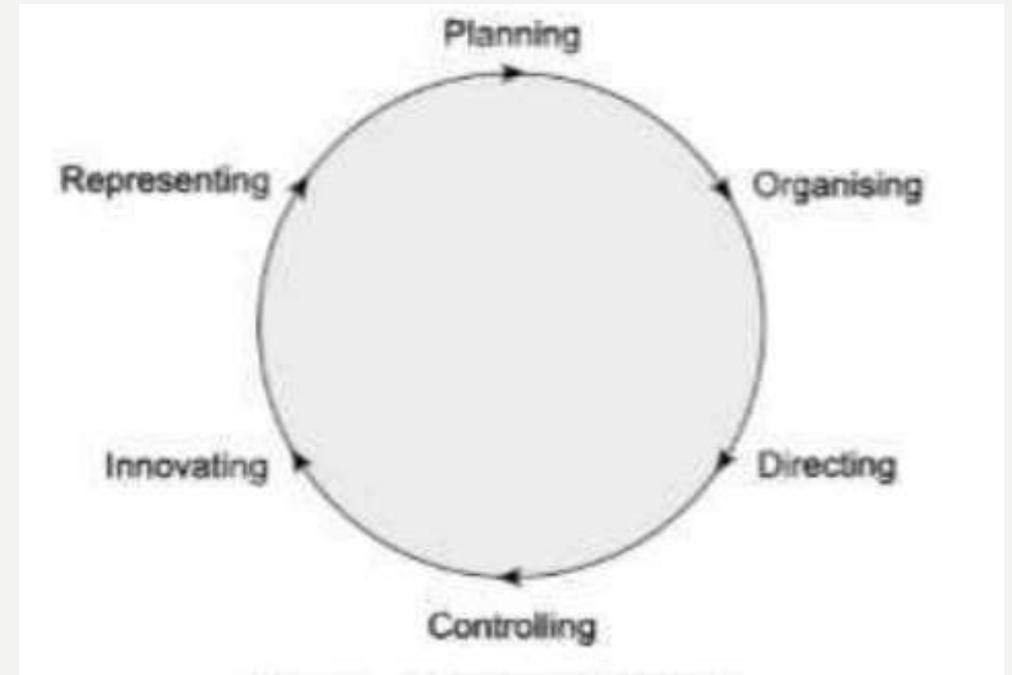


Figure: Management Process

# Roles / Goals of a management

- A role is a set of behaviours associated with a particular job.
- Manager plays variety of roles responding to a particular situation.
- There are 3 important roles:
  1. Interpersonal Roles.
  2. Informational Roles
  3. Decisional Roles

## 1. Interpersonal Roles

- **Figurehead** – manager has to perform some duties of ceremonial nature such as greeting dignitaries, attending the wedding of an employee, taking important customers to lunch etc.
- **Leader** – as a leader every manager has to motivate and encourage his employees.
- **Liaison** – manager has to develop contacts with outside people and collects useful information for wellbeing of the organization.

## 2. Informational Roles

- **Monitor** – a manager monitors his environment and collect information through his personal contacts with colleagues and subordinates
- **Disseminator** – manager passes some of the information directly to his key subordinates.
- **Spokesman** – he communicates the goals of organization to his staff and the progress of work to his superiors. And represents his organization before various outside groups.

### 3. Decisional Roles

- **Entrepreneur**- manager looks for innovation to improve his organization.
- **Disturbance Handler** - the manager has to work reactively like fire fighter. Must seek solutions for various unanticipated problems like strikes, supplier's problems, employee's problems etc.
- **Resource allocator** - manager must divide work and delegate authority among his subordinates. He must decide who will get what.
- **Negotiator** – negotiates with employees and tries to solve any internal problems

# Levels of management

In any organization, there are three levels of management the

1. **First-line management (Low Level):** First-line management: is made up of foreman and white collared supervisors.
2. **Middle level management:** consists of vast and diversified group consisting plant managers, personnel managers and department heads.
3. **Top level managers:** Top management: consists of board chairman, the company presidents, and the executive vice presidents

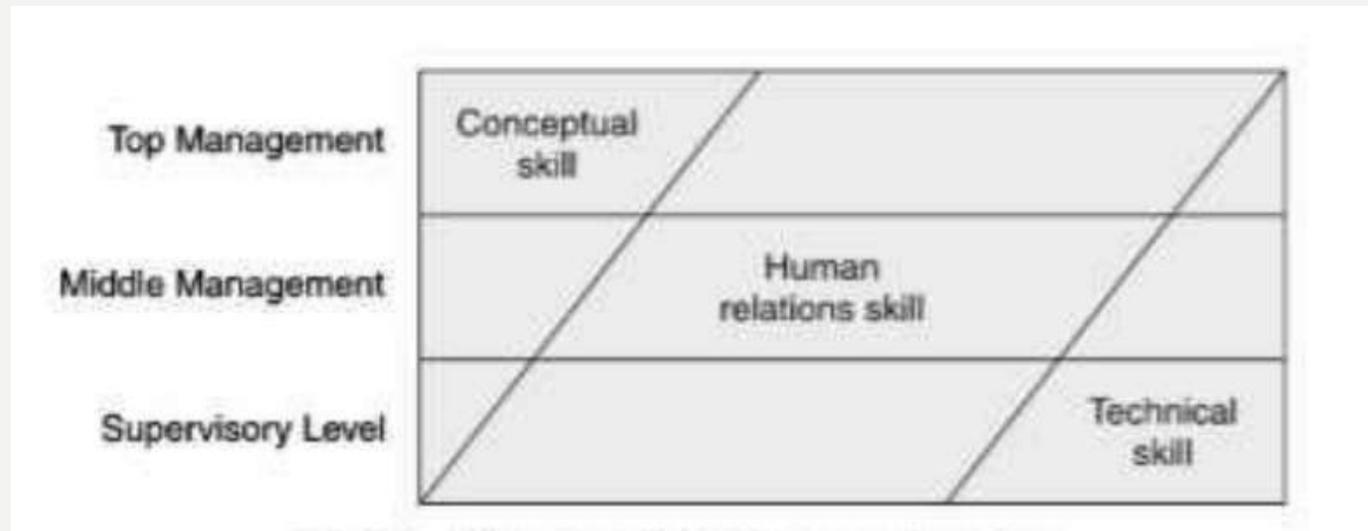


Figure: Skill-mix at different management levels

# Managerial Skills

- A skill is an individual's ability to perform physical or mental tasks with a specified outcome.
- Skill; not necessarily inborn. It can be developed through practice and through translating one's knowledge and experience into action.
- In order to be able to successfully discharge his roles, a manager should possess three major skills.
  1. Technical Skill
  2. Human Relations Skill
  3. Conceptual Skill
- Technical Skill deals with things, Human relation skill deals with people and Conceptual skill deals with ideas.
- While both conceptual and technical skills are needed for good decision-making, human skill is necessary for a good leader.

## **Technical Skill:**

The technical skill is the manager's understanding of the nature of job that people under him have to perform. It refers to a person's knowledge and proficiency in any type of process or technique.

There are three things a manager must know about technical skills:

- (i) Which skills should be employed in his particular enterprise?
- (ii) What is the role of each skill employed?
- (iii) How are different skills interrelated?

The front-line supervisor, whether a foreman or a section chief, requires considerable technical skill in order to be able to:

- (a) evaluate the quality of work turned out,
- (b) teach new hands, and
- (c) direct all subordinates in the work group.

Whereas this type of skill and competence seems to be more important at the lower levels of management, its relative importance as a part of the managerial role diminishes as the manager moves to higher positions.

## **Conceptual Skill:**

- The conceptual skill refers to the ability of a manager to take a broad and farsighted view of the organization and its future, his ability to think in abstract, his ability to analyse the forces working in a situation, his creative and innovative ability and his ability to assess the environment and the changes taking place in it.
- In short, it is his ability to conceptualise the environment, the organisation, and his own job, so that he can set appropriate goals for his organisation, for himself and for his team.

## **Human Relation Skill:**

- It is the ability to interact effectively with people at all levels. This skill develops in the manager sufficient ability
  - (a) to recognise the feelings and sentiments of others;
  - (b) to judge the possible reactions to, and outcomes of various courses of action he may undertake; and
  - (c) to examine his own concepts and values which may enable him to develop more useful attitudes about himself.
- This type of skill remains consistently important for managers at all levels.



## **Management –A Science or AN ART.**

- Management is a behavioural science
- We can call a discipline scientific if its
  1. methods of inquiry are systematic and empirical;
  2. information can be ordered and analysed; and
  3. results are cumulative and communicable.
- Being systematic means being orderly and unbiased. The attempt to gain knowledge must be without taint of personal or other prejudgement. Further, the inquiry must be empirical and not merely an armchair speculation or a priori approach.
- All scientific information collected first as raw data is finally ordered and analysed with the help of statistical tools.
- Science is also cumulative in that what is discovered is added to that which has been found before.

- we may presume that management is also a science.
- But since the word "science" is used to denote two types of systematic knowledge—natural or exact and behavioural or inexact,
- We must remember that management is not like the exact or natural sciences (such as physics, chemistry). These sciences are called "exact" because here it is possible for us to study the effects of anyone of the many factors affecting a phenomenon individually by making the other factors inoperative for the time being.

### **Management as an ART.**

- Whereas under "science" one normally learns the "why" of a phenomenon, under "art" one learns the "how" of it.
- Art is thus concerned with the understanding of how a particular work can be accomplished.
- It is the art of getting things done through others in dynamic and mostly non-repetitive situations.
- Whether it is a factory or a farm or a domestic kitchen, the resources of men, machine, and money have to be coordinated against several constraints to achieve given objectives in the most efficient manner.
- The manager has to constantly analyse the existing situation, determine the objectives, seek alternatives, implement, coordinate, control and evaluate information and make decisions.

# Management- A Profession

- We have seen that management is partly an art and partly a science. Is it a profession?
- McFarland<sup>20</sup> gives the following characteristics of a profession:
  1. Existence of an organised and systematic knowledge.
  2. Formalised methods of acquiring training and experience.
  3. Existence of an association with professionalization as its goal.
  4. Existence of an ethical code to regulate the behaviour of the members of the profession.
  5. Charging of fees based on service, but with due regard for the priority of service over the desire for monetary reward.
- In the light of this analysis we can conclude that management cannot be called a profession. There are, however, certain unmistakable trends toward the professionalization of management.

- He says that "no greater damage could be done to our economy or to our society than to attempt to professionalise management by licensing managers, for instance, or by limiting access to management to people with a special academic degree."
- Following are his arguments in support of the view:
  1. A degree in management does not by itself make an individual a professional manager any more than does a degree in philosophy make an individual a philosopher. The essence of professional management is achievement, not knowledge; results not logic. By insisting on holding a degree, we are overemphasising knowledge and completely overlooking skill. This will eliminate those individuals who, though highly skilled, do not have the required degree.
  2. People once certified as professionals on the basis of their academic degrees would always remain professionals, despite their knowledge becoming obsolete in later years.

# Planning

- Planning is the beginning of the process of management. A manager must plan before he can possibly organise, staff, direct or control. Because planning sets all other functions into action, it can be seen as the most basic function of management.
- Planning follows systems approach which results in an emphasis being given to three major sub-systems, viz. the environmental sub-system, the competitive sub-system and the internal sub-system.
- The **environmental sub-system** includes such factors as population changes, anticipated governmental actions and international developments.
- The **competitive sub-system** includes consideration of the past, present and anticipated actions of competitors.
- The **internal sub-system** includes particular unique features of the firm itself, e.g. its location, facilities, personnel, etc.

- Planning is an intellectual process which requires a manager to think before acting. It is thinking in advance.
- It is by planning that managers of organisations decide what is to be done, when it is to be done, how it is to be done, and who is to do it.
- For example, in planning for their organisation, managers must first decide which goal to pursue: "Shall we manufacture all parts internally or buy some from outside?" In fact, deciding which goal to pursue is probably the most important part of the planning process. Managers must also decide which assumptions about the future and about the environment they will use in making their plans: "Will taxes on our earnings increase, and thus strain our company's cash flow, or can we expect taxes to remain at the present level?".

- In addition, managers must decide how they will allocate their resources to attain their goals: "Should we fill up a senior position by promoting an existing employee or should we hire someone from outside the organisation?" Because decision-making is such an integral part of planning,
- Planning is a continuous process Koontz and O'Donnell<sup>1</sup> rightly observe that like a navigator constantly checking where his ship is going in the vast ocean, a manager should constantly watch the progress of his plans.
- He must constantly monitor the conditions, both within and outside the organisation to determine if changes are required in his plans.

## Principles of Planning

- **Navigational Change:** Keeping an eye on the progress of plan and the conditions influencing the plan so as to keep plan design and implementation on track by making needed changes in plan.
- **Flexibility:** Avoiding extreme rigidity and infusing some adaptability in plan so that plan can keep pace
- **Commitment:** Making a plan with a consideration that scarce resources would get committed and tied up with a plan and hence cannot be retrieved once plan gets implemented.
- **Planning Premises:** The very assumptions regarding internal and external conditions on which a plan is drawn need to be carefully thought and rechecked so as to avoid plan failures.
- **Objectivity:** Precision and definite expression of a plan is a must for its better understandability and usability.
- **Continuity:** The plan at all times is either being drawn or implemented or corrected. Hence planning never takes a rest.

# Importance of planning

- 1. Minimises Risk and Uncertainty:** In today's increasingly complex organisations, institution alone can no longer be relied upon as a means for making decisions. This is one reason why planning has become so important. Planning allows managers and organisations to minimise risk and uncertainty, planning helps the manager to cope with and prepare for the changing environment.
- 2. Leads to Success:** Planning does not guarantee success. Companies that plan not only outperform the no planners but also outperform their own past results.
- 3. Focuses Attention on the Organisation's Goals:** Planning helps the manager to focus attention on the organisation's goals and activities. This makes easier to apply and coordinate the resources of the organisation more economically.
- 4. Facilitates Control:** In planning, the manager sets goals and develops plans to accomplish these goals. Then these goals and plans are becomes standards or benchmarks against which performance can be measured. The function of control is to ensure that the activities conform to the plans.
- 5. Trains Executives:** Planning is also an excellent means for training executives.

# Types of PLANS

In a large organisation, there are various types of plans that are arranged in a hierarchy within the organisation. This means that plans at each level have to be consistent with and contributive to the achievement of plans.

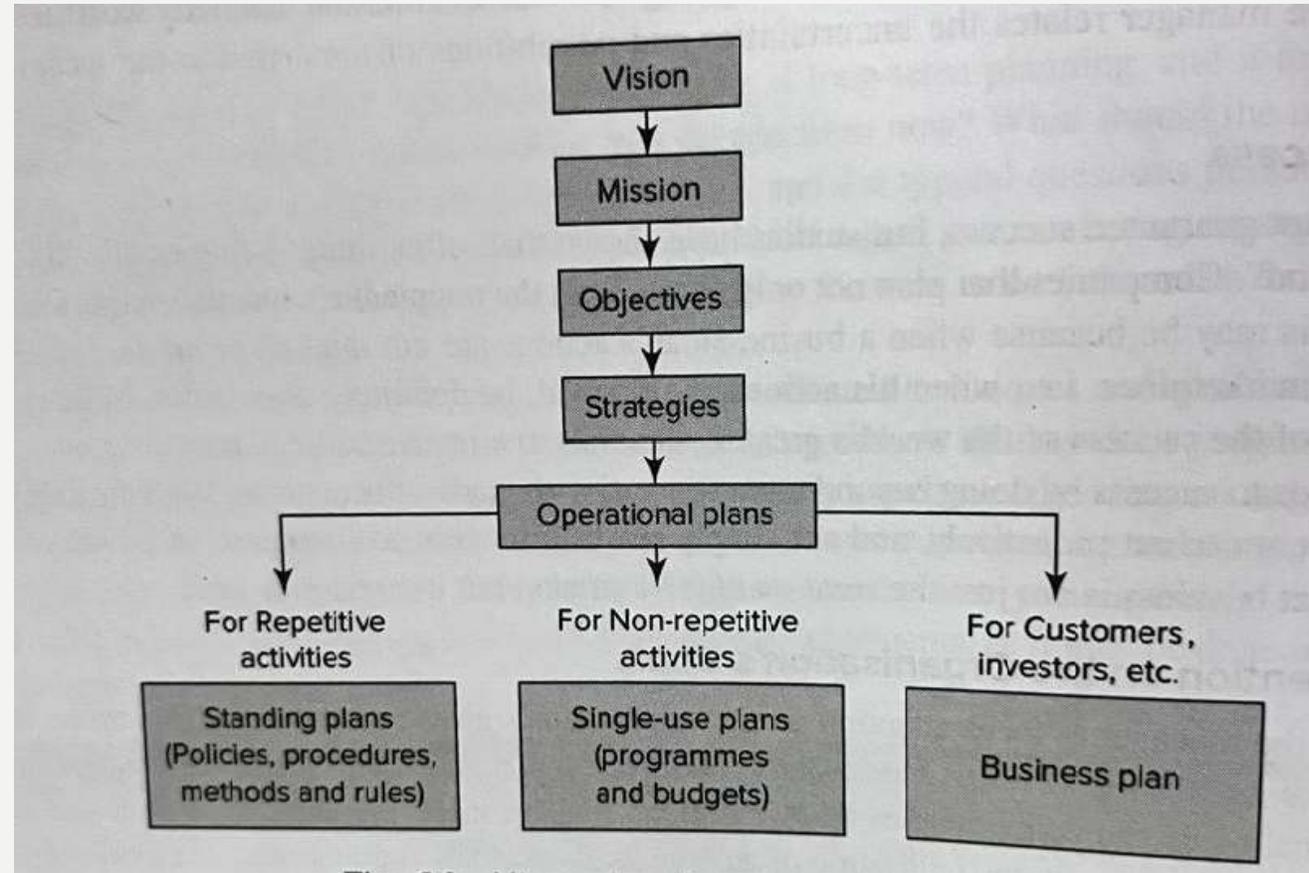


Figure: Hierarchy of organisational plans

## **Vision**

- A vision should be brief, focused, clear and inspirational to an organization's employees. It should be linked to customers needs and convey a general strategy for achieving the mission.
- At the top of this hierarchy is the vision. This is the dream that an entrepreneur creates about the direction that his business should pursue in future.
- It describes his aspirations, beliefs and values and shapes organisation's strategy.

## **Mission**

- Which is the unique aim of an organisation that sets it apart from others of its type.
- It is an organisation's specialisation in some area-service, product or client, which decides the organisation's scope of business.
- For example, the mission of Asea Brown Boveri Ltd. (ABB) is as follows: " ... to be a global leader ... most competitive, competent, technologically advanced and quality-minded electrical engineering company."

- Like vision, a firm's mission also guides the development of strategies. It establishes the context within which daily operating decisions are made and sets limits on available strategic options.
- It is, therefore, necessary that it is not revised every now and then in response to every new turn in the economy. But it may change overtime to take advantage of new opportunities or respond to new market conditions.

## **Objectives**

- Objectives are the specific targets to be reached by an organisation.
- Objectives are goals or aims that the management wishes the organisation to achieve in pursuit of its mission.
- These are the end points or pole-star towards which all business activities like organising, staffing, directing and controlling are directed.

- Objectives should be distinguished from the word "purpose".
- The purpose of an organisation is its primary role defined by the society in which it operates. For example, the purpose of every university is to impart education or the purpose of every hospital is to provide health care.
- Purpose is therefore a broad aim that applies not only to a given organisation but to all organisations of its type in that society.
- An organisation's objectives take into account all stakes and specify a common viewpoint acceptable to all the stakeholders. This implies that no organisation can adopt objectives unilaterally without considering what others want.

## **Characteristics of Objectives**

1. Objectives are multiple in number:
2. Objectives change over time
3. Objectives are either tangible or intangible
4. Objectives have a priority
5. Objectives are generally arranged in a hierarchy
6. Objectives sometimes clash with each other.

### **Objectives are multiple in number:**

- This implies that every business enterprise has a package of corporate objectives set out in various key areas.
- As pointed out by Peter Drucker," there are eight key areas in which objectives of performance and results have to be set. These are: market standing, innovation, productivity. physical and financial resources, profitability, manager performance and development, worker performance and attitude and public responsibility.

Thus, for example, a manufacturing and marketing company may have the following objectives:

- (a) Achievement of a specified market share for its products
- (b) Development of a new product or service
- (c) Identification of a parasitical overhead which only adds to costs
- (d) Provision for raw material and physical facilities
- (e) Reduction in cost
- (f) Direction of managers by objectives
- (g) Building of an Employee Relations Index based on turnover, absenteeism, safety, calls on the medical department, suggestion system participation, grievances etc.
- (h) Conducting the business so as not to undermine social beliefs and cohesion

## **Objectives change over time**

- Although it is true that the successful manager tries to foresee all critical changes in the environment that will affect given objectives yet this may not be enough.
- There may be in addition short- and long-range economic, technical, social, political, and even ethical changes that affect what will or can be done in a near or far future.
- Thus, consumers' liking for a product may change, employees may demand more pay or fringe benefits, new anti-pollution or taxation laws may come into force. These may make it essential for the enterprise to change its corporate.

## **Objectives are either tangible or intangible**

- For some of the objectives (such as in the areas of market standing, productivity, and physical and financial resources) there are quantifiable values available.
- Other areas of objectives are not readily quantifiable and are intangible, such as manager's performance, workers' morale, public responsibility, etc.

## **Objectives have a priority**

- This implies that at a given point in time, the accomplishment of one objective is relatively more important than of others.
- For example, the objective of maintaining a minimum cash balance may be critically important to a firm having difficulty in meeting pay rolls and due dates on accounts.
- Priority of objectives also says something about the relative importance of certain objectives regardless of time.

## **Objectives are generally arranged in a hierarchy**

This means that we have overarching corporate objectives of the total enterprise at the top, followed by divisional or departmental objectives. Next come objectives of each section and finally individual objectives.

## **Advantages of objectives**

Basically the following benefits result from objectives:

1. They provide a basis for planning and for developing other type of plans such as policies, budgets and procedures.
2. They act as motivators for individuals and departments of an enterprise by pointing the way to desired performance.
3. They eliminate haphazard action which may result in undesirable consequences.
4. They facilitate coordinated behaviour of various groups which otherwise may pull in different directions.
5. They function as a basis for managerial control by serving as standards against which actual performance can be measured
6. They facilitate better management of the enterprise by providing a basis for leading, guiding, directing and controlling the activities of people of various departments.
7. They lessen misunderstanding and conflict and facilitate communication among people by minimising jurisdictional disputes.
8. They provide legitimacy to organisation's activities.

# Strategies

- Strategies is a term originated in military,
- In a competitive situation, it is not enough to build plans logically from goals unless the plans take into account the environmental opportunities and threats and the organisational strengths and weaknesses. This is commonly referred to as SWOT (strength, weaknesses, opportunities and threats) analysis.
- Two important activities involved in strategy formulation are **environmental appraisal** and **corporate appraisal**.

## **Environmental appraisal:**

- There are variety of ways of doing this appraisal which results in the identification of threats and opportunities.
- One popular way is to analyse the components of external environment.

# Components of external environment

## 1. Political and legal components:

- (a) Stability of the government and its political philosophy
- (b) Taxation and industrial licensing laws
- (c) Monetary and fiscal policies
- (d) Restrictions on capital movement, repatriation of capital, state trading, etc.

## 2. Economic components:

- (a) Level of economic development and distribution of personal income
- (b) Trend in prices, exchange rates, balance of payments, etc.
- (c) Supply of labour, raw material, capital, etc.

### **3. Competitive components:**

- (a) Identification of principal competitors
- (b) Analysis of their performance and programmes in major areas, such as market penetration, product life-cycle, product mix, distribution channels and sales organisation, servicing, credit and delivery, advertising and promotion, pricing and branding, labour unions, training of personnel, technological development, productivity and efficiency in manufacturing, financial strength, profitability and rate of return on sales and investment
- (c) Anti-monopoly laws and rules of competition
- (d) (d) Protection of patents, trade marks, brand names and other industrial property rights

### **4. Social and cultural components:**

- (a) Literacy levels of population
- (b) Religious and social characteristics
- (c) Extent and rate of urbanisation
- (d) Rate of social change

## Attributes of External Environment

1. **Turbulence**, i.e. marked by unpredictable changes and contradictory, unreliable information. The opposite of a turbulent environment is a stable environment.
2. **Hostile**, i.e. marked by risk, stress and frustration, arbitrary and harsh laws, severe price competition, threats of nationalisation, etc. The opposite of a hostile environment is a benign environment.
3. **Diverse**, i.e.. marked by a clientele with variegated needs. For example, the clientele of a departmental store has variegated needs but it is not so in the case of customers of car dealers.
4. **Restrictive**, i.e. marked by many legal, political, economic and cultural restraints.
5. **Technically complex**, i.e. marked by the requirement of a high order of technical expertise in management.

## Corporate Appraisal

- This involves an analysis of the company's strengths and weaknesses.
- A company's strengths may lie in its outstanding leadership, excellent product design, low-cost manufacturing skill, efficient distribution, efficient customer service, personal relationship with customers, efficient transportation and logistics, effective sales promotion, ability to influence legislation, outstanding research, advertising, and so on.
- Any of these strengths that represent unique skills or resources that can determine the company's competitive edge are called its *core competency*.

# Operational Plans

- These plans act as means of implementing the organisation's strategy.
- They provide the details of how the strategy will be accomplished.
- There are two main types of operational plans: **standing plans** and **single-use plans**.

## Standing plans:

- These plans are designed for situations that recur often enough to justify a standardised approach.
- For ex-ample, it would be inefficient for a bank to develop a new plan for processing a loan application of each new client. Instead, it uses one standing plan that anticipates in advance whether to approve or turn down any request based on the information furnished, credit rating and the like.

The major types of standing plans are **policies, procedures, methods** and **rules**.

## **Policies**

- A policy is a general guideline for decision-making. It sets up boundaries around decisions, including those that can be made and shutting out those that cannot.
- In the words of George R. Terry, "policy is a verbal, written or implied overall guide, setting up boundaries that supply the general limits and direction in which managerial action will take place."
- Although, policies deal with "how to do" the work, they do not dictate terms to subordinates.
- It should be noted that both policies and objectives guide thinking and action, but with difference.
- Objectives are end points of planning while policies channelise decisions to these ends.

The **advantages of policies** are as follows:

1. Policies ensure uniformity of action in respect of various matters at various organisational points. This makes actions more predictable.
2. Policies speed up decisions at lower levels because subordinates need not consult their superiors frequently.
3. Policies make it easier for the superior to delegate more and more authority to his subordinates without being unduly concerned because he knows that whatever decision the subordinates make will be within the boundaries of the policies
4. Policies give a practical shape to the objectives by elaborating and directing the way in which the predetermined objectives are to be attained.

### **Disadvantages of Policies**

Policies with broad areas of discretion and initiative lead to inconsistent interpretations and make the very delegation of authority difficult which they are intended to implement.

## Types of Policies

Policies may be variously classified on the basis of **sources, functions** or **organisational level**.

1. **Classification on the basis of sources:** On this basis, policies may be divided into originated, appealed, implied and externally imposed policies.
  - a) **Originated policies:** These are policies which are usually established formally and deliberately by top managers for the purpose of guiding the actions of their subordinates and also their own.
  - b) **Appealed policies:** Appealed policies are those which arise from the appeal made by a subordinate to his superior regarding the manner of handling a given situation. When decisions are made by the superior on appeals made by the subordinates, they become precedents for future action.
  - c) **Implied policies:** There are also policies which are stated neither in writing nor verbally. Such policies are called implied policies. Only by watching the actual behaviour of the various superiors in specific situations can the presence of the implied policy be ascertained.
  - d) **Externally imposed policies:** Policies are sometimes imposed on the business by external agencies such as government, trade associations and trade unions.

## 2. Classification on the basis of functions

- On the basis of business functions, policies may be classified into production, sales, finance, personnel policies, etc.
- Everyone of these functions will have a number of policies.
- For example, the **sales function** may have policies relating to market, price, packaging, distribution channel, commission to middlemen, etc.;
- The **production function** may have policies relating to the method of production, output, inventory, research, etc.;
- The **financial function** may have policies relating to capital structure, working capital, internal financing, dividend payment, etc.;
- The **personnel function** may have policies relating to recruitment, training, working conditions, welfare activities, etc.

## 3. Classification on the basis of organisational level

On this basis, policies range from major company policies through major departmental policies to minor or derivative policies applicable to the smallest segment of the organisation.

# Guidelines for effective policy-making

The guidelines for making effective policies are as follows:

1. Policies should, as far as possible, be stated in writing and should be clearly understood by those who are supposed to implement them.
2. Policies should make their purpose clear, define the appropriate methods, action and responsibilities and delineate the limits of freedom of action permitted to those whose actions are to be guided by them.
3. To ensure successful implementation of policies, the top managers and the subordinates who are supposed to implement them must participate in their formulation.
4. A policy must strike a reasonable balance between stability and flexibility. Conditions change and policies must change accordingly. On the other hand, some degree of stability must also prevail if order and a sense of direction are to be achieved.

5. Different policies in the organisation should not pull in different directions and should support one another. They must be internally consistent.
6. Policies should not be detrimental to the interest of society
7. Policies must be comprehensive to cover as many contingencies as possible.
8. Policies should be periodically reviewed in order to see whether they are to be modified, changed, y completely abandoned and new ones put in their place.

## **Procedures:**

- Policies are carried out by means of more detailed guidelines called "procedures".
- A procedure provides a detailed set or instructions for performing a sequence of actions involved in doing a certain pieces of work.

For example, the procedure for purchasing raw material may be:

- (i) requisition from the storekeeper to the purchasing department;
- (ii) calling tenders for purchase of materials;
- (iii) placing orders with the suppliers who are selected;
- (iv) inspecting the materials purchased by the inspecting department; and
- (v) making payment to the supplier of materials by the accounts department.

Procedure for recruitment of personnel may be:

- (i) inviting applications through advertisement;
- (ii) screening the applications;
- (iii) conducting written test;
- (iv) conducting interview for those who have passed the written test; and
- (v) medical examination of those who are selected for the posts.

Difference between policy and procedure Various points of distinction between the two are as under:

1. Policies are general guides to both thinking and action of people at higher levels. Procedures are general guides to action only usually for people at lower levels.
2. Policies help in fulfilling the objectives of the enterprise. Procedures show us the way to implement policies.
3. Policies are generally broad and allow some latitude in decision making. Procedures are specific and do not allow latitude.
4. Policies are often established without any study or analysis. Procedures are always established after thorough study and analysis of work.

## **Advantages of procedures**

- First, they indicate a standard way of performing a task. This ensures a high level of uniformity of performance in the enterprise.
- Second, they facilitate executive control over performance. By laying down the sequence and timing of each task, executive's dependence on the personal attributes of his subordinates is reduced, supervision becomes more routine and discipline is externalised.
- Finally, they enable employees to improve their efficiency by providing them with knowledge about the entire range of work.

## **Limitations of procedures.**

- By prescribing one standard way of performing a task, they limit the scope for innovation or improvement of work performance.
- By cutting across department lines and extending into various other departments they sometimes result into so much duplication. overlapping and conflict that the actual work does not get done properly and resources are wasted.

# Methods

- A method is a prescribed way in which one step of a procedure is to be performed.
- The specified technique to be used in screening the applications or conducting a written test is a method, whereas the sequence of steps involved in the recruitment of personnel constitutes a procedure.
- The need for better and more economical methods of operation is great because of the pressure of competition in the markets for the products of the concern.
- Methods help in increasing the effectiveness and usefulness of the procedure.

# Rules

- Rules are detailed and recorded instructions that a specific action must or must not be performed in a given situation.
- A rule is different from a policy, procedure or method.
- It is not a policy because it does not give a guide to thinking and does not leave any discretion to the party involved.
- It is not a procedure because there is no time sequence to a particular action.
- It is not a method because it is not concerned with any one particular step of a procedure.

## Single-use Plans

- These plans, as their name suggests, are developed to achieve a specific end; when that end is achieved, the plan is dissolved.
- The major types of these plans are **programmes and budgets**.

### Programmes

- Programmes are precise plans which need to be made to discharge a non-routine and non-repetitive task.
- Thus, an enterprise may have a programme of opening five branches in different parts of the country or of deputing its employees for training or of acquiring a new line of business or installing new machines in the factory or of introducing a new product in the market.
- Often a single step in a programme is set up as a project.
- A schedule specifies the time when each of a series of actions should take place. Sometimes, scheduling may be restricted to nearby actions only and the timing of other actions may be held in abeyance until prospects become more certain.

## Budgets:

- According to the Institute of Costs and Works Accountants, London, a budget is "a financial and/or quantitative statement prepared prior to a definite period of time, of the policy to be pursued during that period, for the purpose of obtaining a given objective."
- It is clear from this definition that budgets are plans for a future period of time containing statements of expected results in numerical terms, i.e. rupees, man-hours, product-units, and so forth.
- The important budgets are sales budget, production budget, cash budget, and revenue and expense budget.
- Budgets are very useful for an enterprise. Being expressed in numerical terms, they facilitate comparison of actual results with the planned ones and thus, serve as a control device and yardstick for measuring performance.
- They also help in identifying and removing dead heads of expenditure.

# Business Plan

- It is an important document prepared by an entrepreneur as a start-up strategy to prove to private investors, customers, suppliers and distributors that he is in a position to articulate and manage the diverse aspects of his business.
- A good business plan must have the following characteristics:
  1. It must provide readers full information on all topics they may be interested in.
  2. It must have an objective tone i.e., not written like a glowing advertising copy.
  3. It must not be overcritical of past failures or mistakes, if any.
  4. It should not be full of technical details; these may be put in the appendix.

# STEPS IN PLANNING

The steps generally involved in planning are as follows.

1. Establishing Verifiable Goals or Set of Goals to be Achieved.
2. Establishing Planning Premises.
3. Deciding the planning Period
4. Finding Alternative courses of Action
5. Evaluating and Selecting a course of Action.
6. Developing Derivative Plans.
7. Establishing and Deploying Action plans
8. Measuring and controlling the Progress.

## **1. Establishing Verifiable Goals or Set of Goals to be Achieved**

- The first step in planning is to determine the enterprise objectives.
- These are most often set by upper level or top managers, usually after a number of possible objectives have been carefully considered.
- There are many types of objectives managers may select: a desired sales volume or growth rate, the development of a new product or service, or even a more abstract goal such as becoming more active in the community.

## **2. Establishing Planning Premises**

- Plans are made to operate in the future. Hence, the second step in planning is to establish planning premises, i.e., certain assumptions about the future on the basis of which the plan will be ultimately formulated.
- Planning premises are vital to the success of planning as they supply pertinent facts and information relating to the future such as population trends, the general economic conditions, production costs and prices, probable competitive behaviour, capital and material availability, governmental control, and so on.

These can be variously classified as under:

- (a) Internal and external premises
- (b) Tangible and intangible premises
- (c) Controllable and non-controllable premises

**a. Internal and external premises**

- Important internal premises include sales forecasts, policies and programmes of the organisation, capital investment in plant and equipment, competence of management, skill of the labour force, other resources and abilities of the organisation in the form of machines, money and methods, and beliefs, behaviour and values of the owners and employees of the organisation.
- External premises may be classified in three groups: business environment, factors which influence the demand for the products of the enterprise and the factors which affect the resources available to the enterprise.

## **b. Tangible and intangible premises**

- Tangible premises are those which can be quantitatively measured while intangible premises are those which being qualitative in character cannot be so measured.
- Population growth, industry demand, capital and resources invested in the organisation are all tangible premises whose quantitative measurement is possible.
- On the other hand, political stability, sociological factors, business and economic environment, attitudes, philosophies and behaviour of the owners of the organisation are all intangible premises whose quantitative measurement is not possible.

## **c. Controllable and non-controllable premises**

- Controllable factors are those which can be controlled and normally cannot upset well-thought out calculations of the organisation regarding the plan.
- Some of the examples of controllable factors are: the company's advertising policy, competence of management members, skill of the labour force, availability of resources in terms of capital and labour, attitude and behaviour of the owners of the organisation, etc.

- Because of the presence of uncontrollable factors, there is need for the organisation to revise the plans periodically in accordance with current developments.
- Some of the examples of uncontrollable factors are strikes, wars, natural calamities, emergency, legislation, etc.

### **3. Deciding the Planning Period**

- Once upper-level managers have selected the basic long-term goals and the planning premises, the next task is to decide the period of the plan.
- Other factors which influence the choice of a period are as follows:
  - (a) lead time in development and commercialisation of a new product;
  - (b) time required to recover capital investments or the pay-back period; and
  - (c) length of commitments already made.

### **a. Lead time in development and commercialisation of a new product**

For example, a heavy engineering company planning to start a new project should have a planning period of, say, five years with one or two years for conception, engineering and development and as many more years for production and sales.

### **b. Time required to recover capital investments or the pay-back period**

These are the number of years over which the investment outlay will be recovered or paid back from the cash inflow if the estimates turn out to be correct.

### **c. Length of commitments already made**

- The plan period should, as far as possible, be long enough to enable the fulfilment of commitments already made.
- For example, if a company has agreed to supply goods to the buyers for five years or has agreed to work out mines for ten years it need also plan for the same period to fulfil its commitments.

## **4. Finding Alternative Courses of Action**

- For instance, technical know-how may be secured by engaging a foreign technician or by training staff abroad.
- Similarly, products may be sold directly to the consumer by the company's salesmen or through exclusive agencies.

## **5. Evaluating and Selecting a Course of Action**

- To evaluate them in the light of the premises and goals and to select the best course or courses of action.
- This is done with the help of quantitative techniques and operations research. Note that substantial costs are involved in keeping two alternatives open.

## **6. Developing Derivative Plan**

- Once the plan for the organisation has been formulated, middle and lower-level managers must draw up the appropriate plans for their sub-units.
- These are the plans which are derived from the basic plan and not prepared independently.

## **7. Establishing and Deploying Action Plans**

- Managers possessing little understanding of how the organisation operates may not know how to turn the derivative plans into action.
- The action plan identifies particular activities necessary for this purpose and specifies the who, what, when, where and how of each action item.

## **8. Measuring and Controlling the Progress**

- The process of controlling is a critical part of any plan.
- Managers need to check the progress of their plans so that they can
  - (a) take whatever remedial action is necessary to make the plan work, or
  - (b) change the original plan if it is unrealistic.

# Steps of Strategic Planning Process

Following are the eight steps of the strategic planning process of a large organisation that engages in this through some of these steps and reduce their number.

**Step 1** Evaluate and improve last year's strategic plan process by building into it the deployment lessons learned during last year.

**Step 2** Reaffirm the organisation's vision, mission, values and objectives, which form the foundation for the strategic plan.

**Step 3** Review organisation's operational performance for the prior year to know its key strengths and weaknesses.

**Step 4** Evaluate the external environment to prepare for each environmental element (such as products, service, competitive advantage and marketing and technological approach) a list of potential opportunities and threats.

**Step 5** Conduct SWOT analysis based upon the issues identified in steps 1, 3 and 4 and forecast the results of continuing the existing strategy.

**Step 6** Identify, evaluate and select alternative approaches if a change in the existing strategy appears necessary.

**Step 7** Deploy the modified plan. Communicate it to all departmental heads and stakeholders for aligning their actions, measures and goals via derivative plans, programmes and budgets.

**Step 8** Provide for updates and tracking to be conducted throughout the year.

# Limitations Of Planning

A manager's plans are directed at achieving goals. But a planning effort encounters some limitations, which discussed below

1. Planning is an expensive and time-consuming process. It involves significant amounts of money, energy and also risk, without any assurance of the fulfilment of the organisation's objectives.
2. Planning sometimes restricts the organisation to the most rational and risk-free opportunities. Sometimes planning may cause delay in decision-making.
3. The scope of planning is said to be limited in the case of organisations with rapidly changing situations.
4. Establishment of advance plans tends to make administration inflexible.
5. There is the difficulty of formulating accurate premises. Since these premises are the background against which a set of plans is made, they necessarily deal with the future.
6. Planning may sometimes face people's resistance to it.

# Decision-Making

- Decision-making is an essential part of modern management.
- A manager's life is filled with a constant series of decisions-where to invest profits, what to do about an employee who is always late, where should the firm's new warehouse be built, what subject will have top priority at the departmental meeting.
- All major decisions, however, are taken very carefully and consciously. Such decisions usually involve the application of considerable human judgement and experience before a solution is obtained Decision-making is thus a key part of a manager's activities.
- In planning it is through the process of decision-making that objectives and policies are laid down and the manager decides many things such as what to produce, what to sell, where, when, how, and so on.

- In organising, decision-making relates to the choice of structure, nature and form of organisation, division of work, delegation of authority, fixing of responsibility and the like.
- In directing, decision-making relates to determining the course, deciding the orders and instructions to be given, providing dynamic leadership and similar other issues.
- In controlling, the decisions relate to the laying down of performance standards, strategic control points, procedure for control, and so on.

## MEANING OF A DECISION

A decision is a choice between two or more alternatives. This implies three things:

1. When managers make decisions they are choosing—they are deciding what to do on the basis of some conscious and deliberate logic or judgement.
2. Managers have alternatives available when they are making a decision. It does not require a wise manager to reach a decision when there are no other possible choices. It does require wisdom and experience to evaluate several alternatives and select the best
3. Managers have a purpose in mind when they make a decision. There would be no reason for carefully making a choice among alternatives, unless the decision brings them closer to some goal.

# Types of Decisions

- Programmed and Non-Programmed Decisions.
- Major and Minor Decisions
- Routine and Strategic Decisions
- Sequential and bear-by-the-Tail Decisions
- Individual and Group Decisions
- Simple and Complex Decisions
- Heuristics and Intuitive Decisions
- Rational Decisions

# 1. Programmed and Non-Programmed Decisions.

- Programmed decisions are those that are made in accordance with some policy, rule or procedure so that they do not have to be handled de novo each time they occur.
- These decisions are generally repetitive, routine and are obviously the easiest for managers to make.
- In the case of programmed decisions, since each manager is guided by the same set of rules and policies, it is not possible for two managers to reach different solutions to the same problem.
- Non-programmed decisions are novel and non-repetitive. If a problem has not arisen before or if there is no cut and dry method for handling it or if it deserves a custom-tailored treatment, it must be handled by a non-programmed decision.
- In the case of non-programmed decisions, since each manager may bring his own personal beliefs, attitudes and value judgements to bear on the decision process, it is possible for two managers to arrive at distinctly different solutions to the same problem, each claiming that he is acting rationally.

- The ability to make good non-programmed decisions helps to distinguish effective managers from ineffective managers.

## 2. Major and Minor Decisions

We can measure the relative significance of a decision in four ways:

1. **Degree of Futurity of Decision:** For how long into the future does a decision commit the company? A decision which has a long-range impact, like replacement of men by machinery or diversification of the existing product lines must be rated as a very major decision.
2. **Impact of the Decision on Other Functional Area:** If a decision affects only one function, it is a minor decision. Thus the decision to shift from bound ledger to loose leaf ledger may be made by the accountant himself since it affects no one except his department.

**3. Qualitative Factors that Enter the Decision:** A decision which involves certain subjective factors is an important decision. These subjective factors include basic principles of conduct, ethical values, social and political beliefs, etc

**4. Recurrence of Decisions:** Decisions which are rare and have no rules or precedents as guides may be regarded as major decisions and may have to be made at a high level.

### **3. Routine and Strategic Decisions**

- Routine, tactical or housekeeping decisions are those which are supportive of, rather than central to, the company's operations.
- They relate to the present. Their primary purpose is to achieve as high a degree of efficiency as possible in the company's ongoing activities.
- Provision for air conditioning, better lighting, parking facilities, cafeteria service, deputing employees to attend conferences, etc.. Are all routine decisions.

## 4. Sequential and bear-by-the-Tail Decisions

- In a sequential decision the manager makes a decision one part at a time; when the results of the first part are known, he can use them in deciding the second part; the results of the second part help in shaping his decision on the third part, and so on with each succeeding part.
- This form of decision is often used for executive promotions.
- Bear-by-the-tail decisions are like passing a car on a crowded two-lane highway where once we start we have to follow through.
- Sales promotion campaigns are common examples of this type of decision.

## 5. Individual and Group Decisions

- Decisions may be taken either by an individual or by a group.
- Individual decisions are taken where the problem is of a routine nature, where the analysis of variable is simple and where definite procedures to deal with the problem already exist.
- First important and strategic decisions which may result into some change in the organisation are generally taken by a group.
- Interdepartmental decisions are also taken by groups consisting of managers of the departments affected by the decision.
- Important price decisions are likely to be group decisions, in the making of which various individuals and departments participate.
- The *Dialectic method* is a time-honoured group decision-making method which calls for managers to foster a structured debate of opposing viewpoints prior to making a decision.

Some advantages of group decisions are:

1. **Increased acceptance by those affected:** Decisions made by a group help implement those decisions more readily where they have been consulted and a consensus arrived at.
2. **Easier coordination** Decisions made by groups reduce the amount of coordination necessary to bring the decision into play.
3. **Easier communication** Decisions made by groups reduce the amount of communication necessary to implement the decision.
4. **More information processed** Because many individuals are involved, more data and information can be brought to bear on the decision. This can help improve the quality of the decision and uncover obstacles in the way of its execution.
5. **Group cohesion** Friendship and mutual understanding tend to develop.

## Disadvantages of group decisions:

1. **Group decisions take longer** Groups take longer than individuals to make decisions.
2. **Groups can be indecisive** Groups can drag on and never take decisions because they can always blame other members of the group for lack of progress.
3. **Groups can compromise** This can lead to decisions that satisfy the "lowest common denominator".. It can lead to "group think or conformity to peer pressure and neglect of better solutions.
4. **Groups can be dominated** The highest status individual, if he chooses, can influence the group so that it notices his or her choices.
5. **Groups may have a prior commitment to a particular solution** This may be due to ties to persons outside the groups, "empire building" attempts, or belief that a decision will have sufficient personal impact.

## 6. Simple and Complex Decisions

- When variables to be considered for solving a problem are few, the decision is simple; when they are many, the decision is complex.
- When we combine these two types of decisions with the low or high certainty of their outcomes, we get four types of decisions:
  1. Decisions in which the problem is simple and the outcome has a high degree of certainty. These are called **mechanistic or routine decisions**.
  2. Decisions in which the problem is simple but the outcome has a low degree of certainty. These are called **judgemental decisions**. Many decisions in the area of marketing, investment and personnel are of this type.
  3. Decisions in which the problem is complex but the outcome has a high degree of certainty. These are called **analytical decisions**. Many decisions in the area of production are of this type.
  4. Decisions in which the problem is complex and the outcome has a low degree of certainty. These are called **adaptive decisions**. Changes in corporate plans and policies to meet the changes in environment and technology are decisions of this type.

## 7. Heuristics and Intuitive Decisions

- Heuristics are rules of thumb which organisations evolve from their experience for use in recurring decision situations.
- A common advertising heuristic is, "Cut down on advertising in a recession". In intuitive decisions, also known as "seat of the pants" decisions, the decision-maker relies on his intuition.

## 8. Rational Decisions

- A decision is rational if appropriate means are chosen to reach desired ends.
- Following are the **seven steps** involved in the process of rational decision-making:

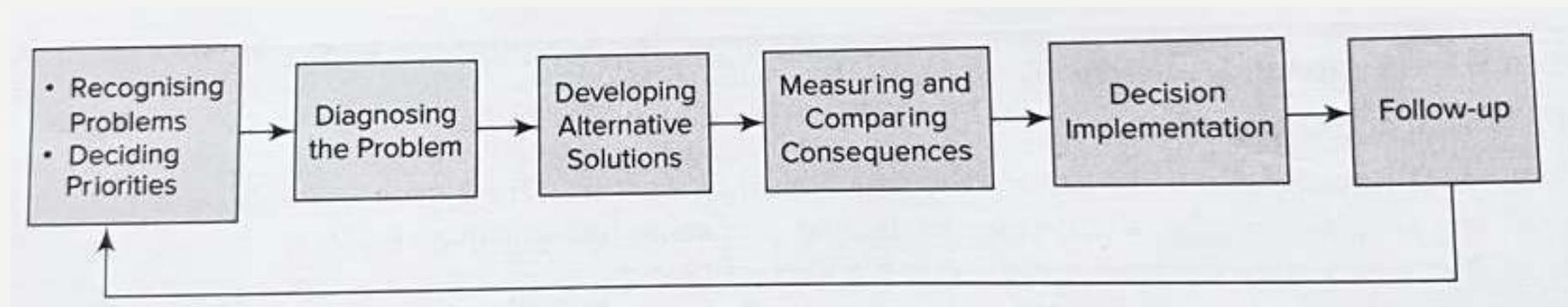


Figure: Flow Diagram of the rational decision-making process.

## **1. Recognising the Problem:**

First of all, it is necessary to search the environment for the existence of a problem. A problem exists if any of the following conditions do occur:

1. When there is a deviation from past experience For example, this year's sales are falling behind last year's; expenses have suddenly increased; employees' turnover has grown; too many defective products are suddenly coming off the assembly line.
2. When there is a deviation from the plan For example, profit levels are lower than anticipated; a department is exceeding its budget; a project is off schedule.
3. When other people bring problems to the manager For example, customers may complain about late deliveries, a lower level manager may complain about the high performance standard set for him, workers may complain about poor working conditions, and so on.
4. When competitors outperform the manager's organisation For example, other companies might develop new processes or improvements in operating procedures.

## **2. Deciding Priorities among Problems**

- A manager should not allow himself to be bogged down by all sorts of problems.
- He should set a sequence for them on the basis of strategic considerations.
- On examination he will find that some of his problems are such which can be solved best not by him but by his subordinates because they are closest to them.

## **3. Diagnosing the Problem**

- In business, in order to distinguish between symptoms and sources of trouble, every problem should be correctly diagnosed.

## **4. Developing Alternative Solutions or Courses of Action:**

- After having diagnosed the problem, the next step is to develop alternative solutions.
- Generally, for every problem there are alternative solutions. In fact, if there seems to be only one way of doing a thing, that way is probably wrong.
- In other words, in every course of action alternatives exist.

## 5. Measuring and Comparing the Consequences of Alternative Solutions.

- Once appropriate alternative solutions have been developed, the next step in decision-making is to measure and compare their consequences.
- This involves a comparison of the quality and acceptability of various solutions.
- The quality of a solution must be determined after taking into account its tangible and intangible consequences.
- Acceptability of a solution is also very important. Difficulties generally arise when a solution, though good in quality is poor in acceptability or vice versa.
- In situations where enough information is not available about the quality or acceptability of a solution, is advisable to experiment with it on a small scale. This is called *pilor-testing*.

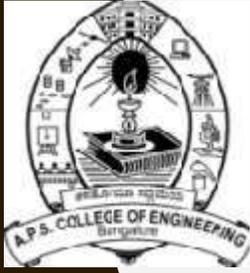
## 6. Converting the Decision into Effective Action:

- The next step is to translate the decision into action. A decision is not complete until someone has been assigned responsibility to carry it out.
- This requires the communication of decision to the employees in clear and unambiguous terms.

## 7. Follow-up of Action

- In the final step, the action should be continuously followed up, to ensure whether the decision is achieving its desired purpose and whether the forecasts and assumptions upon which the decision was based are still valid.
- Herbert A. Simon 'compresses the above steps into four principal stages:
- *intelligence*-searching the environment for conditions calling for decisions;
- *design*-inventing, developing, and analysing possible courses of action;
- *choice*-selecting a particular course of action from the available alternatives;
- *review*-assessing past choices.

Thank You



# **APS College of Engineering,**

**(Affiliated to Visvesvaraya Technological University and Approved by AICTE, NAAC Accredited)**

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**Department of Electronics and Communication Engineering**

**Subject Name: Technological Innovation Management and Entrepreneurship**

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**Module-2**

**Faculty Name: Dr. Naik D C**  
**Assistant Professor,**  
**Dept., of ECE.**

# Module-2

- **Organizing and Staffing:** Organization-Meaning, Characteristics, Process of Organizing, Principles of Organizing, Span of Management (meaning and importance only), Departmentalization-Process Departmentalization, Purpose Departmentalization ,Committees—Meaning, Types of Committees.
- **Staffing-**Need and Importance, Recruitment and Selection Process.
- **Directing and Controlling:** Meaning and Requirements of Effective Direction, Giving Orders; Motivation-Nature of Motivation, Motivation Theories (Maslow's Need-Hierarchy Theory and Herzberg's Two Factor Theory); Communication – Meaning, Importance and Purposes of Communication (Text 1).

# Organizing

- Organizing is the grouping of activities necessary to attain objectives, the assignment of each grouping to a manager with authority necessary to supervise it.
- Its provision for coordination horizontally and vertically in the enterprise structure.
- An organization should be designed to clarify who is to do what and who is responsible for what results, to remove obstacles to the performance caused by confusion and uncertainty of assignment.
- Organization provides the structure, the frame on which the management of the enterprise is based.
- It can also be defined as “a vehicle moving the management efforts through the management team, with the help of the enterprise resources, to the accomplishment of the goals or plans.”

# Purpose of an organization

The basic purpose of having organization is to formulate a frame or structure of an enterprise with a view to fulfil the enterprise tasks.

1. Establishes the pattern of relationship by giving duties and responsibilities to an individual or group.
2. Demonstrates the authority, responsibility and duties of each individual or group.
3. It tells each manager where his accountability lies and, who (below him) are in his sphere of command.
4. Provides adequate communication
5. Coordinates or integrates (through organization charts) and controls the activities of individuals or groups to achieve common objectives or objectives of the enterprise.

# Characteristics of an Organisation

An attempt to synthesize some important definitions indicates that every organisation has:

1. a purpose, goal or goals are the task of planning,
2. a clear concept of the major duties or activities required to achieve the purpose,
3. classification of activities into jobs, and
4. establishment of relationships between these jobs in order to ensure coordination. This is achieved through division of labour and delegation of authority.

A group of organisations sharing a common profile of characteristics is called an **organisational configuration**.

# Typology of Organisations

- To the untrained eye, all organisations appear alike. But this is not so. Every organisation has certain unique combination of the above characteristics which distinguish it from all other organisations.
- Blau and Scott group organisations into four categories
  1. **Organisations which benefit their owners.** All business and industrial organisations fall in this category. Achievement is their dominant motive.
  2. **Organisations which benefit their members.** A wide class of unions, cooperatives and clubs come under this category. Affiliation is their dominant motive.
  3. **Organisations which benefit their clients.** Examples are insurance companies, private schools, etc. Extension is their dominant motive.
  4. **Organisations which benefit the whole society** (commonweal organisations) such as governmental departments, the armed services and the police. Control is their dominant motive. Different motives account for different types of organisational culture.

# PROCESS OF ORGANISING

- Organising means designing the organisation structure. In performing the organising function, the manager differentiates and integrates the activities of his organisation.
  - By differentiation is meant the process of de-departmentalisation or segmentation of activities on the basis of some homogeneity.
  - Integration is the process of achieving unity of effort among the various departments.
  - We can describe this differentiation and integration in terms of a seven-step procedure.
1. Consideration of Objectives
  2. Deciding Organisational Boundaries
  3. Grouping Similar Activities into Positions and Department
  4. Inter-departmental Relations Assessment and Key Department Identification
  5. Determining Levels for Various Types of Decisions
  6. Span of Control Determination
  7. Making Arrangements for Coordination

## **1. Consideration of Objectives:**

- Objectives determine the various activities which need to be performed and the type of organisation which needs to be built for this purpose.
- Thus, the organisation of an enterprise that intends to diversify its products or to expand into other regions of the country can never be the same as that of the enterprise that intends to confine its operations to a single territory or to manufacture a single product.

## **2. Deciding Organisational Boundaries:**

- This means making manufacture-versus-buy choices for different goods and services and choices about strategic alliances with other firms.
- Also choices have to be made about the extent to which the different parts of the organisation interact directly with the outside environment.
- Overall, these choices define the boundaries of the organisation and how it interacts with its environment.

### **3. Grouping Similar Activities into Positions and Department**

- The next step is to group all closely related and similar activities into departments and sections.
- For example activities of a manufacturing concern may be grouped into such departments as production, marketing, financing and personnel.

### **4. Inter-departmental Relations Assessment and Key Department Identification**

- The next step is an analysis of the contributions which each department makes downward, upward and sideways to decide its relative status.
- It is necessary to know key departments, i.e., those which are rendering key activities, essential for the fulfilment of goals.

## **5. Determining Levels for Various Types of Decisions**

- After deciding the relative importance of various departments, the levels at which various major and minor decisions are to be made must be determined.
- Each firm must decide for itself as to how much decentralisation of authority and responsibility it wants to have.

## **6. Span of Control Determination**

- The next step to be taken in designing a structure is to determine the number of subordinates who should report directly to each executive.
- The narrower the span, the taller would be the structure with several levels of management.

## **7. Making Arrangements for Coordination**

- A direct consequence of departmentalisation is the need to coordinate the independent activities of the members of the organisations.

# PRINCIPLES OF ORGANISING

1. Objectives
2. Specialisation
3. Span of Control
4. Management by Exception Principle
5. Scalar Principle
6. Unity of Command
7. Delegation
8. Responsibility
9. Authority
10. Efficiency
11. Simplicity
12. Flexibility
13. Balance
14. Unity of Direction
15. Personal Ability
16. Acceptability

**1. Objectives:** The objectives of the enterprise influence the organisation structure and hence the objectives of the enterprise should first be clearly defined. Then every part of the organisation should be geared to the achievement of these objectives.

**2. Specialisation:** Effective organisation must promote specialisation. The activities of the enterprise should be grouped according to functions and assigned to persons according to their specialisation.

**3. Span of Control :** As there is a limit to the number of persons that can be supervised effectively by one boss, the span of control should be as far as possible, the minimum. That means, an executive should be asked to supervise a reasonable number of subordinates only say six.

#### **4. Management by Exception Principle**

- As the executives at the higher levels have limited time, only exceptionally complex problems should be referred to them and routine matters should be dealt with by the subordinates at lower levels.

**5. Scalar Principle:** This principle is sometimes known as the "chain of command".

- The line of authority from the chief executive at the top to the first-line supervisor at the bottom must be clearly defined.
- The principle simply states that an organisation is a hierarchy.
- The importance and usefulness of the principle is evident whenever the line is severed.

**6. Unity of Command:** Each subordinate should have only one superior whose command he has to obey.

- Multiple subordination must be avoided, for it causes uneasiness, disorder, indiscipline and undermining of authority.

**7. Delegation:** Proper authority should be delegated at the lower levels of organisation also. The authority delegated should be equal to responsibility, i.e. each manager should have enough authority to accomplish the task assigned to him.

**8. Responsibility:** The superior should be held responsible for the acts of his subordinates. No superior should be allowed to avoid responsibility by delegating authority to his subordinates.

**9. Authority:** The authority is the tool by which a manager is able to accomplish the desired objective. Hence, the authority of each manager must be clearly defined. Further, the authority should be equal to responsibility.

**10. Efficiency:** The organisation structure should enable the enterprise to function efficiently and accomplish its objectives with the lowest possible cost.

**11. Simplicity:** The organisation structure should be as simple as possible and the organisation levels should, as far possible, be minimum.

**12. Flexibility:** The organisation should be adaptable to changing circumstances and permit corrections of demonstrated deficiencies in the existing structure without dislocation and disruption of the basic design.

**13. Balance:** There should be a reasonable balance in the size of various departments, between centralisation and decentralisation, between the principle of span of control and the short chain of command, and among all types of factors such as human, technical and financial.

**14. Unity of Direction:** There should be one objective and one plan for a group of activities having the same objective. Unity of direction facilitates unification and coordination of activities at various levels.

**15. Personal Ability:** As people constitute an organisation, there is need for proper selection, placement and training of staff. Further, the organisation structure must ensure optimum use of human resources and must make possible the training and testing of tomorrow's top managers.

**16. Acceptability:** The structure of the organisation should be acceptable to the people who constitute it. Two things generally happen if people oppose the structure: it is modified gradually by the people, or it is used ineffectively.

# SPAN OF MANAGEMENT

## Meaning and Importance

- The term "span of management" is also referred to as span of control, span of supervision, span of authority or span of responsibility. It indicates the number of subordinates who report directly to a manager.
- Determination of an appropriate span of management is important for two reasons.
- First, span of management affects the efficient utilisation of managers and the effective performance of their subordinates.
- Second, there is a relationship between span of management and organisation structure. A narrow span of management results in a "tall" organisation with many levels of supervision between top management and the lowest organisational levels.

# DEPARTMENTALISATION OR THE SUPERSTRUCTURE OF AN ORGANISATION

- The horizontal differentiation of tasks or activities into discrete segments is called departmentalisation.
- The superstructure of an organisation is one important step of building an organisation.
- The aim is to take advantage of the division of labour and specialisation up to a certain limit.
- There are several bases for departmentalisation, each of which is suitable for particular corporate sizes, strategies and purposes.
- Most bases conveniently fall into one of two categories which March and Simes refer to as process departmentalisation and purpose departmentalisation.

# PROCESS DEPARTMENTALISATION

There are two widely used and internally oriented arrangements for dividing work by process

## **Business or Organisational Functions**

- Departmentalisation is here done on the basis of a thorough and careful activities of function analysis.
- Each major activity or function of the enterprise is grouped into a department.
- For example, there may be production, finance and marketing departments in a manufacturing company or underwriting and claims departments in an insurance company or design department in a women's dress industry or forest management in paper manufacturing industry.

## Advantages

1. It is a simple form of grouping activities for small organisations which manufacture only a single or a limited number of closely related products or render only a limited number of services. Everybody in this form of organisation understands his own task and feels highly secure both in his work and in his relationships.
2. It promotes excellence in performance because of development of expertise in only a narrow range of skills.
3. It promotes economies of scale. Producing all products in a single plant, for instance, enables the organisation to acquire the latest and most scale intensive machinery. Constructing only one facility instead of a separate facility for each product line reduces duplication and waste.

## Drawbacks

1. It sometimes combines dissimilar jobs in single departments creating an under-organised enterprise with too many committees to make decisions.
2. Each manager thinks only in terms of his own departmental goals and does not think in terms of the company as a whole.
3. It does not offer a good training ground for the overall development of a manager. The manager gains expertise in handling problems of his particular department only. Careers are normally defined on the basis of experience within the function.
4. It does not offer a good training ground for the overall development of a manager. The manager gains expertise in handling problems of his particular department only. Careers are normally defined on the basis of experience within the function.

5. It is unsuitable for organisations which are large in size or complexity or work under uncertain environment.
6. In this form procedures are overly complicated, wasteful and time-consuming—a weakness sometimes called "organisational arthritis". The structure is rigid and resists adaptation.
7. In this form because of "common pot" accounting it is difficult to judge whether the activities of a particular department are worth their cost.

## Technology

- Departmentalisation is here done on the basis of several discrete stages in the process or technologies involved in the manufacture of a product.
- Thus a concern engaged in the production of vegetable oil may have separate departments for crushing, refining and finishing.
- Similarly, a cotton textile mill may have separate departments for ginning, spinning, weaving, dyeing and printing, and packing and sales.
- Whenever work that would otherwise be done in several different locations in an enterprise is done in one place because of the special equipment used, departmentalisation by process is involved.

## Advantages

1. It facilitates the use of heavy and costly equipment in an efficient manner. There is very little chance for the equipment remaining idle or under-utilised because there is no duplication of the same.
2. It follows the principle of specialisation each department is engaged in doing a special type of work. This increases efficiency of people in their particular phase of business.
3. It is suitable for organisations which are engaged in the manufacture of those products which involve a number of processes.

## Drawbacks

1. In technology departmentalisation workers tend to feel less responsible for the whole product.
2. It does not provide good training ground and opportunity for the overall development of managerial talent.
3. When the technology is sequential, a breakdown in one department slows the work of all other departments, the dependent departments generally become hostile to other departments, and they express their resentment either by complaining directly about other departments or by passing on inferior work to their successive departments.
4. It is difficult to compare the performance of different technology-based departments, except in some notional way.
5. Scheduling the movement of work from department to department on each other becomes somewhat complex.

# PURPOSE DEPARTMENTALISATION

Depending upon the purpose of activity the departmentalisation is done.

- a) **Product based:** departmentalisation is used when each product in an enterprise requires separate raw materials, technology, marketing, etc. Each department is handling separate product line.
- b) **Customer based:** departmentalisation is used when the enterprise is serving, different types of customers.
- c) **Territory based:** departmentalisation is used when the departments are formed on the basis of geographical regions.
- d) **Division based:** departmentalisation is used when each grouping is having an autonomy in regard to its product line and functional operations.
- e) **Time based:** departmentalisation is done on the basis of timing of performance of the activities. It is mostly used in production function of the enterprise.
- f) **Combined base:** is used in many organisations at different levels of organisation. For instance, in some organisations at the top level - product base; at the middle level - territory base; and at the lower level - function base is used.

## **a. Product Based**

- Under this method, for each major product, a separate self-contained department is created and is put under the charge of a manager who may also be made responsible for producing a profit of a given magnitude.
- Product departmentalisation is the logical pattern to follow when each product requires raw materials, manufacturing technology, and marketing methods that are markedly different from those used by other products in the organisation.

### **Advantages**

- This form leads to continuous and undivided attention to the product.
- This form enables top management to compare the performance of different products and invest more resources in profitable products and withdraw resources from unprofitable ones.
- In this form, since the responsibility for each product's performance is entrusted to a particular departmental head, he is better motivated for improving his performance.
- In his form, the department's work is more clearly evaluated since it does not get lost in the activities of other departments.

## **Drawbacks**

1. There is duplication of staff and facilities. Extra expenditure is incurred in maintaining a sales force for each product line. Employment of a large number of managerial personnel is required. Equipment in each product department may not be used fully.
2. The department may drift away from overall organisational goal.

## **b. Customers**

- An enterprise may be divided into a number of departments on the basis of the customers that it services.
- One big advantage of this form is that it ensures full attention to major customer groups which have a very different set of criteria governing their decisions to purchase

- A big automobile servicing enterprise may have separate departments for servicing cars, heavy vehicles and scooters.
- Educational institution may have separate departments for day, evening and correspondence courses to impart education to full-time students, locally employed students and outstation students, respectively.

**Disadvantages of this form are that**

- i. it may result in under-utilisation of resources and facilities in some departments; and
- ii. there may be duplication of facilities.

### **c. Regions, Territory or Location**

- When several production or marketing units of an organisation are geographically dispersed in various locations, it is logical to departmentalise those units on a geographical basis.

- A hotel chain, for example, might decide to establish geographical divisions and make one officer responsible for the operation of all the hotels within his division.
- The Indian Railways are departmentalised on this basis. Northern Railways, Western Railways, Southern Railways, Eastern Railways, Central Railways, etc., are departments in this sense.

## **Advantages**

1. It motivates each regional head to achieve high performance.
2. It provides each regional head an opportunity to adapt to his local situation and customer need with speed and accuracy.
3. It affords valuable top-management training and experience to middle-level executives.
4. It enables the organisation to take advantage of locational factors, such as availability of raw materials, labour, market, etc.
5. It enables the organisation to compare regional performances and invest more resources in profitable regions and withdraw resources from unprofitable ones.

## **Drawbacks**

1. It gives rise to duplication of various activities. Many routine and service functions performed by all the regional units can be performed centrally by the head office very economically.
2. Various regional units may become so engrossed in short-run competition among themselves that they may forget the overall interest of the total organisation.

## **d. Division (Free-form Organisation)**

- It should be remembered that when large, multi-product companies segment themselves into several independent profit centres on the basis of product, territory or customers, these units are called divisions or free-form organisations.
- Since each division is much smaller than the whole company, the problems created by functionalisation are only reduced to a more manageable size but they are not completely eliminated because individual divisions themselves have functional structures.

## **e. Time**

- In departmentalisation by time, activities are grouped on the basis of timing of their performance.
- For example, as a small machine shop grows in size, its owner has the choice of either adding extra shifts or renting two more shops.
- Generally, departmentalisation by time is found in the production function of the enterprise.

## **f. Combined Base**

- The different bases of departmentalisation we have discussed suggest possibilities for dealing with specific problems.

## Advantages

1. Combination of all necessary inputs at one place reduces problems of communication and coordination.
2. Flexibility in organising resources around the priorities of individual customers creates the ability to innovate around specific customer needs.
3. Stress on optimisation of the total project eliminates chances of suboptimisation of goals. The success of a project is frequently measured by a company's ability to complete it on time and within budget..
4. Assignment of specific jobs to employees makes passing of buck difficult.
5. Change of projects promotes the intellectual growth and development of employees.
6. Team members have a functional home when they are not needed on a project.

## Drawbacks

It lowers members' loyalty to the project because of the following factors!

- Some highly professional employees who prefer to be associated with their technical peers do not want to work on multidisciplinary projects.
- They have no other motivation besides the pay cheque.
- They are often worried about loss of employment when the project ends or getting another project involving work at a lower level or not returning to the old job with the parent department.
- They fear becoming professionally obsolete if they go on repeating the same task over a period of time without keeping up with technological advances.

Following are some suggestions for removing the above drawbacks:

1. There should be a challenging career system that gives strong support and recognition to professional advancement.
2. There must be a provision for a dual promotional hierarchy with suitable job titles.
3. There should be highly competitive salary scales and some system of reward within the project.
4. There should be a performance appraisal system different from the one which is common in classical organisations.
5. Employees should be trained in interpersonal skills and should be inspired by a shared vision of the project's purpose and goals.

# COMMITTEES

- A committee is a group of people who have been formally assigned some task or some problem for their decision and/or implementation.
- Committees are often set up for group participation when we have:
  - i. a recurring problem which the same group of people should confer about at regular intervals; or
  - ii. a major problem that can be resolved only after a series of discussions with a group whose work is closely interrelated. For most other situations which may be essentially individual functions.
- Committees can be broadly classified into *advisory committees* and *executive committees*.
- Whenever committees are vested with staff authority they are known as *advisory committees*.
- Some of the usual advisory committees formed in business enterprises are: works committees, sales committees, finance committees, etc.

- The Board of Directors of a company is an example of an executive committee.
- Committees may also be classified as standing committees and ad hoc task forces.
- Standing or permanent committees are formed to deal with recurrent organisational problems. Typical standing committees may be the finance committee in a company, or the loan approval committee in a bank, or the admission committee in a college.
- Ad hoc task forces, as their very name suggests, have a short duration. They are dissolved after the task is over, or the problem is solved. The members are chosen for their skills and experience.

## Advantages

1. Where committees consist of all departmental heads as members, people get an opportunity to better understand each other's problems and to move towards organisational goals.
2. Committees provide a forum for the pooling of knowledge and experience of many persons of different skills, ages and backgrounds.
3. Committees provide an opportunity to many persons to participate in the decision-making process. As the members of a committee participate in discussions and decisions, they also take interest in implementing their decisions.
4. Committees are excellent means of transmitting information and ideas, both upward and downward.
5. By exposing members to different viewpoints, committees contribute indirectly to their training and development.
6. Committees are impersonal in action and hence their decisions are generally unbiased and are based on facts. There is no fear of a single individual taking a biased decision.

## Weaknesses

1. It is said that committees keep minutes and waste hours. One of the best administrative procedures to delay action is to say, "Let us set up a committee to study this matter." Almost without exception it takes longer to get action from a committee than from an individual manager.
2. In case a wrong decision is taken by a committee, no member can be individually held responsible.
3. A huge amount is spent in convening meetings and giving allowances to the members. Hence, committees are an expensive form of administration.
4. Members of coordinating committees frequently regard themselves as appointed to protect the interest of their departments rather than to find the more appropriate solution to the problem in question.
5. Decisions are generally arrived at on the basis of some compromise among the members.
6. As committees consist of a large number of persons, it is difficult to maintain secrecy regarding the decisions taken at the committee meetings.

## Suggestions for Making Committees Effective

1. The number of members on a committee should not be very large.
2. A committee's authority should be carefully spelled out, and its activities correctly chosen and closely defined. The authority of each member should also fit the decision area.
3. The members of a committee should enjoy approximately equal formal status so that they interact with each other freely.
4. The members should give precedence to organisational interests over departmental interests and should be prepared in advance on issues to be discussed in the meeting.
5. The chairman of the committee should plan and conduct the meeting with firmness and fairness.
6. It is useful to take careful minutes of the meeting, circulate them in draft for correction and then have the final copy approved by the committee.
7. The work of the committee should be periodically reviewed to determine if it is working effectively, in terms of the purpose for which it was established, and whether that purpose is still valid.

# Staffing

- It is important to have a good organisation structure, but it is even more important to fill the jobs with the right people.
- A company may be successful with an organisation structure that is very far from the best, but it will never be able to get off the ground if the people who run it and those who do the actual work are incapable.
- Filling and keeping the positions provided for by the organisation structure filled with the right people is the staffing phase of the management function. It includes several sub-functions:
  1. **Recruitment**, or getting applicants for the jobs as they open up.
  2. **Selection** of the best qualified from those who seek the jobs.
  3. **Training** those who need further instructions to perform their work effectively or to qualify for promotions.
  4. **Performance appraisal**, since it serves as the basis for job change or promotion.
  5. **Administration of compensation plans**, since it is an important factor in both getting and holding qualified people.

# Importance And Need For Proper Staffing

- A business cannot be successful for any length of time unless it is capable of bringing in and developing the right kind of people.
- There are a number of advantages of proper and efficient staffing. These are as under
  1. It helps in discovering talented and competent workers and developing them to move up the corporate ladder
  2. It ensures greater production by putting the right man in the right job.
  3. It helps to avoid a sudden disruption of an enterprise's production run by indicating shortages of personnel, if any, in advance.
  4. It helps to prevent under-utilisation of personnel through overmanning and the resultant high labour cost and low profit margins.
  5. It provides information to management for the internal succession of managerial personnel in the event of an unanticipated turnover.

# RECRUITMENT

- Once the requirement of manpower is known, the process of recruitment starts.
- It can be defined as the process of identifying the sources for prospective candidates and to stimulate them to apply for the jobs.
- In other words, recruitment is the generating of applications or applicants for specific positions.
- The management should have a proper plan of recruitment regarding the quantity and quality of personnel required and the time when it is needed.
- The process of recruitment and the cost involved in it depends on the size of the undertaking and the types of persons to be recruited.
- In the case of small concerns the process of recruitment is simple and inexpensive, while in the case of large concerns the process is complicated and expensive particularly if technical and managerial personnel are to be recruited.

# Sources of Recruitment

- The sources of recruitment can be broadly classified into two categories: internal and external.
- Internal sources refer to the present working force of a company. Vacancies other than at the lowest level may be filled by selecting individuals from amongst the existing employees of the company.
- Among the more commonly used external sources are the following:
  1. **Re-employing former employees:** Former employees who have been laid-off or have left for personal reasons may be re-employed. These people may require less initial training than that needed by total strangers to the enterprise.
  2. **Friends and relatives of present employees:** Some industries with a record of good personnel relations encourage their employees to recommend their friends and relatives for appointment in the concern where they are employed.

**3. Applicants at the gate:** Unemployed persons who call at the gates of the factories are interviewed by the factory representative and those who are found suitable for the existing vacancies are selected. This is an important source in countries where there is a lot of unemployment.

**4. College and technical institutions:** Many big companies remain in touch with the colleges and technical institutions from where young and talented persons may be recruited.

**5. Employment exchanges:** An employment exchange is an office set up by the government for bringing together those men who are in search of employment and those employers who are looking for men.

**6. Advertising the vacancy:** One more source that is tapped by the companies is advertising the vacancy in leading papers. This source may be used in case the company requires the services of persons possessing certain special skills or if there is an acute shortage of labour force.

**7. Labour unions** In companies with strong labour unions, persons are sometimes recommended for appointment by their labour unions. This may also be done in pursuance to an agreement between the union and the management.

# Evaluation of Alternative Sources

- A company cannot fill all its vacancies from one single source. It must carefully combine some of these sources, weighing their cost and flexibility, the quality of men they supply, and their effect on the present workforce.
- Following are some of the measures which can be used to assess how good or how poor various sources have proved to be:
  1. Time lag between requisition and placement.
  2. Recruitment ratio, that is, the number of persons actually hired, per 100 applicants.
  3. Employee attitude studies to discover the reactions of present employees to both external and internal recruiting.
  4. Correlation between different sources of recruitment and factors of success on the job.
  5. Data on turnover, grievances, and disciplinary action, tabulated according to different sources of recruitment to throw light on the relative merits of each source.
  6. Gross cost per hire. This is arrived at by dividing the total cost of recruitment by the number of individuals hired

# Internal vs External Sources of Recruitment

- From the point of view of its impact on motivation, recruitment from external sources is not desirable, particularly when an adequate number of qualified persons is already available inside the organisation.
- Similarly, if the management wants its workers to improve their prospects by participating effectively in the company's programmes and in the process of production, it is desirable to follow a policy of recruitment from within.
- On the other hand, when the internal candidates are too advanced in age, it may become imperative for the management to tap outside sources for recruitment.
- If the management feels that this originality and initiative can be had only by recruiting people from outside, it will naturally not like to recruit people from within.

# **Advantages and Disadvantages of Internal Recruitment**

**Some of the advantages of internal recruitment are as under:**

1. A sense of security develops among the employees.
2. Employees remain loyal to the organisation.
3. People recruited from within the organisation do not need induction training.
4. Labour turnover is reduced
5. Employees in the lower ranks are encouraged to look forward to rising to higher position in the concern.
6. People are motivated to become efficient.
7. Valuable contacts with major suppliers and customers remain intact.
8. A better employer-employee relationship is established.

## Disadvantages

The method of internal recruitment suffers from certain disadvantages. These are:

1. This method limits the choice of selection to the few candidates available within the enterprise.
2. It may encourage favouritism and nepotism.
3. It may lead to "inbreeding", resulting in promotion of people who have developed a respect for the tradition and who have no new ideas of their own. It is generally the new blood which brings in new ideas.
4. If a concern is extending its activities into new lines, internal candidates may prove unsuitable for new positions. This may involve extra expenditure in imparting necessary training to them.

# Advantages and Disadvantages of External Recruitment

**Advantages** Some of the advantages of making recruitment from outside sources are as follows:

1. Under this method, new blood brings with it a fresh outlook, originality and new ideas. Old habits are the concern becomes more dynamic.
2. The field of choice becomes very wide. Hence there is the possibility of selecting people with rich and varied experience.

**Disadvantages** This method also suffers from certain disadvantages.

1. If a concern makes recruitment from external sources, its employees generally feel frustrated and their morale is adversely affected.
2. The present employees may lose their sense of security and become disloyal to the employer.
3. There is a greater turnover of labour.
4. There is deterioration in the employer-employee relationship, resulting in industrial unrest, strikes and lock-outs.

# SELECTION

- Under recruitment the manager identifies the sources for prospective candidates and stimulates them to apply for various openings in his organisation, under selection he compares their qualifications with the requirements of a job and eliminates all those who do not stand up to this comparison.
- There are several advantages of a proper selection procedure. As the employees are placed in the jobs for which they are best suited, they derive maximum job satisfaction and reap maximum wages.
- The following is an example of a popular sequence of steps:
  1. Application blank
  2. . Initial interview of the candidate
  3. Employment tests
  4. Checking references
  5. Physical or medical examination
  6. Final interview

# 1. Application blank

- Filling of the "application blank" by the candidate is the first step in the process of selection. In this form, the applicant gives relevant personal data such as his qualification, specialisation, experience, firms in which he has worked, etc.
- The application blanks are carefully scrutinised by the company with reference to the specifications prescribed for the jobs to decide the applicants who are to be called for interview.

# 2. Initial interview

- Those who are selected for interview on the basis of particulars furnished in the application blank are called for initial interview by the company.
- This interview, according to Mandell is the most important means of evaluating the poise or appearance of the candidate.
- It is also used for establishing a friendly relationship between the candidate and the company and for obtaining additional information or clarification on the information already on the application blank.

### 3. Employment tests

- For further assessment of candidate's nature and abilities, some tests are used in the selection procedure.
- Psychologists and other experts have developed certain tests by which a candidate's particular traits or abilities, his likes and dislikes, his intelligence, manual dexterity, his capacity to learn and to benefit from training, his adaptability, etc. can be estimated.

There are several types of tests that are used in selection procedure. The more commonly used are:

**i) Aptitude test** This test measures the applicant's capacity to learn the skill required for a job. It helps in finding out whether a candidate is suitable for a clerical or a mechanical job.

- His test helps in assessing before training as to how well the candidate will perform on a job after he is given the necessary training.

**ii) Interest test:** This is used to find out the type of work in which the candidate has an interest.

- An interest test only indicates the interest of a candidate for a particular job.
- It does not reveal his ability to do it.

**iii) Intelligence test** This test is used to find out the candidate's intelligence. By using this test, the candidate's mental alertness, reasoning ability, power of understanding, etc. are judged.

**iv) Trade or performance or achievement or job-specific test** This test is used to measure the candidate's level of knowledge and skill in the particular job in which he will be appointed, in case he is finally selected. It may be of 3 types:

- (a) Performance work sample test
- (b) Written work sample test
- (c) In-basket test.

- In the **performance work sample test**, the candidate is asked to do a simple operation which is a part of, or similar to his proposed job.
- In the **written work sample test**, the candidate is required to give answers to various questions in writing.
- **In-basket test** is a type of simulation applicable to management performance. It consists of an assortment of items such as a manager might find in an in-basket- letters, reports, memoranda, notes and related materials.

v **Personality test** is used to measure those characteristics of a candidate which constitute his personality, e.g. self-confidence, temperament, initiative, judgement, dominance, integrity, original-ity, etc.

- Personality tests are very important in the selection process, particularly in the case of appointments to the posts of supervisors and higher executives.
- In a personality test, the candidate may be asked to answer a series of questions and from his response, his personality may be judged or in some special test situations, the candidate's reaction may be assessed, or the candidate may be asked to grade his own examination papers in order to know his honesty.

## 4. Checking references

- If the candidate has been found satisfactory at the interview and if his performance is good in employment or proficiency tests, the employer would like to get some important personal details about the candidate, such as his character, past history, background, etc. verified from the people mentioned in the application.
- For this purpose, the employer may also contact his friends residing in the locality where the candidate is residing or he may contact the present or former employers of the candidate.

## **5. Physical or medical examination**

Physical or medical examination is another step in the selection procedure. The objectives of this examination are:

- (i) to check the physical fitness of the applicant for the job applied for;
- (ii) to protect the company against the unwarranted claims for compensation under certain legislative enactments, such as Workmen's Compensation Act; and
- (iii) to prevent communicable diseases entering the business concern.

## **6. Final interview**

This interview is conducted for those who are ultimately selected for employment. In this interview, the selected candidates are given an idea about their future prospects within the organisation.

# Communication

- Communication has been variously defined by a number of writers. According to Newman and Summer, ' it is an exchange of facts, ideas, opinions or emotions by two or more persons.
- Simply stated, communication means the process of passing information and understanding from one person to another.
- In short, communication is not merely transmission of information from one person to another but also correct interpretation and understanding of the information.

# PURPOSES OF COMMUNICATION

- Communication is needed in the recruitment process to persuade potential employees of the merits of working for the enterprise. The recruits are told about the company's organisation structure, its policies and practices.
- Communication is needed in the area of orientation to make people acquainted with peers, superiors and with company's rules and regulations.
- Communication is needed to enable employees to perform their functions effectively.
- Communication is needed to acquaint the subordinates with the evaluation of their contribution to enterprise activity.
- Communication is needed to teach employees about personal safety on the job.
- Communication is of vital importance in projecting the image of an enterprise in the society.
- The amount of support which an enterprise receives from its social environment is affected by the information which elite groups and the wider public have acquired about its goals, activities and accomplishments.

- Communication helps the manager in his decision process.
- Communication helps in achieving coordination. In a large organisation, working on the basis of division of labour and specialisation, there is need for coordination among its component parts. This can be achieved only through communication.
- A good communication system is the basis of all interdependent activities which we find being carried out in different departments of an organisation.
- By providing information to each unit about the relevant activities of others, a good system of communication makes the interdependence of each unit acceptable to it.
- Communication is an effective way to build support for change. It alters employees' perception of the forces which surround them.
- Communication increases managerial efficiency. It is said that the world of modern management is the world of communication and the success of a manager in the performance of his duties depends on his ability to communicate.
- To provide the information and understanding necessary for group effort (i.e. the skill to work); and
- To provide the attitudes necessary for motivation, cooperation and job satisfaction (i.e. the will to work).

# FORMAL COMMUNICATION

- Much of the communication in an organisation is what we call formal communication. It flows in formally established channels and is concerned with work-related matters.
- All orders, instructions and decisions are communicated to the subordinates through this channel.
- Formal communications flow in four directions: downward, upward, laterally between departments and between the organisation and the external environment.

## Downward Communications

- Communications which flow from superiors to the subordinates are known as downward communications.
- These communications are the medium through which the superior:
  1. directs the efforts of his subordinates;
  2. communicates the rationale for the job;

3. defines the relation of the job with the goals of the organisation and of other sub-groups;

4. tells the subordinates what is expected of them, what resources are available, how well they are doing, etc.; and

5. administers reward and punishment.

- Besides the now universal application of communication technology such as e-mail, there can be several media of downward communication such as written orders, poster and bulletin boards, company periodicals and handbooks, information racks, loudspeakers, grapevine, annual reports, group meetings and the labour union.
- In Japan, the media extensively used for downward communication are KANBAN and Morning Meetings.
- Kanban means display of information through signboards, charts, graphs, etc.
- Morning meetings of workers are held before the start of the day's work and during tea-breaks generally for 5 to 10 minutes.

## **Upward Communications**

- Communications which flow from the subordinates to superiors are called upward communications.
- These communications generally act as a feedback.
- There can be several media of upward communication, such as face-to-face contacts, group meetings, grievance procedure, use of gripe boxes, opinion surveys, letter to the editor of the company's periodical, called "house organ", an open-door policy, exit interviews, e-mail, and so on.

## **Horizontal Communications**

- These are also known as lateral, interactive or cross-wise communications.
- The production foreman and the maintenance foreman communicate directly without going through their managers.

Important purposes of horizontal or interactive communications are as follows:

1. **Task coordination** The department heads may meet monthly to discuss how each department is contributing to achieve overall goals.
2. **Problem solving** The members of a department may assemble to discuss how they will handle a threatened budget cut; they may employ brainstorming techniques.
3. **Information sharing** The members of one department may meet the members of another department to give them some new data.
4. **Conflict resolution** The members of two departments may meet to discuss any conflict between them.

## **External Communications**

- These are proactive, consistent and ongoing communications with external agencies, like current and potential customers, government departments, competitors, trade unions, financial institutions, raw material suppliers, etc.
- These communications aim at building the company's image and influencing policies and decisions in company's favour.

## **FORMS OF COMMUNICATION**

Broadly speaking, there can be three forms of communication: oral, written and non-verbal.

### **Oral Communication**

In oral or verbal communication, information is given directly, either face to face or through a telephone or intercom system. Generally, in meetings, lectures, interviews, conferences, etc., the communication is oral.

Some of the merits of oral communication are:

- (a) It is a time and money saving device.
- (b) As there is an element of personal touch, it is comparatively more effective.
- (c) Doubts can be clarified on the spot and the communication can be understood easily.
- (d) Important points may be emphasised through body language.
- (e) The effects of communication can be easily measured.
- (f) It provides for greater flexibility.

Oral communication, however, suffers from certain limitations. These are:

- a) It is not useful where the parties are very far from each other, even beyond telephonic range.
- b) It is not suitable for lengthy communications.
- c) There is no permanent record of communication.
- d) It is especially affected by previous attitudes of the parties.
- e) If the communicator is poor in vocal expression, oral communications are likely to be misunderstood and misinterpreted

## Written Communication

Written communication, which is always in black and white can take the form of a report, statement, circular, note, manual, handbook, letter, memo, standard condensed language or company lingo, etc.

Some of the merits of written communication are as follows:

- (a) It is suitable for lengthy communications.
- (b) If the parties are far from each other, even beyond telephonic range, written communication is the only way out.
- (c) It can be kept as a permanent record and at times be referred to as evidence.
- (d) There are fewer chances of missing out a point.
- (e) Written communication serves as a solid base for taking action against a subordinate who disobeys it.

Some of the disadvantages of written communication are as follows:

- (a) There is a greater chance of the communication being misunderstood.
- (b) It is very time consuming.
- (c) There is no scope for face to face discussion.
- (d) It is difficult to maintain secrecy about the matter communicated.
- (e) It suffers from a lack of flexibility.
- (f) Poorly written messages followed by numerous clarifications both written and oral, may lead to a lot of confusion.

# Non-verbal Communication

- All of us constantly send clues about our feelings— not by what we say, but by what we do (both action and lack of action).
- Since we communicate by action and lack of action, we communicate all the time at work, Whether we intend to or not.
- Three important forms of non-verbal communication are body language (example facial expression, posture, gestures, etc.), time (example being late or early), and space (example, how close one gets during a conversation or seating arrangements in a committee meeting).
- Sometimes, the tone of voice (genuine or fake), laughing and yawning and environmental context, called paralanguage may also become the part of nonverbal communication.

## Directing and Controlling:

- The manager must stimulate action by giving direction to his subordinates through orders and also supervise their work to ensure that the plans and policies achieve the desired actions and results.
- It is also called management-in-action.
- Direction means issuance of orders and leading and motivating subordinates as they go about executing orders.
- Without the issuance of orders, without leading and motivating subordinates, nothing, or at best very little, can be accomplished.
- According to Haimann, "Directing consists of the process and techniques utilised in issuing instructions and making certain that operations are carried on as originally planned.
- According to Koontz and O'Donnell, "Direction is the interpersonal aspect of managing by which subordinates are led to understand and contribute effectively and efficiently to the attainment of enterprise objectives.

# REQUIREMENTS OF EFFECTIVE DIRECTION

Direction is one of the most complex functions of management which can be learned and perfected only through long experience.

## **a. Harmony of Objectives**

- An organisation functions best when the goals of its members are in complete harmony with and complementary to the goals of the organisation.
- But in directing subordinates he must take advantage of individual motives to gain group goals. In other words, he must direct the subordinates in such a way that they perceive their personal goals to be in harmony with enterprise objectives.
- Thus, for example, if employees are told to work hard so that the company's profits may increase, they probably will not. But if they are told to do so in their own interest (e.g., to receive additional bonus or promotion) they are more likely to work hard.

## **b. Unity of Command**

- This principle implies that the subordinates should receive orders and instructions from one superior only.
- The violation of this principle may lead to conflicting orders, divided loyalties and decreased personal responsibility for results.
- Another reason why this principle should not be violated is that the immediate boss is the only person who knows best about the nature of his subordinates and about their responses to different motivation techniques.

## **c. Direct Supervision**

- Every superior must maintain face-to-face direct contact with his subordinates.
- Direct supervision boosts the morale of employees, increases their loyalty and provides them with immediate feedback on how well they are doing.

#### **d. Efficient Communication**

- It is through communication that the superior gives orders, allocates jobs, explains duties and ensures performance.
- Efficient communication is a two-way process. It not only enables the superior to know how his subordinates feel but also helps the subordinates to know how the company feels on a number of issues concerning them.
- In communication, comprehension is more important than the content. How much information is correctly understood by the subordinates is more important than what is said and how it is said. This can be ensured only if the manager makes provision for a proper feedback.

#### **e. Follow-through**

- Direction is not only telling subordinates what they should do but also seeing that they do it in the desired way.
- The manager should, therefore, follow through the whole performance of his subordinates not merely to keep a check on their activities but to help them in their act, to show them where their deficiency, if any, lies and to revise their direction if it needs revision, and so on.

## GIVING ORDERS

- The order is a device employed by a line manager in directing his immediate subordinates to start an activity, stop it and modify it.
- To some men the matter of giving orders and having them obeyed seems a very simple affair but the fact is that it is surrounded by many difficulties.
- Mary Parker Follett lays down the following principles which should be followed in giving orders:
  1. The attitude necessary for the carrying out of an order should be prepared in advance. People will obey an order only if it appeals to their habit patterns. Therefore, before giving orders, it should be considered how to form the habits which will ensure their execution.
  2. Face-to-face suggestions are preferable to long-distance orders.
  3. An order should be depersonalised and made an integral part of a given situation so that the question of someone giving and someone receiving does not come up. Thus the task of the manager is to make the subordinates perceive the need of the hour so that the situation communicates its own message to them.

Chester Barnard lays down four conditions which make an order acceptable. These are:

1. Order should be clear and complete;
2. Order should be compatible with the purpose of the organisation;
3. Order should be compatible with the employee's personal interest; and
4. Order should be operationally feasible.

Orders may be communicated verbally or in writing. Written orders are appropriate when

1. the subject is important;
2. several individuals are affected;
3. many details are involved;
4. considerable time will pass before the work is completed; and
5. there is geographical distance between the order-giver and the recipient.

# MOTIVATION

- Technically, the term motivation can be traced to the Latin word movere, which means "to move". This meaning is evident when we remember that a manager gets work done through others.
- If there is any one key to "getting work done through others", it is his ability to move other people in the right direction day after day.
- Motivation, therefore, concerns those dynamic processes which produce a goal-directed behaviour.
- So, what controls human behaviour and gives direction to it is not the goal or the incentive but the need.
- We can show the motivation process by means of a diagram.

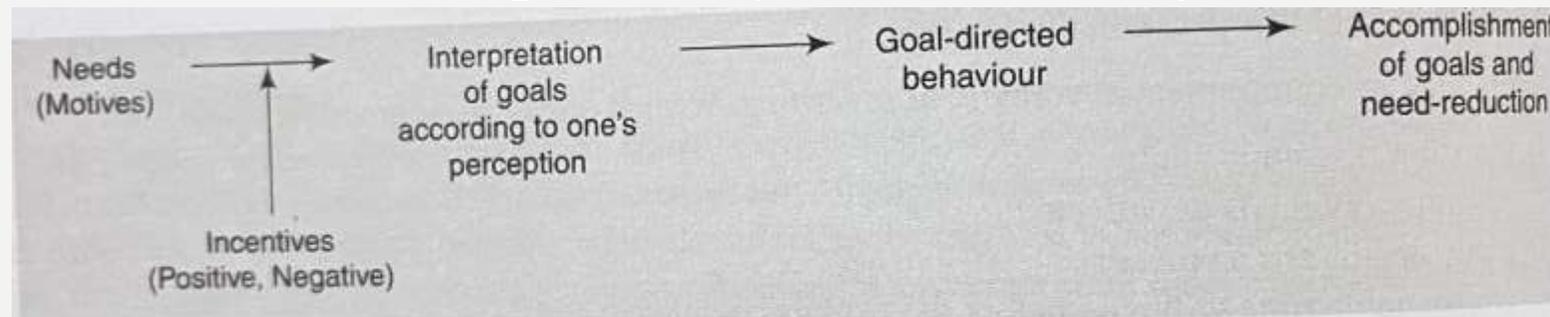


Figure: Motivation Process

## Nature of Motivation

- Motivation is not an easily observed phenomenon.
- We observe an individual's actions and then interpret his observed behaviour in terms of underlying motivation.

The following points reveal the complexities involved in understanding true motivation:

- 1. Individuals differ in their motives:** The viewpoint (called "monistic approach") that there is only one "economic drive" which determines behaviour is untenable.
- This means that there is no single motive that determines how all workers will react to the same job and, therefore, there can be no single strategy that will keep motivation and productivity high for everyone everywhere.
  - The manager has to deal with human diversity.

**2. Sometimes the individual himself is unaware of his motive:** Freud uncovered this phenomenon while analysing his critical patients.

**3. Motives change:** Hierarchy of motives of each individual called "structure" is not fixed. It changes from time to time. An individual's primary motive today may not be primary tomorrow, even though he may continue to behave in the same way.

**4. Motives are expressed differently:** The ways in which motives are eventually translated into actions also vary considerably between one individual and another.

- One individual with a strong security motive may play it safe and avoid accepting responsibility for fear of failing and being fired.
- Another individual with the same security motive may seek out responsibility for fear of being fired for low performance.

**5. Motives are complex** It is difficult to explain and predict the behaviour of workers.

- The introduction of an apparently favourable motivational device may not necessarily achieve the desired ends if it brings opposing motives into play.
- In a factory, when blue-green lighting was introduced to reduce eye strain, the output of men workers increased but that of women workers decreased.
- On investigation it was found that the latter disliked the change in lighting because they felt that the new type of lighting had made them look 'simply ghastly'

**6. Multiple motives make the choice of goals difficult for an individual:**

Motives do not exist one at a time. This is hardly the case. The fact is that multiple motives operate simultaneously to influence an individual's behaviour.

# Motivation Theories

There is no shortage of motivation theories. We can classify them under three broad heads:

1. **Content theories:** The content theories tell us what motivates an individual. They throw light on the various needs and incentives which cause behaviour.
  1. Maslow's Need Hierarchy Theory
  2. Alderfer's ERG Theory
  3. Herzberg's Two-Factor Theory
  4. McClelland's Achievement Theory
2. **Process theories:** The process theories, on the other hand, answer the question how behaviour is caused.
  1. Victor Vroom's Expectancy Theory
  2. Adam's Equity Theory
3. **Reinforcement theory:** Reinforcement theory explains the ways in which behaviour is learned, shaped or modified.
  1. Skinner's Behaviour Modification Theory.

# Maslow's Need-Hierarchy Theory

- All people have a variety of needs. At any given time, some of these needs are satisfied and others are unsatisfied.
- An unsatisfied need is the starting point in the motivation process.
- It begins the chain of events leading to behaviour. When a person has an unsatisfied need, he or she attempts to identify something that will satisfy the need. This is called a goal.
- Once a goal has been identified, the person takes action to reach that goal and thereby satisfy the need.
- According to A.H. Maslow, needs are arranged in a hierarchy or a ladder of five successive categories,
- **Physiological** needs are at the lowest level, followed by **security**, **social**, **esteem**, and **self-fulfilment** needs.

- **Physiological needs** are those which arise out of the basic physiology of life, for example, the need for food, water, air, etc. These needs must be at least partially satisfied for continued survival.
- **Security** needs are the needs to feel both economically secure and psychologically secure. The former include protection from arbitrary lay-off and dismissal, disaster, and avoidance of the unexpected.
- The latter relates to a man's confidence that he will be able to deal with the problems that might confront him in future.
- **Social** needs are needs to associate with other people and be accepted by them; to love and be loved.
- At base, they point to the fact that man finds a satisfaction in association with others and feels a real deprivation when it is not possible.
- **Egoistic or esteem** needs are those which relate to respect and prestige. A need for dominance may be thought of as one of the egoistic needs.
- These are of two types: self-esteem and esteem from others.

- **Self-fulfilment** needs are needs for realising one's potential.
- These include the need for realising one's capabilities to the fullest—for accomplishing what one is capable of accomplishing, for becoming what one is capable of becoming.
- A musician must make music, an artist must paint, a poet must write if he is to be ultimately happy.
- This need is also called need for self-realisation or self-actualisation.
- This term, first coined by **Kurt Goldstein**, refers to a person's motivation to transform his perception of self into reality.
- According to Maslow, people attempt to satisfy their physical needs first. As long as these needs are unsatisfied, they dominate behaviour. As they become reasonably satisfied, however, they lose their motivational power and the next level of needs, security needs, becomes the dominant motivational force.
- This process continues up the need hierarchy. As each level of needs becomes relatively satisfied, the next higher level becomes dominant.

# Herzberg's Two-Factor Theory

- In his original study also called the Pittsburgh studies, Herzberg and his associates interviewed 200 engineers and accountants.
- They asked them to think of times when they felt especially good and times when they felt especially bad about their jobs.
- The engineers and accountants were then asked to describe the factors that led to these particular feelings.
- When talking about especially bad times, the engineers and accountants brought up things like unfair company policies, poor relationship with their boss and co-workers, and low pay.
- In contrast, when asked about good job experiences, they generally did not mention these factors. Instead, they talked about recognition they had received for a well-done job, or the opportunity their jobs gave them for personal growth and development.

- According to Herzberg, the absence of certain job factors tends to make workers dissatisfied.
- However, the presence of these same factors in themselves does not produce high levels of motivation.
- They merely help avoid dissatisfaction and the problems it creates, such as absenteeism, turnover and grievances.
- Herzberg called these factors maintenance or hygiene factors since they are necessary to maintain a reasonable level of satisfaction to serve as a take-off point for motivation.

He concluded that there were ten **maintenance factors**, namely:

1. Fair company policies and administration
  2. A supervisor who knows the work
  3. A good relationship with one's supervisor
  4. A good relationship with one's peers.
  5. A good relationship with one's subordinates
  6. A fair salary
  7. Job security
  8. Personal life
  9. Good working conditions
  10. Status, i.e. relative ranking that a person holds in a group
- As the list indicates, the motivators are job-centred; they relate directly to the content of the job itself.

- To build high levels of motivation, a different set of factors is necessary.
- However, if these factors are not present, they do not in themselves lead to strong dissatisfaction.
- Herzberg called these the **motivators or satisfiers**. These are six in number:
  1. Opportunity to accomplish something significant
  2. Recognition for significant accomplishments
  3. Chance for advancement
  4. Opportunity to grow and develop on the job
  5. Chance for increased responsibility
  6. The job itself

In contrast, maintenance factors relate more to the conditions and environment in which the work is done.

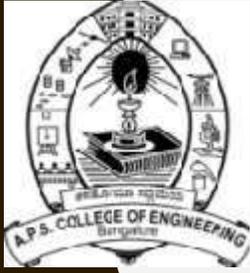
- These two groups of factors are respectively also known as **intrinsic** and **extrinsic** rewards.
- **Intrinsic** rewards are so called because they are internally generated by the task itself and are not tangible and visible to others.
- **Extrinsic** rewards are distributed by other people and are tangible and visible to others.
- For example, a person who wins a sales contest receives the prize which is an **extrinsic** reward. At the same time, however, winning in a competitive situation may be more powerful, yet be an **internal** reward.
- Although an individual's orientation as a motivation seeker or a maintenance seeker is fairly permanent, it can be influenced by his environment.
- Thus, in an environment of achievement, responsibility, growth, and recognition, a maintenance seeker tends to behave like, and acquires the values of a motivation seeker.

- According to Herzberg, this does not motivate a worker because the mere increase in the size of his task does not make it more interesting.
- Job enrichment makes a job more interesting by increasing its planning and controlling contents and reducing its doing content.

This can be accomplished in several ways, such as by:

- a) eliminating a layer of supervision,
- b) increasing worker's autonomy and authority (e.g., when to start and stop work, when to have a break, to plan work, to assign priorities, to decide work methods, to solve important problems independently, and so on),
- c) giving direct feedback to the workers without the supervisors coming in between. Workers feel more happy when they receive comments from the clients directly, and
- d) introducing new and more difficult tasks not previously handled, providing the opportunity for the worker's psychological growth.

Thank You



# **APS College of Engineering,**

**(Affiliated to Visvesvaraya Technological University and Approved by AICTE, NAAC Accredited)**

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**Department of Electronics and Communication Engineering**

**Subject Name: Technological Innovation Management and Entrepreneurship**

**Subject Name: 21EC61**

**Semester : 6<sup>th</sup>**

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**Module-3**

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# Module-3

**Leadership**-Meaning, Characteristics, Behavioural Approach of Leadership; **Coordination**-Meaning, Types, Techniques of Coordination; **Controlling** – Meaning, Need for Control System, Benefits of Control, Essentials of Effective Control System, Steps in Control Process ( Text 1).

**Social Responsibilities of Business:** Meaning of Social Responsibility, Social Responsibilities of Business towards Different Groups, Social Audit, Business Ethics and Corporate Governance (Text 1).

- The success of every industrial enterprise is dependent upon the quality of its leadership.
- In a business enterprise, several tasks, such as determining the objectives of the enterprise, designing the methods to achieve them, directing and coordinating the activities of various departments, etc. can be successfully performed only if there is able leadership.
- According to Peter Drucker, "Leadership is the lifting of man's visions to higher sights, the raising of man's performance to a higher standard, the building of man's personality beyond its normal limitations."
- According to Keith Davis, leadership is the ability to persuade others to seek defined objectives enthusiastically.

## **DIFFERENCE BETWEEN A LEADER AND A MANAGER**

1. A person emerges as a leader. The question whether he will or will not emerge as leader always depends on a number of situational factors. A manager, on the other hand, is always put into his position by appointment.
2. A leader always has some personal power (i.e. ability to influence) that enables him to lead. He may or may not have positional power (i.e. the right to command). A manager, on the other hand, always has some positional power. He may or may not have personal power.
3. A leader focuses on people and generally seeks those very objectives which are the objectives of his followers. A manager, on the other hand, focuses on systems and structures and seeks those objectives which his subordinates do not regard as their own. Thus there is clash of objectives.
4. A leader generally looks at the horizon and not just the bottom line. He is innovative, challenges the status quo and believes in doing right things. A manager, on the other hand, is generally bureaucratic, accepts the status quo and believes in doing things right, according to the rules, to cope with complexity

# CHARACTERISTICS OF LEADERSHIP

**1. Leadership implies the existence of followers** We appraise the quality of a person's leadership in practice by studying his followers.

- We ask: How many and what kind of followers does he have? How strong is their commitment as a result of his leadership? How long will their commitment last? By answering questions of this nature we get to know the quality of leadership.
- We must not, however, forget that leaders within organisations are also followers. The supervisor works for a branch head, who works for a division manager, who works for the vice-president of a department, and so on.

**2. Leadership involves a community of interest between the leader and his followers** In other words, the objectives of both the leader and his men are one and the same.

If the leader strives for one purpose and his team of workers for some other purpose, it is no leadership. In the words of G.R. Terry, "Leadership is the activity of influencing people to strive willingly for mutual objectives."

**3. Leadership involves an unequal distribution of authority among leaders and group members** Leaders can direct some of the activities of group members; that is the group members are compelled or are willing to obey most of the leader's directions.

- The group members cannot similarly direct the leader's activities, though they will obviously affect those activities in a number of ways.

**4. Leadership implies that leaders can influence their followers or subordinates in addition to being able to give their followers or subordinates legitimate directions** In other words, leaders not only tell their subordinates what to do by way of command but also influence by their behaviour and conduct.

- The use of command by leaders succeeds only in bringing about a temporary behavioural change in the followers, Permanent attitudinal change in followers comes through the use of influence only.

# **Traditional Approaches to Leadership**

- Traits Approach
- Behavioural Approach
- Contingency Approach
- Fiedler's Model
- Hersey and Blanchard Model
- Robert J House's Model

## **Behavioural Approach**

- Under behavioural approach researchers have studied leadership behaviour from three points of view:
  - motivation,
  - authority and
  - supervision.

## **Motivation:**

- From the point of view of motivation leadership behaviour can be either positive or negative.
- In positive behaviour the leader's emphasis is on rewards to motivate the subordinates.
- In negative behaviour the leader's emphasis is on penalties and punishments. The leader tries to frighten the subordinates into higher productivity.
- The result is that subordinates' enough time is lost in covering; i.e. protecting themselves against management.

## **Authority:**

- From the point of view of authority, leadership style can be
  - autocratic,
  - democratic or
  - free-rein.

## **Autocratic leadership:**

- In this type of leadership, the leader alone determines policies and makes plans.
- He tells others what to do and how to do it. He demands strict obedience and relies on power.
- He may sometimes be benevolent also and use rewards for obtaining obedience from his employees.
- Employees dislike both these forms because in one form they remain under constant fear and in the other form they remain under constant gratitude.

## **Merits**

1. This type of leadership, can increase efficiency, save time and get quick results, especially in a crisis or an emergency situation.
2. The paternalistic form of this style of leadership works well with employees who have a low tolerance for ambiguity, feel insecure with freedom and even minor decision-making requirements and thrive under clear, detailed and achievable directives.
3. Chain of command, and division of work (who is supposed to do what) are clear and fully understood by all.

## Demerits

1. It motivates people through fear and stifles their initiative and creativity resulting in costly errors.
2. It throttles upward communication. The autocratic leader is alone in his decision-making. He receives little, if any, information and ideas from his people as inputs into his decision-making. This is generally dangerous in today's environment of technological and organisational complexity.
3. Today, most people resent authoritarian rule which excludes them from involvement and reduces them to machine-like cogs without human dignity or importance. They express their resentment in the form of massive resistance, low morale and low productivity.

## **Democratic leadership**

- In this type of leadership the leader thinks "with" rather than "for" his people.
- The entire group is involved in and accepts responsibility for goal setting and achievement.
- Subordinates have considerable freedom of action. The leader shows greater concern for his people than for high production.
- A part of the leader's task is to encourage and reinforce constructive inter-relationships among members and to reduce intra-group conflict and tensions.

## Merits

1. It increases the acceptability of a decision. When people participate in and help formulate a decision, they support it (instead of fighting or ignoring it) and work hard to make it work, because it is their idea. In other words, the participative leader has the critical factor of built-in-personal motivation working for him.
2. It improves the quality of a decision. The leader consistently receives the benefit of the best information, ideas, suggestions, and talent-and operating experience-of his people.
3. It permits and encourages people to develop, grow and rise in the organisation (both in terms of responsibility they can assume and service they can contribute).
4. It makes full use of a wide range of motivations such as status, achievement, challenge, etc.

## **Demerits**

1. The participative style can take enormous amounts of time and, may degenerate into a complete loss of leader's control. Subordinates may show greater absenteeism and tardiness.
2. Some leaders may use this style as a way of avoiding responsibility.

## **Free Rein**

- In this type of leadership, also called laissez faire leadership, the leader exercises absolutely no control.
- He only provides information, materials and facilities to his men to enable them to accomplish group objectives.
- This type can be a disaster if the leader does not know well the competence and integrity of his people and their ability to handle this kind of freedom.

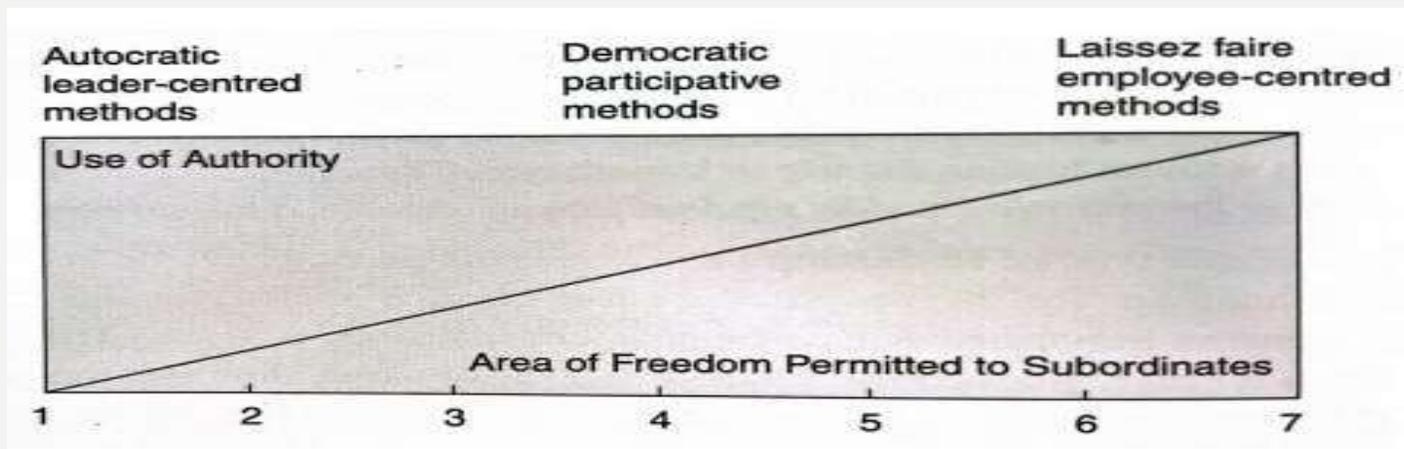


Figure: Spectrum of leadership styles

- Figure shows the spectrum of a wide variety of leadership styles moving from a very authoritarian style at one end to a very democratic style at the other end, as suggested by Robert Tannenbaum and Warren
- As the spectrum demonstrates, there are a number of alternative ways in which a leader can relate himself to the group.
- At the extreme left of the spectrum, the emphasis is on the leader—on what he is interested in, how he sees things, how he feels about them.
- As we move towards the employee-centred end of the spectrum, however, the focus is increasingly on the subordinates— on what they are interested in, how they look at things, how they feel about them.
- The centre of the spectrum finds a more equitable balance between the authority exercised by the leader and the amount of participation the group can exercise.

# Supervision

- From the point of view of supervision, leadership style can be either employee-oriented or production-oriented.
- An employee-oriented leader is one who cares more for the welfare of his subordinates than for production.
- Similarly, a production-oriented leader is one who cares more for production than for the welfare of his subordinates.
- Two important studies under this category are the Ohio State University study and Management Grid.
- These studies measure leader behaviour on two dimensions: **employee orientation and production orientation.**

## a. Ohio State University Model

High	<b>High Consideration Low Initiating Structure</b>	<b>High Consideration High Initiating Structure</b>
Consideration		
Low	<b>Low Consideration Low Initiating Structure</b>	<b>Low Consideration High Initiating Structure</b>
	Low	High

Initiating Structure

- In Figure "initiating structure" refers to the leader's behaviour in structuring the job of the follower and establishing well-defined patterns of organisation and communication.
- "Consideration" is the leader's behaviour showing mutual trust, respect and friendship.
- These two types of leader behaviours are independent.
- Some leaders follow structure but provide little consideration; others are considerate, but provide little structure.

- Many leaders, however, do not fit into either of these two categories.
- They use a fairly even mix of structure and consideration. Still other leaders spend very little time using either structure or consideration behaviours.
- They are relatively uninvolved with their subordinates. Thus, it is possible to show four broad styles of leadership on the Ohio State model.

## **b. Managerial Grid**

- Robert Blake and Jane Mouton (experimental psychologists at the University of Texas) use a chart called Managerial Grid to describe five types of managerial styles.
- They make use of the terms "**concern for production**" and "**concern for people**". These two dimensions (concern for people and concern for production) are plotted on a 9-point scale on two separate axes as shown in Figure.

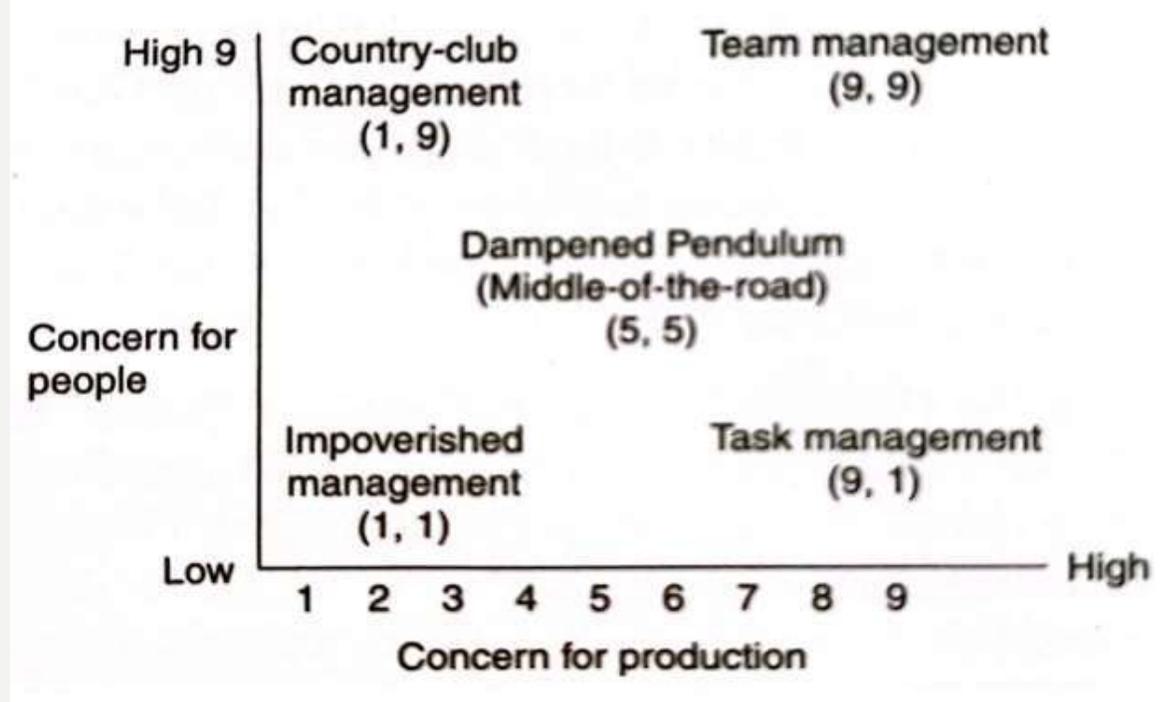


Figure: Managerial Grid

• There are thus 81 combinations of concerns represented on the grid. But the authors' main emphasis is on the styles in the 4 corners and at the middle of the grid because these are the ones we see most often. These are as under:

1. Task management
2. Country-club management
3. Impoverished management
4. Team management
5. Dampened pendulum or the middle-of-road style

1. **Task management** Here the management shows maximum concern for production and least concern for people. Therefore, it is also called "authority-obedience" approach.
2. **Country-club management** This is reverse of task management. Here the management shows maximum concern for people and least concern for production.
3. **Impoverished management** Here the management shows least concern both for production as well as people. The manager wants just enough being done to get by. He also ignores human relationships.
4. **Team management** Here the management shows maximum concern both for production as well as people. Maximum concern for production is based on decisions arrived at with workers' participation and maximum concern for people is based on the workers' task-related morale and not just good social relations.
5. **Dampened pendulum or the middle-of-road style** Here the management shows a balanced concern for production and people. Neither too much production is expected nor too much concern for people is expressed. The manager follows the middle position.

# Coordination

- The management of a modern enterprise is based on the principle of specialisation or division of labour.
- Jobs are broken down into single repetitive tasks and are entrusted to individuals either working in the same department or in different departments of the enterprise.
- With jobs specialised and divided among units, coordination becomes necessary.
- Coordination is the management of interdependence in work situations.
- It is the orderly synchronisation or fitting together of the interdependent efforts of individuals, in order to attain a common goal.
- Similarly, in a modern enterprise, which consists of a number of departments, such as production, purchase, sales, finance, personnel, etc. there is need for all of them to properly time their interdependent activities and to efficiently reunite the sub-divided work.

In a well-coordinated enterprise, the following facts are to be observed:

1. Each department works in harmony with the rest. Stores know what has to be supplied and at what time; production knows its target: maintenance keeps equipment's and tools in good order, and so on.
2. Each department, division and sub-division is precisely informed as to the share it must take in the common task.
3. The working schedule of the various departments is constantly attuned to circumstances.

# **DISTINCTION BETWEEN COORDINATION AND COOPERATION**

- Within every group in a factory there are countless acts of cooperation without which the system would break down.
- Cooperation in any organisation will usually be ineffective will not reach its goal, whatever the intentions of the members-unless each one of them is informed of the behaviours of the others, upon which he can base his own decisions. This information-giving is coordination.
- For instance consider a group of men attempting to move a heavy object. They are sufficient in number, willing and eager to cooperate with each other and trying to do their best to move the object. They are fully aware of their common purpose. However, in all likelihood their efforts will be of little avail until they coordinate them. That is, they give proper directions to each other to apply the right amount of effort at the right place, at the right time.
- Thus, coordination is superior in order of importance to cooperation.

# **DISTINCTION BETWEEN COORDINATION AND CONTROL**

- Control is direct intervention in the operations of an enterprise to ensure conformity with organisational goals.
- Coordination provides the appropriate linkage between different task units within the organisation.
- It is associated with integrating activities dispersed across the enterprise and is less direct, economical and has a longer time span than control.

## **Types of Coordination.**

Coordination may be variously classified as **internal or external, vertical or horizontal** and **procedural or substantive**.

- Coordination among the employees of the same department or section, among workers and managers at different levels, among branch offices, plants, departments and sections is called internal coordination.
- Coordination with customers, suppliers, government and outsiders with whom the enterprise has business connections is called external coordination
- Vertical coordination is what exists within a department where the departmental head is called upon to coordinate the activities of all those placed below him.
- On the other hand, horizontal coordination takes place sideways. It exists between different departments such as production, sales, purchasing, finance, personnel, etc.

- By procedural coordination is meant the specification of the organisation itself-that is, the generalised description of the behaviours and relationships of the members of the organisation.
- Procedural coordination establishes the lines of authority, and outlines the sphere of activity and authority of each member of the organisation.
- Substantive coordination is concerned with the content of the organisation's activities.
- In an automobiles factory, an organisation chart is an aspect of procedural coordination, while blueprints for the engine block of the car being manufactured are an aspect of substantive coordination.

# **TECHNIQUES OF COORDINATION (APPROACHES TO COORDINATION)**

**The following are some important techniques of coordination or approaches to coordination:**

1. Employing Only Basic Coordinating Techniques
2. Increasing Coordination Potential
3. Reducing Need for Coordination

## **1. Employing Only Basic Coordinating Techniques**

This approach can serve the needs of organisations with relatively modest coordination requirements.

### **a. Rules, Procedures and Policies**

The specification of rules, procedures and policies is a very common device to coordinate sub-units in the performance of their repetitive activities. Standard policies, procedures and rules are laid down to cover all possible situations.

## **b. Planning:**

- Planning ensures coordinated effort. Under planning, targets of each department dovetail with the targets of all other departments.
- For example, by fixing the target of 10,000 units of additional production and sales for the production and sales departments respectively, the head of the organisation can be fairly sure that the work of the two departments would be coordinated since their targets so demand.
- Strategic planning does the task of relating the organisation to the environment so as to reduce uncertainty and the need for strict coordination.

## **c. Hierarchy**

- The oldest as well as the simplest device for achieving coordination is hierarchy or chain of command. By putting interdependent units under one boss, some coordination among their activities is ensured.
- But the manager responsible for coordinating the various sub-units can become overloaded with information and forced to make too many decisions.

## 2. Increasing Coordination Potential

Organisations whose coordination needs are not fulfilled by basic coordination techniques need additional coordinating mechanisms such as the following.

- a. Direct Contact:** In order to prevent top executives from becoming overloaded with problems, as many problems as possible are resolved by the affected employees at lower levels by informal contacts. Strong cross-functional links at multiple levels may be established for this purpose.
- b. Task Force:** This is a temporary group made up of representatives from those departments which are facing a problem. It exists only as long as the problem lasts. When a solution is reached each participant returns to his normal tasks.
- c. Committees:** As certain decisions consistently arise the task forces become permanent. These groups are labelled committees. This device greatly eases the rigidity of the hierarchical structure, promotes effective communication and understanding of ideas, encourages the acceptance of the commitment to policies and makes their implementation more effective.

#### **d. Induction**

- Inducting the new employee into the new social setting of his work is also a coordinating mechanism.
- The device familiarises the new employee with the organisation's rules and regulations, its dominant norms of behaviour, values and beliefs and integrates his personal goals with the organisational goals.

#### **e. Indoctrination**

- Indoctrinating organisational members with the goals and mission of the organisation—a device used commonly in religious and military organisations is still another coordinating device.
- According to Selznick®, the major task of a leader is not only to make a policy but "to build it into the organisation's social structure" —a situation where everybody in the organisation spontaneously protects or advances its official aims and methods.

## **f. Incentives:**

- Providing interdependent units with an incentive to collaborate, such as a profit-sharing plan, is another mechanism.

## **g. Liaison Departments**

In some cases where there is a large volume of contact between two departments, a liaison department evolves to handle the transactions. This typically occurs between sales and production departments.

## **h. Workflow**

A workflow is the sequence of steps by which the organisation acquires inputs and transforms them into outputs and exports these to the environment. It is largely shaped by technological, economic, and social considerations and helps in coordination.

### 3. Reducing Need for Coordination

- This approach is meant for those organisations in which even expanded coordinating mechanisms fail.
- Some new forms of organisation structures such as autonomous work teams and matrix organisations reduce coordination needs.
- Organisations using mass production technique vertically integrate with the suppliers of raw materials and those using a "mediating technology" —that is, a technology that connects different users of the product or the service such as an employment agency or a telephone network, diversify the market they serve so that they do not become too dependent on any one supplier or market, respectively.

# Managerial Control

- Control is one of the important functions of management. In the words of E.F.L. Brech, ' "Control is checking current performance against predetermined standards contained in the plans, with a view to ensuring adequate progress and satisfactory performance.
- " According to George R. Terry,? "Controlling is determining what is being accomplished, that is, evaluating the performance and if necessary, applying corrective measures so that the performance takes place according to plans.“

## NEED FOR CONTROL SYSTEM

A control system is needed for four purposes:

1. measuring progress;
2. uncovering deviations;
3. indicating corrective action; and
4. transmitting corrective action to the operation.

# 1. Measuring Progress

- There is a close link between planning and controlling the organisation's operations.
- The control process continually measures progress towards goals. As Fayol' so clearly recognised decades ago, "In an undertaking, control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and principles established."

# 2. Uncovering Deviations

Once a business organisation is set into motion towards its specific objectives, events occur that tend to pull it "of target".

- a. Change
- b. Complexity
- c. Mistakes
- d. Delegation.

## **a. Change**

- Change is an integral part of almost any organisation's environment. Markets shift, new products emerge, new materials are discovered and new regulations are passed.
- The control function enables managers to detect changes that are affecting their organisation's products or services.

## **b. Complexity**

- Today's vast and complex organisations, with geographically separated plants and decentralised operations make control a necessity.
- Diversified product lines need to be watched closely to ensure that quality and profitability are being maintained; sales in different retail outlets need to be recorded accurately and analysed; the organisation's various markets-foreign and domestic-require close monitoring.

### **c. Mistakes**

- Managers and their subordinates very often commit mistakes. For example, wrong parts are ordered, wrong pricing decisions are made, problems are diagnosed incorrectly, and so on.
- A control system enables managers to catch these mistakes before they become serious.

### **d. Delegation**

- The only way managers can determine if their subordinates are accomplishing the tasks that have been delegated to them is by implementing a system of control.
- Without such a system, managers will not be able to check on their subordinates' progress, and so not be able to take corrective action until after a failure has occurred.

### **3. Indicating Corrective Action**

Controls are needed to indicate corrective actions. They may reveal, for example, that plans need to be redrawn or goals need to be modified or there is need for reassignment or clarification of duties or for additional staffing or for conforming to the way the work should be done.

### **4. Transmitting Corrective Action to the Operation**

- Controls are needed to transmit corrective action to the operation while it is progressing so that the transformation subsystem modifies its inputs or its production plan to reduce any discrepancy or error and keeps the output "on course".
- Control-related information flows in most of our modern organisations also follow the above-mentioned thermostat operating principle.
- Human intervention is involved to adjust the system periodically, according to a subjective impression of the environment.

# ESSENTIALS OF EFFECTIVE CONTROL SYSTEM

The essentials of an effective control system are as follows.

## **a. Suitable**

- The control system should be appropriate to the nature and needs of the activity.
- Controls used in the sales department will be different from those used in finance and personnel.
- Similarly, a machine-based method of production requires a control system which is different from the system that is used in labour intensive methods of production.
- Hence, every concern should evolve such a control system as would serve its specific needs.
- It must also take into account the traditions of the company, the ways controls are administered the degree of delegation and similar other factors.

## **b. Timely and Forward Looking**

- Although an ideal control system, as in certain electric controls, should be able to detect deviations before they occur, the same is not possible in personnel and marketing controls which always include a time lag between the deviation and corrective action.
- In any case, the feedback system should be as short and quick as possible and the information should reach the superior before it is too late to head off failures.

## **c. Objective and Comprehensible**

- The control system should be both objective and understandable.
- Objective controls specify the expected results in clear and definite terms and leave little room for argument by the employees.
- The meaning of the central data should be clear to the manager who should use it.

## **d. Flexible**

- The control system should be flexible so that it can be adjusted to suit the needs of any change in the basic nature of the inputs and/or the sizes, varieties or types of the same product or service.
- One way of introducing flexibility into a control system is to make the adjustments automatic.

## **e. Economical**

- Economy is another requirement of every control system.
- The benefit derived from a control system should be more than the cost involved in implementing it.

## **f. Prescriptive and Operational**

- A control system in order to be effective and adequate must not only detect deviations from the standards but should also provide for solutions to the problems that cause deviations.

## **g. Acceptable to Organisation Members**

- The system should be acceptable to organisation members. When standards are set unilaterally by upper level managers, there is a danger that employees will regard those standards as unreasonable or unrealistic.
- level managers, there is a danger that employees will regard those standards as unreasonable or unrealistic.
- Some control systems, specially those based on mathematical formulas, complex breakeven charts and computer printouts, are not understandable to the managers who must use them.
- Status differences between individuals also have to be recognised.
- Individuals who have to report deviations to someone they perceive as a lower level staff member may stop taking the control system seriously.

## **h. Reveal Exceptions at Strategic Points**

- A control system should be such as to reveal exceptions at strategic points. Small exceptions in certain areas have greater significance than larger deviations in other areas.
- The purpose of these strategic points is principally to direct attention rather than to evaluate. It should be remembered that strategic point control is not the same as the exception principle.

## **i. Motivate People to High Performance**

- A control system is most effective when it motivates people to high performance.
- Since most people respond to a challenge, successfully meeting a tough standard may well provide a greater sense of accomplishment than meeting an easy standard.

## **j. Should Not Lead to Less Attention to Other Aspects**

- Control over one aspect of operations should not lead to less attention to other aspects.
- For example, if controls put pressure on employees to increase output, the quality of work, care of equipment, and prevention of waste should not be neglected.
- Similarly, overemphasis on controlling tangible results should not lead to the neglect of intangible results such as cooperation with other department or employee development.

## **k. Should be Periodically Reviewed and Evaluated**

- Every control system should be periodically reviewed and evaluated in relation to its objectives to see how effective and efficient the design proved to be or why it failed.

# Steps in a Control Process

There are three basic steps in a control process:

1. Establishing standards
2. Measuring and comparing actual results against standards
3. Taking corrective action

## **1. Establishing standards**

- The first step in the control process is to establish standards against which results can be measured.
- Since entire operations cannot be observed, each organisation must develop its own list of key result areas for which standards need to be established.
- Some key areas in all business organisations are: profitability, market position, productivity, personnel development, employee attitudes and public responsibility.

- An executive who wishes to control a particular key area often finds that the work in question has several characteristics.
- He must, therefore, determine the level of performance or "par" for each characteristic all pars should later on part of the standard for that key area
- Guidelines for Setting Pars/Standards
  - a. They must be specifically determined in quantitative terms.
- Pars or standards expressed in vague or general terms such as, "costs should be reduced" or "orders should be executed quickly" are not as specific as "overheads must be reduced by 12 per cent" or "all orders must be executed within three working days."
- Even pars or standards in areas such as public relations, while hard to express in quantitative terms, can be defined more accurately by adding more specific details, about the number and type of customer complaints.

b. They should be accepted by the individuals involved. They must fit their expectations and group habits.

c. They need to be flexible in order to adapt to changing conditions. For instance, a new salesman Who proves to be an above-average performer should have his sales standard adjusted accordingly.

d. They should emphasise the achievement of results more than the conformity to rules and methods. If they do not do so, then people will start giving more importance to rules and methods than to the final results. "Doing the right things" will give place to "doing things right".

## **2. Measuring and Comparing Actual Results against Standards**

- The second step in the control process is to measure the result and compare it with the predetermined pars.
- One important point to be considered here is whether measurement and comparison are to be done at various stages in the throughput process or at the end.

- A fault to be avoided, however, is to allow too long a period of time to pass between performance measurements.
- Frequency of measurements depends on the nature of the task being controlled.
- Thus, quality control of items coming off an assembly line often requires hourly monitoring because significant changes can take place any time in any run of items.

### **3. Taking Corrective Action**

- After comparing the actual performance with prescribed standards and finding the deviations, the next step that should be taken by the manager is to correct these deviations.
- Corrective action should be taken without wasting time so that the normal position can be restored.
- The manager should also determine the correct causes for deviation. The causes for deviation may be of different types, such as inadequate and poor equipment and machinery, inadequate communication system, lack of motivation of subordinates, defective system of training and selection of personnel, defective system of remuneration, etc.

# Levels of Control System

- An organisation can establish control systems at three levels: **Corporate, Business and Operational.**
- These systems vary in scope in terms of 'what is being controlled'.
- Each of these levels almost corresponds to the levels (Strategic, Tactical and Operational level) at which the plans are initially made.

**A Corporate level control system** operates at the corporate/strategic/top level within an organisation.

- Its coverage is broad and covers the entire organisation.
- It aims to develop control measures for checking the extent of attainment of long-term goals of the entire organisation in the context of the external environment it faces.
- In cases where the organisation is faced with stable external environment it is acceptable to keep such controls centralised at the corporate level for all the businesses/divisions within the organisation.

- A **Business level control system** implements the strategic control at the business/division level. Its scope is narrow than the corporate level control. It establishes control measures for comparatively shorter time spans (say one year) than corporate level control system.
- An **Operational level control system** implements the control system at the activity level in each functional area of the business.
- Obviously, of all the three levels of control systems, its scope is quite restricted and the time span is very short.
- The control measures are applied on a daily or weekly basis. The activity being controlled usually is a productive activity but could also include any other activity

# Social Responsibilities of Business

- Social responsibility is a nebulous idea and hence is defined in various ways. Adolph Berle' has defined social responsibility as the manager's responsiveness to public consensus.
- This means that there cannot be the same set of social responsibilities applicable to all countries in all times.
- These would be determined in each case by the customs, religions, traditions, level of industrialisation and a host of other norms and standards about which there is a public consensus at any given time in a given society.
- According to Keith Davis,' the term "social responsibility" refers to two types of business obligations, viz.,(a) the socio-economic obligation, and (b) the socio-human obligation.

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

## Origin and Growth of the Concept

- Although the subject "social responsibilities of business" in its present form and content has gained pop attention in recent years only, its origin can be traced back to the evolution of the concept of a welfare state.
- As the pace of industrialisation quickened, employers became more and more concerned with the of productive efficiency due to avoidable sickness or accident or to stoppages of work due to bad personal relationships.

- The framework of a welfare state and with it the concept of social responsibility have thus come to stay in many countries of the world.
- The changing image of business in recent years has lent further support to the idea of social responsibility.

## **Different Views on Social Responsibility**

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

### **a. Communist View**

- This view advocates the imposition of social responsibilities on business through the instrumentality of the State.
- Communists hold that free industrial civilisation is not good because its values are of the wrong order.
- Business has been concerned only with material gain. Economic expediency is taken to be the sole criterion of decision.

## **b. Capitalist View**

- This view holds that economic expediency alone is a just standard for business decisions and that business has an unbridled and an uncontrolled right to make money free from all sorts of social responsibilities.
- It is argued that by maximising its profit objectives, business gratifies its personal desires and at the same time satisfies the needs of society.
- Therefore, business should not have any responsibility beyond obeying certain legal codes in achieving its goals.
- Milton Friedman, \* who won a Nobel Prize in 1976, holds the view that business should go on with the business of producing goods and services efficiently and leave the solution of social problems to government agencies and concerned individuals.
- In short, managers should focus on what they know best: how to make a profit.

### c. **Pragmatic View**

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

#### **d. Trusteeship View**

This view advocates the retention for personal use of so much as is necessary for an honourable livelihood, no better than that enjoyed by million others; and the utilisation of the rest for the welfare of the community.

### **Social Responsibilities of business towards different groups.**

Every business is at the centre of a network of relationships which consist of those between him at one end and his workers, employees, consumers, shareholders, other business, community and the government on the other.

#### **a. Towards the Consumer and the Community**

1. Production of cheap and better quality goods and services by developing new skills, innovations and techniques, by locating factories and markets at proper places and by rationalising the use of capital and labour.
2. Levelling out seasonal variations in employment and production through accurate forecasts, production scheduling and product diversification.

3. Deciding priorities of production in the country's interest and conserving natural resources.
4. Honouring contracts and following honest trade practices.
5. Making real consumer needs as the criterion for selecting messages to be given by product advertisements. Nearly all current advertising seeks to create wants.
6. Preventing the creation of monopolies. Monopolies are bad in that they make the community face high prices, short supply and inferior quality of goods.
7. Providing for after-sale servicing.
8. Ensuring hygienic disposal of smoke and waste and voluntarily assisting in making the town environment aesthetically satisfying.
9. Achieving better public relations (that is, creating a more favourable attitude towards the enterprise) by giving to the community, true, adequate and easily intelligible information about its working.
10. Supporting education, slum clearance and similar other programmes.

## **b. Towards Employees and Workers**

1. A fair wage to the workers (and not merely one determined by market forces of supply and demand) which is possible only when the businessman is willing to accept a voluntary ceiling on his own profits.
2. Just selection, training and promotion (without any discrimination on grounds of sex, race, religion and physical appearance).
3. Social security measures and good quality of work life.
4. Good human relations (i.e, maintaining industrial peace, creating conditions for collective bargaining, educating workers to produce their own leadership and participative management).
5. Increase in productivity and efficiency by recognition of merit, by providing opportunities for creative talent and incentives.
6. Freedom, self-respect and self-realisation. A businessman should devote his knowledge and ability not only to making his worker's life more affluent, but also to making it more satisfying and rewarding.

## **c. Towards Shareholders and Other Businesses**

1. Promoting good governance through internal accountability and transparency.
2. Fairness in relations with competitors. Competition with rival businessmen should always be fair and healthy, based on rules of ethics and fair play rather than on rules of warfare.

## **d. Towards the State**

1. Shunning active participation in and direct identification with any political party
2. Observing all the laws of land which may have the following objectives:
  - To provide direction to the economic and business life of the community.
  - To bring about harmony between the limited enterprise interest and the wider social interest of the country
  - To provide safeguard against errant business practices
  - To compel business to play fair to all participants in the economy— employees, shareholders, minority shareholders, etc.
  - To implement rural uplift and secure balanced development of the country
  - To allocate limited resources according to social priorities and preferences.

# SOCIAL AUDIT

A social audit is a systematic study and evaluation of the organisation's social performance as distinguished from its economic performance. The term "social performance" refers to any organisational activity that effects the general welfare of society.

## **Benefits**

1. It supplies data for comparison with the organisation's social policies and standards. The management can determine how well it is living up to its social objectives.
2. It develops a sense of social awareness among all employees. In the process of preparing reports and responding to evaluations, employees become more aware of the social implications of their actions.
3. It provides data for comparing the effectiveness of different types of programmes.
4. It provides data about the cost of social programmes, so that the management can relate this data to budgets, available resources, company objectives, etc.
5. It provides information for effective response to external groups which make demands on the organisation

## Limitations

- A social audit is a process audit rather than an audit of results.
- This means that a social audit determines only what an organisation is doing in social areas and not the amount of social good that results from these activities.
- An audit of social results is not made because:
  - They are difficult to measure.
  - Most of them occur outside the organisation, making it difficult for the organisation to secure data from these outside sources.
  - Their classification under “good” or “bad ” is not universally accepted.
- Even though social results cannot be proved, an audit of what is being done is still considered desirable, because it shows the amount of effort that a business is making in area deemed beneficial to society.
- Social audits can be made either by internal experts, outside consultants, or a combination of the two.
- The internal auditor has the advantage of familiarity with the business, but his judgements may be influenced by company loyalties.

## Business Ethics

- Business ethics is the application of moral principles to business problems. It knows the difference between what you have a right to do and what is right to do.
- It, thus, extends beyond the question of legality and involves the goodness or badness of an act.
- Therefore, an action may be legally right but ethically wrong. For example, a small village community located twenty miles from the closest urban shopping area has a single grocer's shop. The owner of the shop can charge any exorbitant price for his product though legally but not ethically.
- Discrimination against women in pay and promotion opportunities is also unethical, which continues to exist despite there being the Equal Remuneration Act, 1976.
- One of the most commonly cited reasons for the lack of promotions of women is the glass ceiling effect—a term used for artificial barriers based on attitudinal or organisational bias that prevent qualified women from progressing in the organisation into senior management level positions.

- **How does a manager decide what is ethical or unethical? There are four important factors which affect his decision.**
- Government legislation.
- Business codes. (But being voluntary in nature these codes, though pointed to with pride, are usually ignored in practice.)
- Pressure groups. (For example, in recent years Indian carpet industry has been facing consumer boycott from the west for employing child labour.)
- Personal values of the manager himself.

# Ethics and Corruption in International Business

- With the arrival of the global economy, ethics and corruption have become a major concern in international management.
- On an international scale, it is difficult to clearly define what constitutes corrupt business practices.
- The primary difficulty involved is differing cultural understandings related to these issues and the coinciding laws and norms under which various societies operate.
- However, four forms of corruption which are considered typical to international business are smuggling, money laundering, piracy and counterfeiting, and bribery.

# Corporate Governance

- The term "corporate governance" is used to denote the extent to which companies run in an open and honest manner in the best interest of all stake-holders.
- The key elements of good corporate governance are transparency and accountability projected through a code which incorporates a system of checks and balances between all key players, viz., board of directors, auditors and stake-holders.
- In Britain, following corporate scandals in the early 1990s, a committee was appointed in 1991 under the chairmanship of Sir Adrian Cadbury to prepare a code for best corporate governance.
- Major recommendations of this committee are as under:
- Non-executive directors whose most important role is to bring an independent judgement to bear on issues of strategy, performance, resources, etc. should be picked through a formal selection process on merits.
- Companies should have remuneration committees consisting wholly or mainly of non-executive directors which should recommend to the board executive directors' emoluments.
- Companies should have audit committees consisting of minimum 3 non-executive directors to report on any matter relating to financial management.
- Audit partners should be rotated and there should be fuller disclosure of non-audit work.

## **Benefits of Good Corporate Governance**

1. It creates overall market confidence and long-term trust in the company.
2. It leads to an increase in company's share prices.
3. It ensures the integrity of company's financial reports.
4. It maximises corporate security by acting as a whistle blower.
5. It limits the liability of top management by carefully articulating the decision-making process.
6. It improves strategic thinking at the top by inducting independent directors who bring a wealth of experience and a host of new ideas.

# Corporate Governance in India

1. The Securities and Exchange Board of India (SEBI) monitors corporate governance of listed companies in India through clause 49 which is incorporated in the listing agreement of stock exchanges with companies. All listed companies have to comply with the provisions of this clause which inter alia stipulates as under:\*
- 50% of the board should consist of independent directors if the company has an executive chairman. In case of non-executive chairman, one-third of the board should consist of independent directors. (As the name suggests an independent director is a director who is not aligned with either the management or the promoters and is capable of exercising independent judgement).
  - Following persons are not qualified to act as independent directors: (a) a shareholder with more than 2% shareholding in the company, (b) a former executive who left the company less than 3 years ago, (c) a partner of current legal, audit, and consulting firm, (d) a relative of a promoter, or an executive director, or a senior executive one level below an executive director.
  - The CEO and CFO should certify the financial statements affirming that elaborate risk management and internal control mechanisms have been established in corporate accounting.

2. The Companies (Amendment) Act, 2000, has introduced several provisions relating to corporate governance such as setting up of audit committees, additional grounds of disqualification of directors and directors' responsibility statement in the directors' report.
3. The World Council for Corporate Governance has instituted in 2001 the Golden Peacock Award to foster competition among companies to improve their quality of corporate governance. The criteria include an overview of the governance structure, leadership, role, term and liability of directors, remuneration of non-executive directors, and so on.
4. India has several bodies that rate companies for their credit-worthiness. Important among them are: Credit Rating and Information Services of India Ltd. (CRISIL), Investment Information and Credit Rating Agency of India Ltd. (ICRA), Credit Analysis and Research (CARE) and Duff and Phelps Credit Rating (DCR), India.

## **Need for a Corporate Whistle Blower Protection Act**

- A corporate whistle blower is an honest and conscientious individual who discloses in public interest, and as an ethical duty, information relating to gross corruption, mismanagement, abuse of authority or grave injustice prevailing in a company.
- The origin of whistle-blowing can be traced back to the coal-miners' old practice of carrying canaries into the mines with them.
- When the canaries stopped singing, coal-miners knew they were in trouble, and they had better get out fast.
- Whistle blowers in large companies are, in a way, our canaries. When they are free to "sing", the institutions are healthy. When they are silenced, people are in trouble.

Thank You