

**Vipul's**<sup>TM</sup>  
**BBI Series**

# **Principles of Management**

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## Chapter I

# Introduction to Management (Banking and Insurance)

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*A key to achieving success is to assemble a strong and stable management team.*

*— Vivek Wadhwa*

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*Introduction – Meaning/Concept of Management – Definitions, Nature and Characteristics of Management – Levels of Management – Six Ms of Management – Management as an Art, Science and Profession: (A) Management of Banking, (B) Management of Insurance – Question Bank for Self-Practice.*

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### INTRODUCTION:

In every walks of life we are witnessing revolution. There is transformation of business and services needed and wanted by people. At the heart of this revolution is management. No matter how management was conducted in the past, new ways and new methods are essential for the future. This means a better understanding of what management actually is. Management is the most crucial factor in the success or failure of a business organisation. It plans, organises, directs, communicates and controls the activities and resources for the purpose of achieving common objectives. It brings together and uses human, physical, financial and informational resources effectively and efficiently. Today's business represents complex activities. A team of competent and skilled managers are needed to solve these problems. Management is concerned with human beings whose behaviour is highly unpredictable. Management of men is the major challenge before the business. Management does not perform any specific jobs. It motivates other people to perform specific jobs. Management is not only an essential element of an

organised society but also an integral part of our economic and social life. It plays a role of paramount importance in providing welfare to the society.

### MEANING/CONCEPT OF MANAGEMENT:

The concept of management is as old as human civilization. Ever since people began forming groups to accomplish goals they could not achieve as individuals. Management is found in almost every human activity. It is found in varying degrees in offices, banks, colleges, hospitals, factories, trade unions and so on. Management has universal application because it is used in both commercial and non-commercial enterprises. The concept of management is continuously changing. Nothing remains permanent in the landscape of management. Everything is subject to change. An accelerating rate of change in all aspects of business makes managerial activity more difficult and complicated. Management is not a slot-machine where result is obtained by pressing a button. Management does not provide instant result. In every organisation management is the integrating force. In order to achieve objectives, management brings together Six Ms of management viz., men, materials, machines, methods, money and markets.

Management is the activity of **getting the work done through the efforts of others**. In order to achieve business objectives, there is need to bring together available basic resources like men, materials, methods, machines, money and market; popularly known as six M's of Management. Capital, manpower and presence of natural resources cannot make a country rich if it does not have competent managers to combine and coordinate the resources. Peter Drucker has rightly pointed out that without management a country's resources of production remain resources and never become product. In the current industrial scenario, no enterprise can command monopoly on capital and technology but good management can certainly become its monopoly and help it to score over its competitors. Peter Drucker

### DEFINITIONS OF MANAGEMENT:

- (1) According to George R. Terry, "Management is a distinct process consisting of ~~of~~ planning, organising, actuating and

*controlling, performed to determine and accomplish stated objectives by the use of human beings and other resources."*<sup>1</sup>

- (2) According to **Henri Fayol**, "To manage is to forecast and to plan, to organise, to command, to coordinate and to control."<sup>2</sup>
- (3) According to **Peter Drucker**, "Management is a multi-purpose organ that manages business and manages managers and manages workers and work."<sup>3</sup>
- (4) According to **Harold Koontz**, "Management is the art of getting things done through and with people in formally organized groups."<sup>4</sup>
- (5) According to **Mary Parker Follett**, "Management is the art of getting things done through people."

#### **NATURE OF MANAGEMENT:**

- (1) **An economic resource:** As a coordinator of economic resources, management has universal application. Historically, only land and capital were considered as factors of production but with the passing of time other factors like labour, entrepreneur and management were also recognised as important economic resource. Management coordinates economic resources efficiently to improve work performance.
- (2) **A system of authority:** A manager is expected to get the work done from others. He enjoys the authority to command the activities of his subordinates. Every manager is given relative freedom as regards his approach to the use of authority. Much depends on his personality, habits and business situation.
- (3) **A group approach:** The nature of management has changed from individualistic to group approach. Management is an activity not of one individual but of a group. Management ensures appropriate leadership to the group and direct their efforts to a common purpose. In order to succeed in their

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<sup>1</sup> Principles of Management - George R. Terry, p. 4 (1977-Seventh Edition).

<sup>2</sup> General and Industrial Management - Henri Fayol, p. 5.

<sup>3</sup> The Principles of Management - Peter Drucker, p. 17.

<sup>4</sup> "The Management Theory Jungle" - Journal of Academy of Management Dec. 1961, p. 174.

profession, managers of today must possess formal and specialised education.

- (4) **A mark of discipline:** Discipline refers to a field of study having well-defined concepts and principles. Two basic and broad disciplines are art and science. Management is regarded both as art and science.
- (5) **As a process:** Management is a process because it handles activities systematically. Management as a process includes various activities and sub-activities that are directed towards achievement of business objectives. The activities of an organisation can be divided into two categories viz., *operational and managerial*. Operational activities are those through which actual work is completed e.g., workers handling machines. Managerial activities are performed to get things done e.g., plant manager directing workers in the shop floor area.
- (6) **As a career:** Management is an occupation devoted to managing the activities of business and non-business organisations. Any person who occupies a position in which he is responsible to get the work done through others he is said to be in the management career. Management is an exciting area of work. The challenges and rewards are unlimited. With management education gaining respectability and acceptability in the society, scores of youngsters are willing to opt for a career in management.

#### **IMPORTANCE/ROLE/SIGNIFICANCE OF MANAGEMENT:**

- (1) **Optimum use of resources:** Management facilitates optimum utilisation of available human and physical resources, which leads to progress and prosperity of a business enterprise. Even wastages of all types are eliminated or minimised.
- (2) **Competitive strength:** Management develops competitive strength in an enterprise. This enables an enterprise to develop and expand its assets and profits.
- (3) **Cordial industrial relations:** Management develops cordial industrial relations, ensures better life and welfare to employees and raises their morale through suitable incentives.

- (4) **Motivates employees:** It motivates employees to take more interest and initiative in the work assigned and contribute for raising productivity and profitability of the enterprise.
- (5) **Expansion of business:** Expansion, growth and diversification of a business unit are possible through efficient management. It creates good corporate image to a business enterprise.
- (6) **Stability and prosperity:** Efficient management brings success, stability and prosperity to a business enterprise through cooperation and team spirit among employees.
- (7) **Team spirit:** Management develops team spirit and raises overall efficiency of a business enterprise.
- (8) **Effective use of managers:** Management ensures effective use of managers so that the benefits of their experience, skills, maturity, etc. are available to the enterprise.
- (9) **Smooth functioning:** Management ensures smooth, orderly and continuous functioning of an enterprise over a long period. It also raises the efficiency, productivity and profitability of an enterprise.
- (10) **Reduces turnover and absenteeism:** It reduces labour turnover and absenteeism and ensures continuity in the business activities and operations.

The very survival of an enterprise depends on its management. Ineffective management leads to disastrous consequences. According to **George Terry**, "*Ineffective management cuts at the very roots of economy of an enterprise.*"<sup>5</sup> This suggests the importance of efficient management in the case of business enterprises.

## **LEVELS OF MANAGEMENT AND FUNCTIONS AT EACH LEVEL:**

### **Meaning of Levels of Management:**

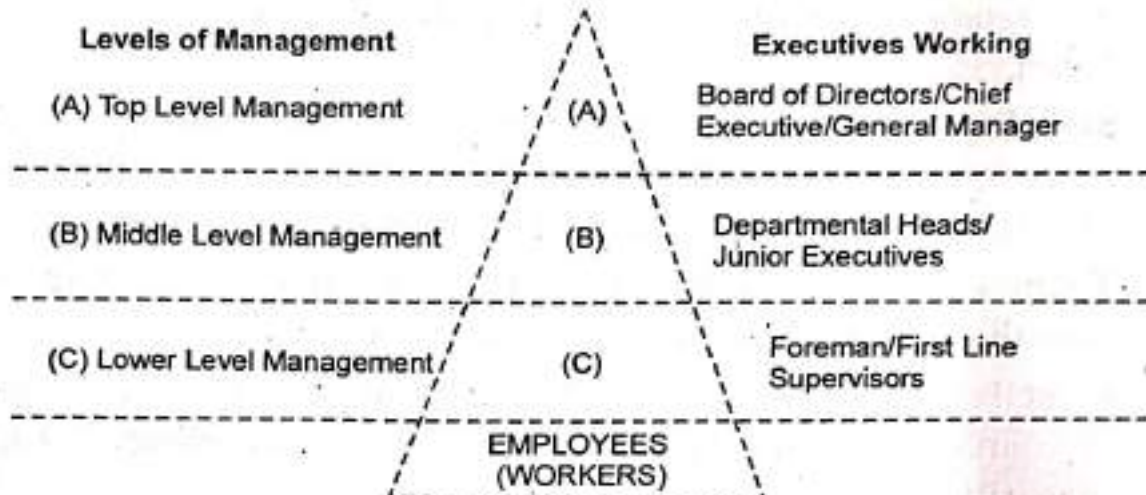
Levels of management are the convenient platforms created for the purpose of managing the activities of business. This brings the division of work within the organisation structure. The managers at different levels are given specific functions and their functions are also properly coordinated. Normally, there are three levels of

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<sup>5</sup> Principles of Management - George R. Terry, p. 5.

management in the organisation's hierarchy of authority. These levels are: (a) Top level management. (b) Middle level management (c) Lower level management.

The pyramid type diagram given below indicates the levels of management.



The functions at each level are as follows:

**(A) Functions of Top Level Management:**

- (1) **Objectives:** Determining the business objectives.
- (2) **Mission:** Outlining the purpose of the organisation.
- (3) **Policies:** Formulation of business policies and preparation of plans for achieving the objectives.
- (4) **Organisation:** Designing an appropriate organisational framework.
- (5) **Resources:** Bringing together the resources to put plans into practice.
- (6) **Supervision:** Exercising effective supervision over all the departments and personnels.
- (7) **Controlling:** Establishes a controlling system to monitor, measure and evaluate performance.
- (8) **Reporting:** Responsible to report to BOD about the performance of the organisation.
- (9) **Measures:** Introducing suitable remedial measures, if shortfalls are noticed.

**(B) Functions of Middle Level Management:**

- (1) **Planning:** Responsible to plan daily administrative work and obtain relevant permission from top management.

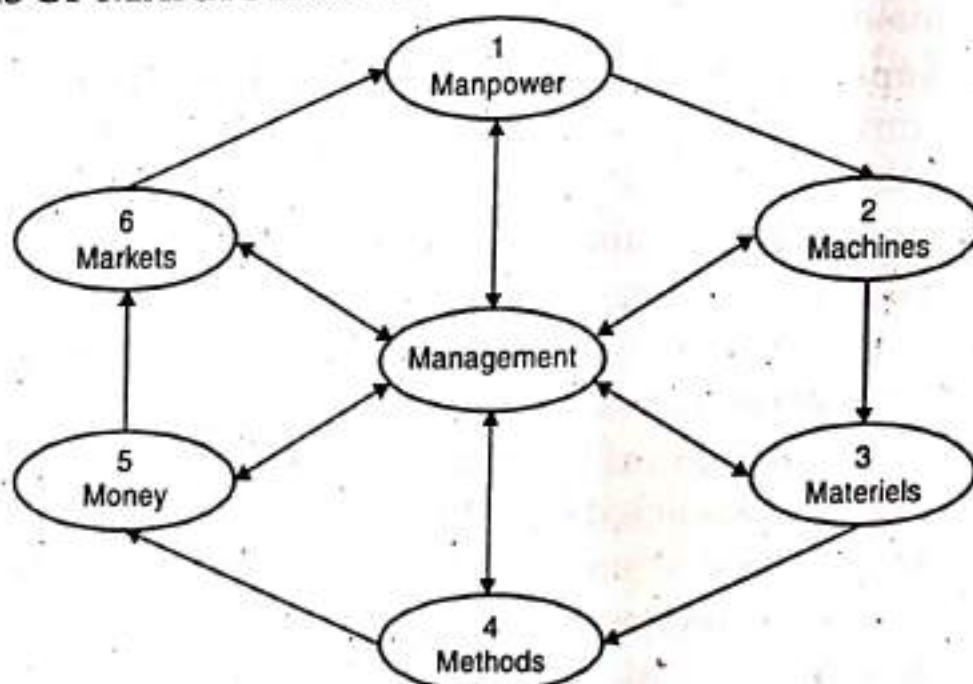


- (2) **Resources:** Making available resources to execute the work.
  - (3) **Selection:** Selection of the efficient executives and staff.
  - (4) **Procedures:** Introduction of proper procedures and operating routines for orderly functioning of the departments.
  - (5) **Information:** Collecting reports, statistical information and similar other records about the work done in the department and forwarding the same with necessary observations to the top-level management.
  - (6) **Motivation:** Motivating personnel for higher productivity and rewarding them.
  - (7) **Performance:** Securing better performance by revising departmental policies.
  - (8) **Reporting:** Providing feedback to the top management about departmental performance.
- (C) **Functions of Lower Level Management (First Line Management):**
- (1) **Planning:** Preparing daily plans for smooth conduct of the work.
  - (2) **Resources:** Making available resources like raw materials, machines and equipments along with plant maintenance.
  - (3) **Supervision:** Directing and supervision over the entire work force in the factory, in the office and in the sales field.
  - (4) **Discipline:** Maintaining discipline among workers assigned to them or to their departments.
  - (5) **Links:** Acting as a link between the higher management and the rank and file of workers.
  - (6) **Communication:** Communicating the management's decisions, policies, etc. to workers.
  - (7) **Motivation:** Keeping employees motivated with verbal and financial rewards for good performance.
  - (8) **Reporting:** Reporting actual performance of workmen along with their difficulties, problems, etc., to the higher level management.

### DISTINCTIONS BETWEEN LEVELS OF MANAGEMENT:

Points	Top Level Management	Middle Level Management	Lower Level Management
(1) Meaning	It is the ultimate authority comprising of board of directors, general manager/CEO.	It comprises of senior executives and heads of departments like marketing manager, finance manager, HR manager, etc. They translate plans and strategies into specific goals.	It consists of first-line managers like senior foremen and first line of supervisors.
(2) Responsibility	They frame policies and are responsible for overall direction and operations of an organisation.	They translate plans and strategies into specific goals.	They are responsible for the production of goods and services.
(3) Nature of work	They spend most of their time with peers and outsiders. Top executives lead hectic life.	They are responsible to generate results and keep business financially sound.	They are field workers. They spend time with subordinates solving problems.
(4) Focus	They are policy makers who decide the fate of an organization.	They act as a link between top and lower level management.	They maintain direct contact with employees.
(5) Action	They introduce suitable remedial measures to cut down deviation in performance.	They are involved in paper work, meetings and completing deadlines.	They arrange tools, equipment, materials and maintain discipline.

### SIX MS OF MANAGEMENT:



Management is a distinct function of mobilizing, allocating and utilising resources to achieve pre-determined objectives in a

business. Six Ms of management include: manpower, machines, materials, methods, money and markets. Each of the six Ms have their own dynamics. Managers must clearly understand the purposes for which these Ms are used and coordinate them to optimize combined productivity. Management has to exercise balance in the employment of these different resources e.g., manpower and machines cannot be treated in the same way. Six Ms are explained as follows:

- (1) **Manpower:** Managerial and non-managerial personnels employed in business constitute manpower. Not only survival but also success of an organisation largely depends on its skills, efforts and contributions of its managers. Manpower mobilises, allocates and utilises the financial and non-financial resources of an organisation.
- (2) **Machines:** Machines are commonly used to convert raw materials into semi-finished and finished products. Machines produce goods at reduced cost of production and also improve its quality. Efficient management of business nowadays mainly lies in the use of improved technology.
- (3) **Materials:** Materials consist of raw materials and semi-finished goods which are either converted or assembled into finished products with the help of production process. The quality and the cost of finished products depend largely on the quality and cost of materials. It is desirable to maintain adequate stock of materials to face variations in supply.
- (4) **Methods:** Methods indicate normal and prescribed ways of doing things. Various operations are undertaken as per certain systems and procedures. For every kind of work step-by-step sequence of actions are suggested which brings about smooth and efficient functioning in the business. The selection of right methods increase operational efficiency and contribute to effective management.
- (5) **Money:** Money is the lubricating factor in business. It is not possible to imagine a successful business in the absence of strong financial base. Money is employed to generate more money in the form of profits. Money can be self-contributed, borrowed from public subscriptions and banks and adjusted in the form of fixed and working capital.

- (6) **Markets:** Whether products or services, they need marketing. Successful marketing brings about increased financial resources back to business. Now marketing is the main challenge to every business. Better and improved marketing techniques must be implemented to achieve success in business.

#### **CHARACTERISTICS/FEATURES OF MANAGEMENT:**

- (1) **Management is a process:** Management is a process and not merely a body of individuals. Those who perform this process are called managers. The managers exercise leadership by assuming authority and direct others to act within the organisation. Management process involves planning, organising, directing and unifying human efforts for the accomplishment of given tasks. Management process continues as long as the enterprise is operating in the business world.
- (2) **Management is a social process:** Management takes place through people. The importance of human factor in management cannot be ignored. A manager's job is to get the things done with the support and cooperation of subordinates. It is this human element which gives management its special character.
- (3) **Management is action-based:** Management is always for achieving certain objectives in terms of sales, profit, etc. It is a result-oriented concept and not merely an abstract philosophy. It gives importance to actual performance.
- (4) **Management involves achieving results through the efforts of others:** Management is the art of getting the things done through others. Managers are expected to guide and motivate subordinates and get the expected performance from them. Management acts as an activating factor.
- (5) **Management is a group activity:** Management is not an isolated individual activity but it is an activity of a group. It aims at using group efforts for achieving objectives. Managers manage the groups and coordinate the activities of groups functioning in an organisation.

- (6) **Management is intangible:** Management is not directly visible but its presence is noticed in the form of concrete results. Management is intangible. It is like invisible spirit, which guides and motivates people working in a business unit. Management is like government, which functions but is not visible in physical form.
- (7) **Management is aided, not replaced by computers:** The computer is an extremely powerful tool of management. It helps a manager to widen his vision. The computer supplies ocean of information for important decision-making. The computer has unbelievable data processing and feedback facilities. This has enabled the manager to conduct quick analysis towards making correct decisions. However, it cannot replace men in business.
- (8) **Management is all-pervasive:** Management is comprehensive and covers all departments, activities and employees. Managers are working at different levels but their functions are identical. This indicates that management is a universal process.
- (9) **Management is an art, science as well as a profession:** Management has some features of art, science and profession. As a result, it is called an art, science and profession.
- (10) **Management aims at coordination of activities:** Coordination is the essence of management. It gives one clear direction to the whole organisation and brings unity and harmony in the whole business unit. For such coordination, effective communication at all levels is essential.
- (11) **Management is innovative:** Management techniques are dynamic and innovative. Such techniques are adjusted as per the requirements of the situations. One manager need not repeat the decisions of other manager. A manager has to change his decisions under different situations.
- (12) **Management has different operational levels:** Every organisation needs managers for managing business activities. The manager's job is basically the same at all

levels. The managers at the higher levels have more important duties while managers at the lower levels have to function in a routine manner.

### MANAGEMENT AS AN ART:

Is management an art, a science or a profession? The answer depends upon how we define these three key terms. The concept of management has various facets and interpretations. One such interpretation is that it is an art of using creative skills and talents in order to achieve well defined objectives. Management is a creative art of great significance. It is useful for getting the things done through others i.e. through the co-operation and participation of others. In general, management is treated as an art, a science and also a profession (three in one).

#### (a) What is an Art?

*Art is the most creative of all human pursuits.* It is a technique of using: (a) information, (b) knowledge, (c) expertise, and (d) experience for dealing with practical situations. Art is artificial. It is the creation of human skills. Art is in contrast with the work of nature. Human skill is used in a creative effort to produce works that have beauty as in music, painting, literature and so on. In management, art is used to create beautiful relationship between employers and employees.

*Art may be defined as "the technique of applying the principles to actual practice so as to achieve the desired result with efficiency".* Art is concerned with the application of skills and knowledge to actual/practical situations. An art is always practised. Art is thus concerned with the understanding of how a particular work can be accomplished. Management, in this sense, is more an art.

According to George R. Terry, art is "*bringing about of a desired result through the application of skill.*" In addition, Harold Koontz, Mary Parker Follett and others treat *management as an art of getting the things done through the efforts of others.*

#### (b) Justification for treating Management as an Art:

The following points justify that management is an Art:

- (1) **Management is creative:** Management is a creative art. Management is an art of decision-making. Every manager has to select the best decision out of many alternative decisions

available His decisions change along with the changes in the situations. This brings adaptability in the functioning of a business enterprise.

- (2) **Management is based on three factors:** Just like art, management is based on three factors viz., (a) judgement, (b) feeling, and (c) intuition. Management requires judgement in planning, forecasting and decision-making. Management uses feeling in delegation of authority, supervision and in handling employee grievances and intuition in leadership and on-the-spot decisions.
- (3) **Managerial decisions are for the accomplishment of goals / Objectives:** The managerial decisions are always for the accomplishment of certain goals/objectives already decided. The outcome of managerial decisions is visible in terms of production, sales, profit and so on. Manager should be practical and adopt result-oriented approach. He should see that the performance of activities gives concrete results in terms of achievement of objectives. For this, he has to secure co-operation and participation of his subordinates.
- (4) **Management involves the use of skills, knowledge and intelligence:** The role of a manager is similar to the role of an artist. Managers, like artists, do possess skills and intelligence. A manager uses his skills in appropriate decision-making, which is useful for achieving business objectives. Management involves the use of skills in decision-making. A manager needs intelligence so as to get the work done from the subordinates.
- (5) **Management is innovative:** A manager should be dynamic and innovative in his approach. Like an artist, he should not be satisfied with the routine work and decisions. In the competitive business world, new situations develop from time to time. A manager has to analyse them and find out new techniques for handling them. For this, he needs innovative approach. He should use his intellectual qualities and frame new policies for achieving the organisational objectives. Like artists, managers should be dynamic and innovative.

- (6) **Individual approach:** Every manager has his own style of administration. Like an artist, a manager practices the managerial skill in which he is best. A manager is a scientist as well as an artist.

**Management is an art because:**

- (a) It is creative and innovative;
- (b) It involves the use of skills and intelligence;
- (c) It is directed towards the accomplishment of well-defined objectives;
- (d) It involves initiative and use of skills in decision-making;
- (e) It is personalised. Every manager uses his skills, experience and qualities while solving managerial problems.

### **MANAGEMENT AS A SCIENCE:**

#### **(a) What is a Science?**

Science is defined as an organised body of knowledge pertaining to a specific area, critically tested and generalised into theories, laws and principles. It is a body of systematised knowledge which establishes a relationship between cause and effect.

Science includes physical sciences such as physics, mathematics and chemistry. The physical sciences are exact sciences. In addition to physical sciences, there are social sciences such as economics, psychology and sociology. Social sciences deal with human beings and are not exact sciences. Here, the results may not be uniform but variable, as human behaviour is always unpredictable. Management is a social science as it deals with human beings. The human nature is not predictable accurately. As a result, the decisions taken by managers may be uniform but the results available may not be uniform.

#### **(b) Management as a Science:**

It is universally recognised that management is an art as well as a science. F. W. Taylor is perhaps the first to treat management as a science. He advocated that business activities should be conducted as per certain well-defined norms/standards based on systematic observation and experimentation. Management is a social science.



**(c) Justification for treating Management as a Science:**

The following points justify management is a Social Science:

- (1) **Scientific methods for decision-making:** Managers use scientific methods while dealing with managerial problems. Such scientific approach suggests that management is a science. Managers collect information from different sources, analyse the same, draw conclusions and take appropriate decisions by using their knowledge and skills. Managers use information technology to the fullest extent for appropriate decision-making.
- (2) **Management is a body of knowledge:** The principles of management developed out of the experience of practicing managers. Research in management facilitates scrutiny of existing principles and generalisations and replaces or renovates them in the light of present environment. Thus, management is, now, treated as a body of knowledge critically examined for suitable modifications. This suggests that management is a science.
- (3) **Universal application of management principles:** There are certain well-accepted and tested principles of management. They include principles suggested by F. W. Taylor and others. Such principles are used by organisations throughout the world. However, actual application may vary from organisation to organisation as per the need of the situation. However, the basic principles of management are uniform, well tested and universally applicable.
- (4) **Identical results may not be available:** In physical sciences, the principles, practices and the results are also uniform. However, in management the principles and practices are uniform but the results may not be identical. They vary as per the prevailing environment and the skills, maturity and experience of concerned managers. Moreover, management deals with human beings and human behaviour is always unpredictable. The application of principles of management may not give the same results at all times and under all situations. Management is different from physical science as regards the outcome/results available.

**Management is a Science because:**

- (a) It consists of a body of organised knowledge.
- (b) It investigates from known to unknown premises.
- (c) It collects information through observation & experiments.
- (d) It uses scientific methods.
- (e) It is an inexact science because efforts are fully known but the result is known only approximately.

**MANAGEMENT IS BOTH AN ART AND AS A SCIENCE:**

Management is both an art and a science. The art of management consists in handling every situation in an effective manner. The practicing manager can be compared with a carpenter who has to cut, refashion and combine the wood to execute his orders. Like an artist, the manager adapts himself. On the other hand, the science of management provides certain general principles which can guide the managers in their professional efforts. In case the present body of knowledge does not help to solve the problem, he will try to find out new solutions and thus add to the science of management. Neither art should be discounted nor science should be over-emphasised. Both art and science go hand-in-hand. They are mutually interdependent and complimentary.

**MANAGEMENT AS A PROFESSION:****MEANING OF PROFESSION:**

Profession means a vocation which involves service to people through application of professional knowledge. Profession is an occupation which renders expert services to its clients. Professionals have specialised knowledge and skills, which they use for instructing, guiding/advising their clients. Professionals are self-employed experts and charge commission/fees for their services. They are members of their professional association and have to follow code of conduct prepared by their professional body. The relationship between professional and his clients is based on mutual trust and confidence.

**DEFINITION OF PROFESSION:**

Profession is defined as "calling in which one professes to have acquired a specialised knowledge which is used either in instructing, guiding or advising others."

**CHARACTERISTICS OF A PROFESSION:**

- (1) **Specialised knowledge:** Professionals require expert knowledge and skills. A profession is a continuous study, so that new techniques are acquired to improve and enhance the profession.
- (2) **Qualifications:** The qualification must be based on formal body of knowledge obtained through formal learning, training and experience. Their learning techniques must be intellectual in nature.
- (3) **Code of conduct:** Professionals have to follow well-defined code of conduct. A professional manager is conscientious in his role and is honest in his attitude and philosophy.
- (4) **Registration:** A professional has to register himself with the professional body, which issue licence to act as a professional.
- (5) **Fees:** Professionals normally charge fees for their services.
- (6) **Operation:** Professionals operate from their own offices and are accountable to their clients.
- (7) **Specialisation:** Every professional specialises in one specific field and operates in that field only.
- (8) **Social obligation:** A professional must operate with a professional spirit and a sense of mission which is in tune with the aims and objectives of the society. He must be willing to give unselfish service to the community and respond positively to the growing needs of the society.
- (9) **Association:** Professionals form their associations, which guide them, to raise the standard of their profession.
- (10) **Formal education:** There are recognised institutions, which provide facilities for acquiring knowledge and skills required for a specific profession.
- (11) **Personal qualities:** A professional must possess certain personal qualities like maturity, patience, sophistication and analytical ability. He must behave "professionally".

### **APPLICATION OF FEATURES/CHARACTERISTICS OF PROFESSION TO MANAGEMENT:**

Applying the features noted above, it can be concluded that in some respects, management appears to be a profession. The following features of profession are applicable to management:

- (1) **Body of knowledge:** Management has reasonably well-defined body of knowledge which is transferable. There are basic principles of management which can be identified, mastered and practiced. Knowledge is enriched from the experiences of successful managers and research findings.
- (2) **Specialised skills:** Managers are, now, specialised in specific areas of management such as accounts, marketing and product research. They use their specialised skills and expertise while dealing with managerial problems in their specific field.
- (3) **Education and training:** Managers get specialised practical education and training through different management training institutes. This creates a team of professional managers at the business level.
- (4) **Sophisticated tools:** Managers are using sophisticated tools and techniques (e.g. computer and information technology) while performing their functions.
- (5) **Code of conduct:** Professional managers are alert as regards their duties, responsibilities and professional code of conduct and social obligations.
- (6) **Social status:** Professional managers occupy prestigious social status due to their qualifications and positive contribution in efficient management of business.

Along with these plus points, the following features of profession are not applicable to management:

- (1) **Unrestricted entry:** The entry in the field of management is not effectively regulated through minimum formal education/qualifications/training experience.
- (2) **Absence of licensing:** There is absence of single group to which majority of managers belong. In India licensing is practically absent in the case of practicing managers.

- (3) **Absence of uniform code of conduct:** There is absence of uniform code of conduct for managers in India. Managers use high-pressure tactics and unfair competition to increase the market share of their products.
- (4) **No fixed client:** Management is not able to identify a specific client system to which it owes its loyalty.
- (5) **Unethical practices:** In the absence of code of conduct, managers sometimes, indulge in unethical practices aimed at maximising personal gains. Even the concept of accountability is absent in the case of managers.
- (6) **Absence of uniform rules:** Absence of national/state level institution that frames rules and regulations to be followed by all practicing managers.
- (7) **Salaried managers:** Majority of managers get regular salaries and perks and not fees for their services.
- (8) **Monetary gains:** The motto of every professional manager should be service before self. In practice, management as a profession lacks service motive.

### IS MANAGEMENT A PROFESSION? /MANAGEMENT AS A PROFESSION:

It is difficult to classify modern management as a profession. Management does not fulfil all the features of a profession as explained earlier. If we view the concept of professionalism, it is evident that the trend over the past several decades has been towards greater compliance with these elements of professionalism. While we may agree with Donham that "business is not a profession", "business cannot be a profession", and that "business should not attempt to 'pass' as a profession, there has been a movement towards professionalisation of management.<sup>6</sup>

Management can be treated as professional activity to some extent but cannot be treated as a full-fledged profession. It is interesting to note that well-known management thinker Peter Drucker is not favourable to professionalised management.

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<sup>6</sup> Is Management a Profession? - Paul Donham, p. 66.

In recent years, there has been a growing body of systematic knowledge concerning management of complex business organisations. The role of the manager has been legitimised. This role has the sanction of the community. There is a growing number of professional management associations particularly in the various specialised aspects of business. There is a nucleus of the development of social control. There is clear drive towards the professionalisation of management. This is based on attention to expertise, knowledge and qualifications and the relationship between these and the value added to organisations by expert managers. However, current trend treats management as a high-class profession. Business enterprises prefer to have professional managers for dealing with complicated managerial problems. In the words of C. G. George *"Management is not outright a profession but it is taking a giant step in that direction"*.

#### **(A) MANAGEMENT OF BANKING:**

The existence of an industrial society is unimaginable without a strong, efficient and technology supported banking system. The primary function of a bank is to receive deposits and lend or invest the same. The role of Indian banks has significantly changed since 14 major commercial banks were nationalised in 1969. In addition, 6 more commercial banks were nationalised in 1980. Indian banking system has gone from urban oriented to rural oriented. The concepts, practices, procedures and methods in banking operations have changed for the better. Banks in India have **multi-people interest providing multi-people happiness**. The complexion of Indian banks has changed as they now offer many new products such as credit cards, debit cards, smart cards, personal loans, anywhere banking, internet banking, portfolio management, social banking, demat account, gift cheques, mutual funds, mobile banking and so on.

Banking belongs to service sector. Its survival and growth depends on customer patronage. Good quality of service will attract customers and bad quality of service will drive them away. Banks must provide efficient service to retain the present customers and to attract new customers. Banking services are based on 7 Ps viz., product, price, place, promotion, people, procedure and physical evidence. Banking services need

segmentation because they deal with different types of customers staying and working in different localities. Every bank needs deposits. Investors would be prepared to put in their hard earned money but they want security at fixed rate of returns. This is where nationalised banks score. Banks get best promotion through mouth to mouth publicity. A satisfied customer brings lot many customers. The challenge before every bank is customer retention. Banks must address the needs of customers effectively to survive in this age of cut-throat competition. Reliable, quick and efficient customer service alone will motivate the existing customers to continue and induce new customers to try out the services. Bank employees must realise that customer is the most important visitor in their premises. He is not dependent on the bank but the bank is dependent on him. Employees are not doing the favour; the customer is doing a favour by giving an opportunity to serve him. It is for this purpose that employees are employed in the bank. A sound management of banking must implement the following CRM programme:

- (1) Attend to the customer face to face.
- (2) While serving the customer give personal attention.
- (3) Give expert opinion whenever asked for.
- (4) Make wide use of technology.
- (5) Avoid confrontation with customers.
- (6) Show women customers highest respect and regards.
- (7) Specialised services should be handled by the experts.
- (8) Use empathy to solve customers' problems.
- (9) Explore possibilities of helping customers.
- (10) Welcome a customer, send back a friend.

Post 1991 Indian banks are now called upon to perform diversified functions both at micro and macro levels. Apart from the structured objectives of resource mobilisation and lending resources profitably; banks now require professional management to accomplish the following targets:

- (1) To provide banking facilities throughout the country.
- (2) To ensure that every village is linked to banking.
- (3) To finance industrial and service sectors.
- (4) To finance self-employment projects.

- (5) To improve standard of living of the people by providing loan facilities.
- (6) To encourage banking habits among down-trodden and weaker sections.
- (7) To discharge social obligations.
- (8) To scan external environment in order to update its policies.
- (9) To give a sense of utmost security to its depositors.
- (10) To support women entrepreneurs.

#### **(B) MANAGEMENT OF INSURANCE:**

Life is full of uncertainties. Both property and human life are exposed to risks. It is not possible to eliminate risks but they can be insured. Insurance protects economic value of assets because every asset has a value. Every asset provides the useful service for a given period of time may it be goods, property or human life. None of them will last forever. The asset may get lost or destroyed earlier e.g., a motor car meets with an accident and is fully damaged. Now the owner is deprived of the benefits of having personal car. This is a crisis situation. Insurance helps to reduce the effects of such adverse situation by indemnifying the loss.

Assets are exposed to perils such as fire, floods, earthquakes, lightning, dangers on high sea, breakdowns and in case of human assets, accidents or death. Under these perils, assets are likely to be destroyed or made non-functional. This is what is called **exposed to the risks**. Insurance cannot wipe out the risks. It can only cover the risks. It is important to remember that insurance covers only economic consequences; the loss of which can be calculated in terms of money. Management of insurance is done by mobilising financial resources from the largest number of people and providing compensation to those who suffer from loss; who are likely to be of small numbers.

The success of insurance business depends on getting as large number of insured as possible. Only this will ensure economies of large scale operation. Insured takes into account the track record of insurance companies. Where the company has good record of settlement of claims, prospective insured are motivated to take insurance policy from that company e.g., LIC of India maintains



the best records relating to settlement of claims. It stands tall with more than four-fifth of the market share. Insurance companies must give highest respect and regard to the customers because their cooperation ensures smooth functioning of the business. Agents need to be trained in customer relationship management. Prospective customers require guidelines to enable them to make correct decision and select the most befitting policy. In order to protect the interests of policyholders Insurance Regulatory and Development Authority Act (IRDA) was passed in 1999. Insurance Council appoints Ombudsman to settle complaints raising between insurer and insured objectively, impartially and efficiently. The liberalisation of Indian insurance sector has taken place. Foreign Direct Investment (FDI) is allowed in insurance. This has led to alliances between Indian and foreign companies such as ICICI and Prudential, (UK); HDFC and Standard Life (UK); Tata – American International Group (USA) etc. Life, Fire and Mediclaim are popular forms of insurance where the young people can think of making a career as agents. Fresh graduates, preferably with commerce or statistics background with analytical skills are preferred.

### Objective Questions with Answers

- (1) Select the correct alternative and rewrite the statements:
- (a) Management is \_\_\_\_\_. (*March 18, 19*)  
(i) tangible (ii) intangible (iii) rigid (iv) visible
  - (b) Management is an \_\_\_\_\_ resource.  
(i) isolated (ii) economic (iii) internal (iv) external
  - (c) Management is \_\_\_\_\_.  
(i) dynamic (ii) permanent (iii) forecasting (iv) modifying
  - (d) \_\_\_\_\_ determines business objectives.  
(i) Top management (ii) Middle management (iii) Lower management (iii) Staff management
  - (e) \_\_\_\_\_ is the only lively resource.  
(i) Machine (ii) Money (iii) Man (iv) Material
  - (f) \_\_\_\_\_ is the most creative of all human pursuits.  
(i) Profession (ii) Science (iii) Art (iv) Engineering
  - (g) Management of \_\_\_\_\_ deals with customer retention.  
(i) industry (ii) banking (iii) media (iv) hotel
  - (h) Management of insurance mobilises \_\_\_\_\_ resources.  
(i) material (ii) financial (iii) non-monetary (iv) production
  - (i) Management uses \_\_\_\_\_ of management.  
(i) 4Ms (ii) 5Ms (iii) 6Ms (iii) 7Ms
  - (j) Management is \_\_\_\_\_ not absolute.  
(i) degree (ii) relative (iii) passing (iii) flexible

- (k) Management is \_\_\_\_\_ process.  
 (i) social (ii) production (iii) one time (iv) cultural
- (l) Management is an \_\_\_\_\_ science and profession. (Nov. 16)  
 (i) art (ii) law (iii) politics (iv) philosophy
- (m) Management principles are \_\_\_\_\_. (Nov. 17)  
 (i) applicable to commercial organisation only (ii) Universally applicable (iii) not relevant (iv) not practical

[Ans.: (a - ii), (b - ii), (c - i), (d - i), (e - iii), (f - iii), (g - ii), (h - ii), (i - iii), (j - ii), (k - i), (l - i), (m - ii)]

(2) Fill in the blanks choosing the correct alternatives:

- (a) Management is \_\_\_\_\_. (Oct. 18)  
 (i) doing the work (ii) getting the work done (iii) getting updated
- (b) Management is a \_\_\_\_\_ process.  
 (i) rigid (ii) flexible (iii) social
- (c) Management is \_\_\_\_\_.  
 (i) artificial (ii) natural (iii) improved
- (d) Management is \_\_\_\_\_ science. (March 19)  
 (i) pure (ii) an exact (iii) an inexact
- (e) Management is opposed to \_\_\_\_\_ practices.  
 (i) autocratic (ii) unethical (iii) democratic
- (f) This is the age of \_\_\_\_\_ knowledge.  
 (i) pure (ii) theoretical (iii) applied
- (g) The trend is towards professionalisation of \_\_\_\_\_.  
 (i) administration (ii) management (iii) organisation
- (h) Banking services are based on \_\_\_\_\_.  
 (i) internet (ii) MBO (iii) CRM
- (i) IRDA was passed in \_\_\_\_\_.  
 (i) 1999 (ii) 2000 (iii) 2001

[Ans.: (a - ii), (b - iii), (c - i), (d - iii), (e - ii), (f - iii), (g - ii), (h - iii), (i - iii), (j - i)]

(3) State whether the following statements are TRUE or FALSE:

- (a) Management is a physical science.
- (b) Management is doing the work. (Nov. 16)
- (c) Management is an economic resource.
- (d) Management relates to individual efforts not group efforts.
- (e) Management as an art represents a field of creativity.
- (f) Lower management maintain discipline.
- (g) Management uses scientific methods.
- (h) Managers must behave professionally. (March 17)
- (i) Banks use CRM programme.
- (j) Insurance business is based on economies of large scale operation.
- (k) Management is a continuous process. (Nov. 17)
- (l) Management is a social process. (March 18)
- (m) Management of banks is a risky issue.
- (n) Insurance business flourishes due to spread of coronavirus.
- (o) Management is a system of authority.
- (p) Ineffective management cuts at the very roots of economy.
- (q) Supervisors are responsible to report to BoD about the performance of the organisation.
- (r) Materials include manpower also.
- (s) Management is a psychological process.
- (t) Management is judgemental.

[Ans.: (a) False, (b) False, (c) True, (d) False, (e) True, (f) True, (g) True, (h) True, (i) True, (j) True, (k) True, (l) True, (m) True, (n) True, (o) True, (p) True, (q) False, (r) False, (s) False, (t) True]

(4) State whether the following statements are TRUE or FALSE:

- (a) Management is intangible.
- (b) Management is not replaced by computers.
- (c) Manpower is the single most important resource in business.
- (d) Management represents slack career.
- (e) Middle management determines business objectives.
- (f) Top management arranges tools, equipment and materials.
- (g) Money is the most important M in six Ms.
- (h) Management is not a profession.
- (i) The challenge before every bank is customer retention.
- (j) Insurance can wipe out the risks.
- (k) Management is different from ownership. (March 19)

[Ans.: (a) True, (b) True, (c) True, (d) False, (e) False, (f) False, (g) False, (h) False, (i) True, (j) False, (k) True]

(5) Match the following:

Group 'A'	Group 'B'
(a) Management	(i) Business Procedures
(b) Nature of Management	(ii) Innovative
(c) Ineffective Management	(iii) Wide use of Technology
(d) Top Management	(iv) Code of Conduct
(e) Middle Management	(v) A mark of Discipline
(f) Non-managerial Personnels	(vi) Perils in Business
(g) Art	(vii) Mission of Business
(h) Profession	(viii) Group Activity
(i) Management of Banking	(ix) Logical
(j) Management of Insurance	(x) Manpower
	(xi) Loss of Business

[Ans.: (a - viii), (b - v), (c - xi), (d - vii), (e - i), (f - x), (g - ii), (h - iv), (i - iii), (j - vi)]

(6) Match the following:

Group 'A'	Group 'B'
(a) Creative Management	(i) Markets
(b) Managerial Activities	(ii) Body of Knowledge
(c) Mission of Business	(iii) Customer Favour
(d) Supervision Responsibilities	(iv) Code of Conduct
(e) Six Ms	(v) Allowed in Insurance Sector
(f) Not replaced by Computers	(vi) An Art
(g) Management Science	(vii) As a Process
(h) Professional Managers	(viii) Lower Management
(i) Banking Prosperity	(ix) To get things Done
(j) FDI	(x) Management
	(xi) Top Management

[Ans.: (a - vi), (b - ix), (c - xi), (d - viii), (e - i), (f - x), (g - ii), (h - iv), (i - iii), (j - v)]

## Question Bank for Self-Practice

- (1) Define management. Explain/Discuss management as a profession. (Oct. 18; March 19)
- (2) Discuss the concept of management. Explain its features. (Nov. 17)
- (3) Define management. Explain its importance. (March 17)
- (4) What is meant by the term 'management'? Explain nature of management.
- (5) Define management. Explain the importance of management. (Nov. 16)
- (6) What are the levels of management? Explain the functions of each level.

- (7) Do all managers at all levels of management perform all the functions?
- (8) Distinguish between levels of management.
- (9) State the main features of management.
- (10) Explain six Ms of management.
- (11) Define management. Explain the main characteristics of management.
- (12) Is management both an art and a science? Give your views.
- (13) Why is management called an art?
- (14) Justify that management is a science.
- (15) What do you understand by the term 'profession'? Bring out its main characteristics.
- (16) Define profession. Is management a profession? *(Nov. 17)*
- (17) State the need for and importance of management of banking.
- (18) Why is customer considered the most important visitor to the bank premises?
- (19) How can banks contribute in national development?
- (20) How to manage insurance companies well?
- (21) "The interest of insured is well protected under IRDA." Explain.
- (22) Write short notes:
  - (a) Nature of Management.
  - (b) Six Ms of Management.
  - (c) Characteristics of Management.
  - (d) Management as an Art and Science. *(March 17)*
  - (e) Management as a Profession.
  - (f) Management of Banking.
  - (g) Management of Insurance.

Question Bank for BBA - 1st Sem

## Chapter 2

# Traditional v/s Contemporary Management

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*Change the changeable, accept the unchangeable and remove yourself from the unacceptable.*

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*— Denis Waitley*

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*Traditional Management: Meaning, Features and Advantages and Limitations. – Contemporary Management: Meaning, Features and Advantages, Limitations – Meaning of Six Sigma, Six Sigma in Banking, Six Sigma in Insurance – Distinguish between Traditional and Contemporary Management – Traditional vs. Contemporary Management – Contributions of Contemporary Writers: (1) Henri Fayol, (2) F. W. Taylor, (3) Peter Drucker, (4) C. K. Prahalad, (5) Vijay Govindarajan – Question Bank for Self-Practice.*

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### TRADITIONAL MANAGEMENT

#### MEANING OF TRADITIONAL MANAGEMENT:

The traditional management is based on old customs and traditions developed out of ancient Indian culture. It has a long history in India. It started in the 19th century by certain business communities such as Marwaris, Gujaratis, Jains and Parsis. The enterprises started by them were engaged in production and marketing activities and were managed on family basis. In fact, the term traditional management is used in the case of business enterprises/houses owned and managed by joint families following age old traditions.

In spite of inadequate means of communication, language barriers and different social customs, these business families often with little education and technical knowledge established themselves wherever they went. The families who came from the

same community worked together. These traditional businessmen were guided by the prime motive of earning profits. At no stage they took into consideration the needs, requirements, likes and dislikes of consumers. Invariably, consumers were totally neglected. There was no element of service in business. Most of the business operated on the lines of Joint Hindu Family where Karta was all in all powerful. It is not uncommon to find an organisation managed by a single person who believes that delegation of authority is unwise. Traditional management has autocratic style of functioning. The business atmosphere is affected by management inaction, distrust and power politics.

### FEATURES / CHARACTERISTICS OF TRADITIONAL MANAGEMENT:

- (1) **Business management on family basis:** Under the traditional management, business activities are managed on family basis. The business is run by joint family under the leadership and control of senior member of the family called 'Karta'. The business activities undertaken were limited due to financial, managerial and other constraints. Companies were also run on family basis with major portion of shareholding owned by family members only.
- (2) **Key managerial positions to family members:** In the traditionally managed business, the key managerial positions are reserved for the family members only. The purpose is to maintain hold on the decisions and policies of the business run by the family. The family members occupy key positions irrespective of their education, experience and management skills. Moreover, they rarely retire on their own.
- (3) **Preference for same community:** Close relatives of family members were hired first. Thereafter, suitable candidates from their communities were appointed for the management of business. This is how **priority to community people** is given in the traditionally managed business.
- (4) **Limited formal education to owners:** In the traditionally managed business, the owners of business are the family members only. However, many of them have limited formal education. Naturally, traditions and practices are given more

importance and they use their past experience while running the business.

- (5) **Autocratic style of management:** In the traditionally managed business, the style of business management is not democratic but autocratic. The power of decision making is in the hands of few persons. The head of the business dominates employees and others connected with the business. This brings **centralisation of authority in business management**. Normally, the person responsible for starting the business keeps his control on the business.
- (6) **Business decisions by owners themselves:** In the traditionally managed business, the family members who occupy key positions in the management take the decisions regarding business activities. The authority is centralised with the owners and the delegation is practically absent except in the case of routine matters. The employees are not expected to express their views on business matters and are not consulted while framing policies and taking decisions.
- (7) **Emphasis on profit and quick results:** The traditionally managed business organisations are interested in quick monetary gains. The basic objective of running the business is profit maximisation. The other objectives such as offering quality service and satisfaction to customers, market reputation, etc. are given limited importance.
- (8) **Limited attention to consumers:** Traditional management is not consumer-oriented or service-oriented. The consumers are taken for granted. Their importance and expectations are not given much attention while taking business decisions.
- (9) **Priority to traditions:** In traditionally managed business, the owners give special importance to business traditions established over long period. Business is managed on certain conventions and beliefs. The proprietary interests are protected. Efforts are made to keep close link with the past. For this, a tradition of paying homage to the founder of the organisation on his birth anniversary is established. Reference is also made to the founder and his qualities and contribution on various occasions. The purpose is to develop similar qualities among the younger generation of the family.

- (10) **Reward for personal loyalty:** In the family run business, personal loyalty to the owner is given priority. Reward to employees in terms of promotion, increment, special facility/concession, etc. are given because of personal loyalty and not because of efficiency. Modern management techniques such as performance appraisal, etc. are given limited importance in family run business.

#### **ADVANTAGES OF TRADITIONAL MANAGEMENT:**

- (1) **Prompt decisions:** Business decisions are taken promptly and implemented quickly, as decision-making power is concentrated in the hands of family members. The follow-up actions are also quick.
- (2) **Well established traditions:** Good traditions of business management are passed on from one generation to another. This creates goodwill for the business. Such traditions are treated as guiding principles of business management.
- (3) **Efficient management:** Business is managed efficiently as family ties act as motivational force for all participants in the business. Even the cost of managing business is low.
- (4) **Prompt solution of problems:** Business problems are solved quickly as decisions are taken promptly by the head of the family or by few family members. This brings adaptability to managing business.
- (5) **Effective coordination:** Effective coordination in the business activities is possible as few persons with powers run business.

#### **LIMITATIONS OF TRADITIONAL MANAGEMENT:**

- (1) **Unsuitable to large business:** Traditional management can operate properly only when the business is conducted on a small scale. It is not suitable for large scale business.
- (2) **Lacks adaptability:** Traditional management fails to adjust itself with the new changes taking place in the business environment. Traditional management is not responsive to growing and changing needs of business.
- (3) **Use of old and outdated techniques:** Traditional management uses old and outdated techniques. Technological, managerial and organisational changes are not



- introduced quickly. Naturally, it is not suitable to present business, which is becoming highly competitive and global.
- (4) **Concentration of powers with few:** In traditional management, there is too much concentration of powers in the hands of few. Such dictatorial approach is not suitable to present democratic style of management.
- (5) **Indifferent to consumers:** Consumer satisfaction and welfare are neglected in traditional management. Too much attention is given to profit maximisation. The concept of social responsibility is also discarded.

## CONTEMPORARY MANAGEMENT

### MEANING OF CONTEMPORARY MANAGEMENT:

Contemporary management means managing business organisation with new methods and techniques. It is more a matter of management style and less a matter of definition or form. Contemporary management is needed due to:

- (a) large size of business units,
- (b) use of modern technology,
- (c) growing consumer orientation to business,
- (d) growing market competition, and
- (e) globalisation of business.

Contemporary management is more progressive and scientific as compared to the traditional management. Contemporary managers are highly educated, skilled and competent. They have capacity to understand, study and deal with all sorts of challenging situations efficiently. It is receptive to new ideas and developments.

The composition of the business class is rapidly changing with the proportion of educated men fast increasing. This change in the attitude of business class towards professional education will affect the behaviouristic pattern of the entrepreneurial class. These enlightened members have brought a great change in the organisations by giving sympathetic attention to the development of their subordinates. This has enabled the employees to discharge their duties more effectively and also prepare for greater

responsibility. Contemporary management has supported managerial competence, commitment to national objectives and concern for workers. Now organisations are managed by applying modern management techniques to develop and expand the business, to achieve and attain the ambition, aspirations and expectations of the owners and the society. Conflicts are settled through well planned, organised and systematic human approach to all organisational responsibilities. Contemporary management, like human life, keeps responding to changes.

### FEATURES/CHARACTERISTICS OF CONTEMPORARY MANAGEMENT:

- (1) **Sound educational background to managers:** Contemporary managers have sound background of formal education. Many of them have MMS/MBA qualifications or other specialised qualifications relating to marketing, finance, materials management, store-keeping, computers, information technology and so on. This is in addition to the degree in commerce, engineering or accounting. Arrangements are also made for updating the training of managers in service.
- (2) **Middle age group managers:** Contemporary managers are normally from the middle age group. Contemporary managers now include men as well as women. Women managers usually prefer certain areas of management such as hotel management, tourism, advertising and marketing research.
- (3) **Rational decision-making:** Contemporary managers have capacity to think, analyse situations and take proper decisions for future business activities. Such decisions are rational and useful to the organisation.
- (4) **Capacity to accept challenges:** The contemporary managers are competent to accept new problems and challenges and deal with them with confidence. This is possible due to their educational and training background and capacity to use new techniques in information technology.
- (5) **Use of new management techniques:** Contemporary managers use modern management techniques such as computer, automation, and information technology for dealing with the managerial problems.

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- (6) **Updating of knowledge and skills:** Contemporary managers keep their knowledge, skills and information up-to-date through different methods such as studying management books or by attending seminars and conferences. They also join membership of contemporary organisations. This raises their administrative capacity.
- (7) **Faith in decentralisation and delegation:** Contemporary managers have full faith in decentralisation and delegation of authority. They are democrats in their outlook and approach.
- (8) **Guided by code of business ethics:** The actions of contemporary managers are guided by a code of business ethics. They support the concept of social responsibility and social audit.
- (9) **Faith on participative management:** Contemporary managers are favourable to participative management. They encourage the participation of subordinates in the decision-making process.
- (10) **Socially conscious:** Contemporary managers consider business as a socio-economic institution for profit as well as for service to customers. They prefer to do justice to all social groups such as investors, customers and employees.

#### **ADVANTAGES OF CONTEMPORARY MANAGEMENT:**

- (1) **Progressive:** Contemporary management is enlightened, progressive and democratic.
- (2) **Initiative:** It gives ample scope to professionally qualified managers to take interest and initiative in the management of business.
- (3) **New techniques:** It uses new tools and techniques for raising overall efficiency of business.
- (4) **Competency:** Contemporary management has inbuilt capacity to face new challenges with confidence.
- (5) **Customer-friendly:** Such management is consumer as well as service oriented.
- (6) **Knowledgeable:** Contemporary managers constantly update their knowledge and develop managerial skills and capacity to face all sorts of problems with confidence.

### LIMITATIONS OF CONTEMPORARY MANAGEMENT:

- (1) **Costly:** Contemporary management is costly due to high cost of professionals.
- (2) **Dearth of Managers:** There is a dearth of honest, highly competent and result-oriented contemporary managers.
- (3) **Lack of practical orientation:** Sometimes, contemporary managers are more theoretical and less practical in their approach.
- (4) **Relative success:** Professionally managed companies are not necessarily better performers. This suggests that contemporary management will not raise business efficiency in an automatic manner. Contemporary managers have to use their skills, experience, etc. for raising such efficiency.
- (5) **Delays in decision-making:** Decision-making and policy framing are delayed under contemporary management as this management system operates on democratic principles.

### A NOTE ON TOTAL QUALITY MANAGEMENT (TQM):

#### Meaning of Total Quality Management (TQM):

Total quality management is a comprehensive concept and not related only to the quality of goods and services. TQM is a preventive approach and not a corrective one. It aims at producing best possible product and service through regular innovation by *doing right things every time*.

Total quality management reflects the culture of an organisation. It indicates consumer-oriented, quality-oriented management philosophy. It is a commitment to quality by all managers and workers. TQM is a philosophy for achieving customer satisfaction, which involves all - managers, employees and users. It is *management by commitment and not management by control*. TQM encourages formation of quality circles.

#### Features of TQM:

- (1) **Stress on quality management:** In TQM, collective efforts are made for improving quality of goods and services to give higher satisfaction to consumers. Quality improvement is also useful for facing market competition and for earning market reputation. TQM covers all functions, activities and people who help to raise the competitiveness of an enterprise.

- (2) **Continuous process:** TQM is a continuous process as there is ample scope for using new methods and techniques for improvement in the quality standards and performance. *"Steal ideas constantly and shamelessly"* is the rule in TQM. Implementation of innovative ideas or taking benefit of new opportunities is an integral aspect of TQM. In fact, TQM is a never-ending quest for achieving new levels of performance.
- (3) **Stress on quality assurance system:** The aim of TQM is to give maximum satisfaction to consumers by providing goods, which are best in quality (zero defects). The present ISO 9000 series is a set of well-recognised standards for quality assurance system.
- (4) **Linkage of quality and productivity:** TQM technique is useful for improving quality as well as productivity. The methods used in TQM programmes e.g., zero defect production makes all employees responsible for quality maintenance and improvement. It also leads to higher productivity.
- (5) **Gradual process:** Introduction of TQM is a gradual process. It is self-improvement and group improvement programme through team building. **Following are the four broad phases in the introduction of TQM:**
  - (a) Awareness Phase,
  - (b) Planning Phase,
  - (c) Implementation Phase,
  - (d) Institutional Phase.
- (6) **Employee's involvement:** TQM is possible only through participative management. Under TQM, employees will be motivated to participate actively in the process of quality improvement through incentives, rewards and recognition. TQM creates teamwork where workers are trained and motivated properly.
- (7) **Formation of quality improvement teams:** A cornerstone of TQM is the team building that leads to commitment to improvement. There are several types of such teams such as quality steering teams, corrective action teams and so on.
- (8) **Management's involvement:** TQM is a system approach in managing business and improving overall performance. It needs total commitment from the top management to provide viable leadership to the whole approach.

### MEANING OF SIX SIGMA:

In 1986, Bill Smith, a Motorola engineer, developed the six sigma programme. Six sigma is a set of tools and strategies for process improvement. Six sigma attempts to improve the quality of process output by identifying and removing the cause of defects or errors. It minimizes variability in manufacturing and business processes. Under six sigma Motorola defined six standard deviations of variation which could be squeezed within the limits defined by their customer's specification. This meant significant and valuable degree of improvement in providing products, services and processes. Six sigma uses a set of quality management methods such as statistical methods. It also creates a special hierarchy of people within the organization. Six sigma project follows a specified sequence of steps having quantified value targets e.g., cutting down pollution, cost reduction, increase in profits, process cycle time reduction, customer satisfaction etc.

Six sigma has two major objectives:

- (a) To improve the customer satisfaction by removing defects in products/services.
- (b) To reduce sources of variations and improving quality and productivity through continuously improving processes.

Six sigma is a set of tools that a company adopts or adapts to achieve dramatic improvement in its profits. The use of these tools cut down costs and remove inefficiencies in production or in use of resources. Six sigma helps a company to re-tool and re-create itself with a view to prevent problems and defeats. With the use of six sigma a company can apply statistical tools, measure its processes and analyse them to reduce variation in output. When processes are measured, they need to be documented. The company can recreate the same process to meet six sigma specifications leading to improvement in customer satisfaction. The key concepts of six sigma are as follows:

- (1) **Critical to Quality:** Attributes most important to customer.
- (2) **Defect:** Failure to deliver what the customer wants.
- (3) **Process Capability:** What you process can deliver.
- (4) **Variation:** What the customer sees and feels.

- (5) **Stable Operations:** Ensuring consistent, predictable processes to improve what the customer sees and feels.
- (6) **Design for Six Sigma:** Designing to meet customer needs and process capability.

#### **SIX SIGMA IN BANKING:**

Six sigma develops satisfied customers and efficient operation for sustained success within banking services. Six sigma used in the banking industry is referred to as the DMAIC process: (a) define (b) measure (c) analyse (d) improve and (e) control. Nowadays six sigma is widely used in the service sector. It is a disciplined technique that uses data and statistical analysis to measure and improve a bank's operational performance by identifying and eliminating "defects". Six sigma is perfectly suited to the needs of banking industry as employees are in constant contact with customers and has customer delight as its top priority. Citibank was the first in banking industry which implemented six sigma to meet customers' requirements and attain client's satisfaction. ICICI bank applied six sigma to: (a) improve phone banking operations (b) improve conversions and (c) impact revenue. Banks use six sigma to achieve optimum productivity. It reduces inefficiency by cutting down errors and unnecessary approvals. Efficiency is the key to successful banking. Banks that are inefficient face financial problems. In addition to ICICI, HDFC and Axis banks have successfully used six sigma to improve overall efficiency.

#### **SIX SIGMA IN INSURANCE:**

The adoption of six sigma by insurance industry has resulted into reducing operating costs and improving performance. It has brought about overall improvement in the methods of doing business both life insurance and general insurance. Six sigma has reduced delays wherever applicable e.g., issue of policies, claim settlement, sending quotes to corporate customers etc. In the past, insurance companies kept a margin for human errors. With the introduction of six sigma errors are reduced in bills and statements along with marketing information system (MIS). It has been able to comply with all the statutory requirements. Added to this, insurance companies have succeeded in maintaining and improving benchmark standards. Insurance approval process



time has been significantly reduced. Six sigma has reduced rework in steps involved in insurance policy issue. Insurance companies are now in a position to detect and reduce false claims. Further, policyholder data are accurately maintained. As private sector has entered into insurance business there is stiff competition to grab the business. Arising out of it, LIC and General Insurance working in the public sector have no option but to adopt the best techniques to manage and grow the business. One such reliable technique is six sigma.

### DISTINCTION BETWEEN TRADITIONAL AND CONTEMPORARY MANAGEMENT:

<i>Traditional Management</i>	<i>Contemporary Management</i>
<p><b>(1) Ownership and management:</b> In traditional management business activities are managed on family basis. Ownership and management are with the family members.</p>	<p>In contemporary management business is managed by professionally qualified managers and ownership is with the shareholders.</p>
<p><b>(2) Suitability:</b> Traditional management is not suitable to the present industrial economy of India, which is becoming global.</p>	<p>Contemporary management is quite suitable to the present industrial economy of India.</p>
<p><b>(3) Style of management:</b> Traditional management is autocratic.</p>	<p>Contemporary management is democratic.</p>
<p><b>(4) Importance to profit:</b> Profit is given prime importance.</p>	<p>Profit is supplemented by service/consumer satisfaction.</p>
<p><b>(5) Use of management techniques:</b> In traditional management, old techniques of management and decision-making are used.</p>	<p>In contemporary management, modern management techniques are used.</p>
<p><b>(6) Nature of decision-making:</b> Traditional management advocates centralised decision-making policy. Participative management is absent. Scope for specialisation is also not offered.</p>	<p>Contemporary management advocates decentralised decision-making. It is participative in practice and provides ample scope for specialisation.</p>

<p><b>(7) Inheritance:</b> After the death of 'Karta', the legal heir heads the business.</p>	<p>There is no inheritance. Business is passed on from one Board of Directors to another.</p>
<p><b>(8) Popularity:</b> Traditional management concept is popular in the Indian business community.</p>	<p>Contemporary management concept is popular in the Western world.</p>
<p><b>(9) Communication system:</b> There is only downward communication.</p>	<p>There is downward and upward communication.</p>
<p><b>(10) Importance of training:</b> Training is not given much importance and is rarely given to employees.</p>	<p>Training is given special importance. Training programs are arranged for employees.</p>
<p><b>(11) Survival of business:</b> Survival of business over a long period is doubtful, as it is a family run business and lacks stability and market standing.</p>	<p>There is stability to business over a long period as the business is normally run through joint stock companies.</p>
<p><b>(12) Loyalty of employees:</b> In traditional management, employees are expected to be loyal to the owners. Promotions are given on the basis of loyalty.</p>	<p>In contemporary management, managers are loyal to the organisation. Promotions are given on merits.</p>
<p><b>(13) Use of experts/consultants:</b> In traditional management, the owners take decisions themselves. The services of professionals/consultants are not used in the decision-making process.</p>	<p>In contemporary management, decisions are taken through democratic process of consultation. The services of professionals and consultants are used in the decision-making.</p>

### TRADITIONAL V/S CONTEMPORARY MANAGEMENT:

There is nothing wrong in supporting family dynasty as long as it continues to be dynamic and system-oriented. Family run business is a global phenomenon where well established and profit-based business is inherited by the succeeding generation of business family e.g., in Kikkoman Corporation, Japan the business has been in operation for three centuries. The business is still

controlled and run by the descendants of the founders after 17 generations. The family members of Ford, Rockefeller and Watson still control the business of Ford Motors, Exxon and IBM. In India, majority of business are run on traditional lines. Traditional management dominates contemporary management. K. K. Birla once observed "If people like Jamshedji Tata or Rai Bahadur, Gujarmal Modi were to start their business career again, I would any day put my rupee on them than on the best of professionals."

In India, business houses such as Tata have brought professionalism in the conduct of their business activities. We also have companies such as Larsen & Toubro Ltd., which are managed by professional managers and are doing extremely well. L&T has been ranked first in terms of high quality of service/products and second in corporate leadership among Indian companies. There are many other companies, which have the traits of both traditional management and contemporary management e.g., Reliance, Future Group, Aditya Birla etc. The heirs have good educational background and expertise and they have also hired top-match professionals.

A study in India by the consulting company **Booz, Allen and Hamilton** showed that the best of promoter led companies (whether led by founder such as Infosys or Dr. Reddy's or by inheritors such as Wipro or Hero MotoCorp) outperformed the best of the professionally managed MNCs. Family business have strong resource bases in terms of expertise, knowledge and skills. There is a lot of wisdom readily available and youngsters can be groomed well. It is easy to maintain values. When the firm grows beyond a certain point, they are compelled to bring professionals.

Industrialist M. V. Subbiah has stepped down as Chairman of the Murugappa group as "part of an exercise to improve corporate governance and to transform a family-run business into a professionally managed one". Other family run Indian corporates have gone the same route in the past few years – Eicher, Dabur, Escorts and SRF Ltd. Most often the market has greeted such moves with a mark-up in the share prices of these companies.

However, it is not always correct to say that professionally managed companies are better performers than the traditionally managed companies. This is because for success and prosperity in business, quality and competence of management are more important than the style of functioning. For example, Tatas and Birlas have different styles of functioning. However, both are functioning efficiently by using modern management techniques and are equally successful.

It is not possible to divide traditional and contemporary management in two different watertight compartments. "*Indian business represents traits of both traditional and contemporary management.*"

### CONTRIBUTIONS OF CONTEMPORARY WRITERS:

#### (1) HENRI FAYOL (1841-1925):

##### Life:

Henri Fayol was a Frenchman. He was a qualified mining engineer. He was taken as director of the coal mines where he worked during later part of his life. He was a key figure in the turn of the century. Fayol was a management theorist. The impact of his contribution is seen in today's world of management. He is known as a thinker who developed a *general theory of management* in all aspects of business. Fayol's admirable analysis of managerial functions and principles is widely acclaimed as a creditable contribution to management thought.

##### Published Work:

Henri Fayol published a book entitled "*Administration Industrielle et Generale.*" The book was written in French language and was published in 1916.

##### Recognition:

Henri Fayol did not get instant recognition. The said book was translated into English in 1930 under the title "**Industrial and General Administration**". This is how the English speaking world came to know about his contribution. It also brought him global recognition. The writings of Fayol is very humane. For the first time, he discussed the industrial administration by taking into account employees' point of view. He is regarded as **Father of Modern Management**.

### Classification of Business Activity:

Fayol's theory may be analysed under the following heads:

- (1) Technical (manufacturing or production of products).
- (2) Commercial (buying, selling and exchange).
- (3) Financial (search for and optimum use of capital).
- (4) Accounting (recording including statistics).
- (5) Security (protection of persons and property) and
- (6) Managerial.

### Qualities to Become Successful Manager:

- (1) **Managerial Ability:** It refers to capacity of the manager to achieve organisational objectives with specific skills and competencies. A successful manager of today requires whole package of conceptual, technical, administrative and inter personal abilities. In order to manage the business well, the manager is expected to possess the following skills:
  - (a) Oral and written communication.
  - (b) Decision making.
  - (c) Leadership.
  - (d) Delegation and control.
  - (e) Planning and organising.
  - (f) Information gathering and problem analysis.
  - (g) Willingness to lead others.
  - (h) Self-objectivity.
- (2) **Motivation to Manage:** All the ability in the world will not help a manager to succeed if he doesn't possess persistent desire to move ahead. Until the mid-1960s, this kind of desire was an intangible trait. A management researcher named John B. Miner developed a psychometric instrument to measure objectively an individual's motivation to manage. Miner's measure of motivation to manage has seven dimensions:
  - (a) Desire to engage in occupational competition.
  - (b) Desire to assert oneself and take charge.
  - (c) Desire to exercise power and authority over others.
  - (d) Desire to stand out from the crowd.

- (e) Desire to engage in games or sports competition with peers.
- (f) Favourable attitude towards superiors having authority.
- (g) Sense of responsibility to carry out the routine duties.

Miner's research points out accurately how fast and how far one will move up in the hierarchy. The higher the individual scores on each trait, the greater is the motivation to manage.

- (3) **Opportunity to Manage:** These are the days of "downsizing". Many Indian firms have introduced golden-handshake and VRS to their employees. As after-effects of liberalisation looms large, many people are bound to feel frustrated over the prospect of leading bright career in management jobs. The situation is not so dismal. Normal turnover, through deaths, retirements and career changes will open lot many managerial positions in the years ahead. Managers can have openings in non-profit organisations or diversify into small scale sector as entrepreneur - manager. In spite of periodic ups and downs in job markets, there will be regular need for those having the right combination of ability and motivation to manage.
- (4) **Transferable Skill:** Ordinarily, an engineer does not have the skill necessary to perform finance work nor can a tool dresser perform the work of a salesman. However, an individual who is expert in managing one activity can transfer his managerial skills to another activity. The higher on the managerial scale a manager is, the more will he be expected to spend his time in managing. The more expert a manager is in managing, the greater the range of activities he can manage. That is why the manager is expected to be competent to manage effectively not only administrative work but also employee relations, collective bargaining and so on.
- (5) **Miscellaneous Qualities:**
  - (a) Adaptability to change.
  - (b) Sensitivity to new values.
  - (c) Higher standard of ethics to meet social values.

- (d) Skill to deal with conflicting interest groups.
- (e) New and sophisticated skill in motivating employees.
- (f) Confidence and enthusiasm to manage stress.

### Henri Fayol's Principles of Management:

The credit for suggesting the principles of management goes to French industrialist, **Henri Fayol (1841-1925)**. He developed his management principles and general management theory and published them in the form of a book (in French) "*Administration Industrielle et Generale*" in 1916. He is rightly treated as the **Father of modern management thought**.

### Henri Fayol's Fourteen Principles of Management:

- (1) **Division of Work:** Division of work means dividing the total work into small convenient components and giving each component to one department and manager. This brings specialisation and enables a manager to concentrate effectively on the work. The performance of managers will also improve.  
Division of work is essential along with the expansion in the size and activities of an organisation. It gives more and better work with the same efforts. Fayol suggests such division of work to all types of work—managerial, technical or general.
- (2) **Authority and Responsibility:** According to Fayol, authority should be equal to responsibility. Those who have authority to give orders must be willing to accept responsibility for the results. Similarly, those who are made responsible for certain functions must be given adequate authority. There should be proper balance between the authority and responsibility.
- (3) **Discipline:** Discipline is the obedience and outward mark of respect shown by an employee. Discipline means the observation of certain rules and regulations by all employees in an organisation. They have to accept certain code of conduct while performing their jobs. For proper discipline, attention needs to be given to three requisites of discipline. These are: (a) good supervision, (b) clear and fair agreements, and (c) application of penalties.

Discipline can be imposed or self-motivated. **Self-discipline** is the best but human nature tilts towards **forced discipline**.

- (4) **Unity of Command:** Henri Fayol suggested that an employee should get orders from **one superior only**. If two superiors exercise their authority on the same employee, there will be disorder and confusion. In fact, **dual command is always dangerous**.
- (5) **Unity of Direction:** Fayol suggested that there should be **one head and one plan** for a group of activities having the same objective. For example, the HRD department should have only one HRD manager with a specified plan for personnel policies and providing personnels to all departments.
- (6) **Subordination of individual interest to general interest:** This principle states that the general interest of the organisation is more important than the interest of one employee or a group of employees. This can be achieved by certain measures. These are:
  - (a) a superior setting good example to his subordinates,
  - (b) fair and just agreements with the employees, and
  - (c) continuous supervision on employees.
- (7) **Centralisation:** According to Fayol, extreme centralisation or decentralisation of authority should be avoided and a proper balance between centralisation and decentralisation should be maintained. Fayol also suggests that some degree of centralisation must be introduced in order to have best results in terms of achievement of objectives.
- (8) **Remuneration:** Fayol suggests that wages paid should be fair and satisfactory to both employer and employees. It should be as per the cost of living and the value of the employee. Wages should attract best talented people to the organisation. Fayol also suggested that wages should be supported by non-financial benefits such as proper working conditions and other facilities including subsidised canteen, recreation and welfare facilities.
- (9) **Scalar Chain:** Scalar Chain principle refers to the line of authority or command for the purpose of communication from the top level to the lowest level of executives.



Such communication should be quick to prevent delay as regards follow-up actions. Quick communication within the organisation is possible by using 'gangplank' or direct contact. Fayol suggested that 'gangplank' should be used to prevent the delay of action. This scalar chain of command can be explained with the help of the diagram given below:



In this diagram, A to G and A to P, are the scalar chains. A is the head of the whole organisation while B and K are heads at the next level of management. B is immediate superior to C while K is immediate superior to L and so on. If F and O need to contact each other for some purpose the **Scalar Chain principle** will be followed.

This means F will move to E, E to D, D to C, C to B, B to A and thereafter A to K and finally to O. However, this route is lengthy and time consuming. It would be waste of time if he (i.e., F) had to climb upto the level of A who would then pass an order down to O. As an alternative, F and O can establish a direct communication but with the approval of E and N (immediate superiors). This is possible with the help of gangplank (FO) shown by dotted line in the figure. Scalar chain brings direct communication between the superior and subordinate. This facilitates quick decisions, easy communication and delegation also.

- (10) **Order:** Proper order is necessary in every organisation. According to Fayol, there should be *place for everything and everything should be in its place*. Misplacement of any kind is undesirable as it leads to disorder.
- (11) **Equity:** The principle of equity relates to the treatment of subordinates. The dealing with the subordinates should be

fair. There should be combination of kindness and justice while dealing with subordinates. Subordinates are human beings and their loyalty and devotion depend on the treatment given to them at the time of promotions, transfers and salary payments.

- (12) **Stability of Tenure:** Managers as well as subordinates need some time to learn and understand the jobs assigned to them. They will adjust with the work within a short period. If they leave or are removed within a short period, the learning time will be wasted. Hence stability of personnel is necessary which means *security of job*.
- (13) **Initiative:** Subordinates should be permitted to take some initiatives in preparing and executing plans. The manager must be able to sacrifice some personal vanity in order to inspire the subordinates. Managers should encourage subordinates to take more interest and initiative in the work assigned. This will create a sense of participation in the minds of subordinates.
- (14) **Esprit de Corps (Team spirit):** Esprit de Corps or team spirit is the last but the most important principle suggested by Henri Fayol.

*Esprit de Corps* is a French phrase which means team spirit. It emphasises the need for teamwork and the maintenance of spontaneous interpersonal relationships based on harmony and unity. Employees need the spirit of loyalty and devotion to the group to which they belong. The manager has to develop team spirit among his subordinates. Team spirit brings loyalty, dedication and commitment on the part of subordinates. Fayol has suggested collective approach and teamwork, which are possible through effective communication. Harmony among the employees acts as a source of strength.

**(2) F. W. TAYLOR (1856-1915):**

The title Father of Scientific Management is bestowed affectionately upon Frederick Winslow Taylor (1856-1915) but the term Scientific Management was coined by Louis D. Brandeis at a meeting of engineers in the house of H. L. Gantt in October 1910.

Taylor joined Midvale Steel Mill in 1874 as a common labourer. In six short years rose through eight positions to that of Chief Engineer.

#### **Publications:**

In 1895 he published his paper 'A Piece Rate System'.

In 1903 he presented his famous paper entitled 'Shop Management'.

In 1911 he published his famous work "The Principles of Scientific Management."

#### **Taylor's Principles of Scientific Management/Techniques of Scientific Management:**

- (1) **One best way:** According to Taylor, there is *one best way* of doing a work. Work standards and practices could be established through experimentation and observation.
- (2) **Scientific selection of workers:** Taylor stated that it was management's duty to determine the kind of work for which an employee was suitable.
- (3) **Development and training of workers:** Taylor supported internal promotion of employees. Development and training should be in keeping with the promotion policy of the organisation.
- (4) **Harmony in group action:** Group harmony indicates mutual give and take. Proper understanding among group members brings about best performance without loss of time.
- (5) **Maximum output:** Taylor opposed deliberately restricting output. He supported efficiency and improved production. Eventually both employers and employees stand to gain due to maximum output.
- (6) **Cordial relations between managers and workers:** In order to ensure smooth implementation of work, cordial relations between managers and workers is of great importance.

#### **Contributions of Taylor/Techniques of Scientific Management:**

- (1) **Scientific Task Setting:** Taylor was a pioneer who introduced the concept of "a fair day's work". He suggested that the task of every worker for every day should be determined through scientific investigation. He expected managers to know in

advance the fair day's work for each employee. The day's work should neither be higher than the average capacity of the employee nor lower than the capacity of the worker for whom the work is determined.

(2) **Work study:** Work study refers to organised, systematic and objective analysis and assessment of the operational efficiency of all the elements connected with the work. Work study covered the following areas.

(a) **Method study:** It organises production process by evolving the best method of doing a particular job by simplifying the methods, tools, processes etc. Method study is an attempt to reduce the work content of an operation. It aims at eliminating the unnecessary and wasteful operations from a job. By adopting method study a job is analysed and classified into small operations involved in the performance. This is called sub-classification of operations. Sub-classification is done by preparing a special chart known as **Process Chart**. This chart indicates the entire process of production.

(b) **Time and Motion Study:** As a young man, while working in machine shops, Taylor realised that the workers put forth less efforts. This resulted in limited output and low productivity. He named this kind of behaviour of deliberately restricting the output as '*soldiering*'.

**Time study** is the art of observing and recording the time required to do each detailed element of an industrial operator. **Motion study** refers to the study and analysis of the movements of an operator in performing a job so that attempts can be made to remove irrelevant movements from the process.

(c) **Fatigue Study:** Fatigue means tiredness caused by continuously performing one or more activities. It is a sort of "*negative appetite for work*". When an employee is tired, he feels dissatisfied with the work and desires rest. Thus fatigue has physiological, emotional and behavioural aspects. Fatigue can be of several types such

as (a) muscular fatigue, (b) mental fatigue, (c) nervous fatigue, (d) industrial fatigue, etc. Fatigue cannot be totally eliminated from industrial jobs. However, it can be reduced through (a) rest pauses, (b) reduction of working hours, (c) medical check-up of employee, (d) better working conditions, (e) industrial counselling and (f) elimination of noise.

- (3) **Scientific method:** Scientific method is a systematic approach in management which conducts the business on the basis of observation, experimentation and rational decisions. Taylor observed defects and wastage rampant in the traditional process and tried to work out scientific methods to attain operational efficiency.
- (4) **Functional foremanship:** Taylor suggested the scheme of functional foremanship to bring about proper control and supervision of work. Under this scheme, the job of supervision is divided into several specialised functions and each function is entrusted to a functional foreman. The functional foreman enjoys the authority of an executive.
- (5) **Mental revolution:** The concept of cooperation and understanding between the employers and employees was so much foreign to the prevailing atmosphere of hostility and suspicion that Taylor called it **mental revolution**. According to Taylor life is unified and man lives to accomplish and to produce. A business is created to derive some utility, value or service. There must be harmonious adjustment because business exists for all and all exist for business. If this is understood then everyone will try for the best results. Hostility should be replaced by cooperation and mutual faith which extends prosperity to all.
- (6) **Cost accounting:** Taylor pointed out that management must remain eager to know the cost at every stage of production. It must be assured that there is no waste and cost control is ensured. The cost must be estimated before the goods are produced. This will help to determine **standard costs** which will make possible comparison between the actual cost and the standard cost. Any discrepancy in the form of waste of

materials, time, tools, and machinery may be removed to facilitate price fixation of the products and preparation of budgets.

- (7) **Differential Payment:** Taylor introduced a new payment scheme called differential piece wage plan. Under this scheme, a worker received low piece rate if he produced the standard number of pieces and received high rate if he surpassed the standard. This scheme also included incentive wage plan. The worker received bonus in addition to his wages if he completed his job before the standard time fixed for the job.
- (8) **Standardisation:** Standardisation is to be maintained in respect of instruments and tools, period and amount of work, working conditions, cost of production and so on. These standards should be fixed in advance based on experiments and observations.
- (9) **Specialisation:** Specialisation is the result of introduction of division of work. Taylor emphasised division of labour as a useful technique of scientific management. The workers must be scientifically selected and trained so as to allocate tasks to them as per their specialisation. Each worker must be supervised by different functional bosses.
- (10) **Reorganisation of supervision:** Taylor experimented with two new successful concepts viz. (a) separation of planning and doing and (b) functional foremanship. Taylor suggested that the work should be planned by a foreman and not the workers. Under functional foremanship, he suggested employing four, six or eight specialist foremen who would give orders to an individual worker.

Taylor summed up his approach as follows:

- (a) **Science**, not rule of thumb.
- (b) **Harmony**, not discord.
- (c) **Co-operation**, not individualism.
- (d) **Maximum output**, in place of restricted output.
- (e) **Development of each man to his greatest efficiency and prosperity.**

### Benefits of Scientific Management:

- (1) Application and use of scientific methods/Replacement of the traditional rule of thumb method.
- (2) Planning and control.
- (3) Appointing specialists.
- (4) Standardization.
- (5) No arbitrary rule.
- (6) Increased output and profits.
- (7) Benefits to workers and society (Better workforce through proper selection and training, incentive wages to workers for higher production, harmonious labour-management relationship, continuous improvement of the workers, higher productivity to nation and satisfaction to customers by providing higher quality products at lower prices).
- (8) Encourage research.
- (9) Cooperation and understanding.

### Limitations of Scientific Management:

- (1) Workers did not enjoy freedom of choice.
- (2) Too much emphasis on division of work resulted into breaking the work into smaller parts.
- (3) Payment based on performance brought about ill-feeling among some workers.
- (4) Bargaining about wage rates were not allowed as every job was measured and rated scientifically.
- (5) Planning and control was given exclusively in the hands of managers.

### (3) PETER F. DRUCKER (1909-2005):

#### Life and Career:

1909	Born in Vienna, Austria.
1927	Student at University of Hamburg.
1931	Doctorate in Public and International Law, University of Frankfurt.
1933	Shifted to London, worked as investment banker.
1937	Left for America and worked as correspondent for Financial News.

1940	Professor at Bennington College, Vermont. Worked as consultant.
1943-46	Spent 18 months interviewing senior management at General Motors. Published bestselling "The Concept of the Corporation."
1950	Professor of Management at New York University Graduate School of Business.
1971	Marie Rankin Clarke Professor of Management Graduate School, Claremont.
1975	Columnist for Wall Street Journal.
1990	Founded Peter F. Drucker Foundation for Non-Profit Management.
2005	Dies.

Peter F. Drucker is an Austrian by birth. When Germany tried to invade Austria, he moved to London and later to New York. He started his career as a journalist. Later he worked as a consultant to **General Motors**. During his association with General Motors, he enriched his business knowledge and published several books on management. His most outstanding book is "*Practice of Management*" published in 1955. It established him as a trend-setter in the field of management. People all over the world adopted his ideas. It is still regarded as the definitive management text. Drucker argued that there is only one valid purpose for the existence of a business i.e. to create a customer. Business cannot run profitably only because of internal structure, controls, organisation and procedures but requires customer patronage; who pays and decides what business has to offer. The **Practice of Management** is best remembered for setting out the principles of **Management by Objectives and Self-Control**. Peter Drucker outlined eight areas in which objectives should be defined and performance measured:

- (i) Market standing.
- (ii) Productivity.
- (iii) Profitability.
- (iv) Innovation.
- (v) Public responsibility.
- (vi) Physical and financial resources.



(vii) Managers' performance and development.

(viii) Workers' performance and attitude.

Drucker argued that an organisation is a means to the end of business performance and business results. Certainly, the first inquiry would be: what is our business and what should it be? Drucker outlines three ways to determine what kind of structure will help to achieve business objectives. He calls them:

- (1) Activities Analysis,
- (2) Decision Analysis, and
- (3) Relations Analysis.

- (1) **Activities Analysis:** With the help of examples, Peter Drucker pointed out how in a specific business certain activities assume greater importance which are vital to the success of the business. Incidentally, this basic concept was ignored by most of the managers resulting in loss in terms of finance and manpower. An activities analysis brings out:
  - (a) What work has to be performed?
  - (b) What kind of work comes together? and
  - (c) What emphasis each activity is to be given in the organisation structure?
- (2) **Decision Analysis:** While designing an organisation structure another question to be answered relates to the decisions to be made. In the words of Drucker, over 90% of the decisions that managers have to take over a period of time are routine. They fall within a small number of categories. The nature of decisions depends on:
  - (a) the degree of futurity in the decision,
  - (b) the impact the decision has on other functions,
  - (c) the number of qualitative factors that enter into it, and
  - (d) whether they are reoccurring, rare or exceptions.
- (3) **Relations Analysis:** Peter Drucker is of the conviction that an analysis of structure is an analysis of relations. The primary aim of analysing the relations is not only to help the structure but also to give guidance for manning the structure. The contribution which a manager makes to the managers of other activities is always an important part of his job.

According to Drucker, the outline of organisation structure should be:

- (a) organised for business performance;
- (b) having minimum number of management levels; and
- (c) providing faculty for training tomorrow's top management.

#### Publications of Peter Drucker:

1939	The End of Economic Man.
1942	The Future of Industrial man.
1955	The Practice of Management.
1964	Managing For Results: Economic Tasks & Risk-taking Decisions.
1967	The Effective Execution.
1970	Technology, Management and Society.
1973	Management: Tasks, Responsibilities, Practices.
1980	Managing in Turbulent Times.
1982	The Changing World of Executives.
1986	The Frontiers of Management.
1990	Managing the Non-profit Organisation: Practices and Principles.
1995	Managing in a Time of Great Change.

#### Contributions of Peter Drucker: 3467

- (1) **Management by Objectives:** MBO is considered to be one of the most important contributions of Peter Drucker which was introduced in 1954. MBO is a philosophy of managing. MBO is based on the assumption that employees perform better when they know what is expected of them and can relate their personal goals to organisational objectives. It also assumes that employees are interested in the goal-setting process and in evaluating their performance against target.
- (2) **Nature of Management:** Peter Drucker always supported creative and innovative style of functioning and was opposed to bureaucratic management. Employees must get relative freedom to play with new ideas or to combine old and new ideas or to borrow ideas from other social sciences. Drucker regarded management both as discipline and profession. According to him management is more a practice rather than science. Drucker gave less importance to advanced

qualifications but attached more importance to creativity, independent thinking and business acumen.

- (3) **Dynamic Organisations:** Change relates to progress. Changes take place because of internal and external forces along with environmental changes. According to Drucker, in organisational changes there is a deliberate attempt by management to improve overall performance of individuals, groups and the organisation by altering the organisation's structure, behaviour and technology. However, it becomes difficult for any organisation to absorb rapid changes. Only slow paced changes are so taken that the organisation attains improved results.
- (4) **Organisation Structure:** Drucker has suggested composition of organisation structure with the following three elements:
  - (i) The organisation should be result-oriented.
  - (ii) The organisation should have limited managerial levels.
  - (iii) Train top managers and give them responsibility when they are still young.
- (5) **Management Functions:** Drucker perceives management through its tasks. He stated that management has no functions and no existence in itself because management is the organ of its institution. This business institution must contribute to the upliftment of the society through:
  - (i) achievement of purpose and mission of the business;
  - (ii) workers contributing to achieve meaningful results; and
  - (iii) fulfilling social responsibilities.
- (6) **Federalism:** In the words of Drucker, federalism is centralised control in decentralised structure. He compared the relationships between federal government and state governments. Decentralised structure has delegation of authority as only its beginning. Precisely, a decentralised structure must create a new constitution. The unit's operating within the organisation should be made autonomous.

According to Drucker federal decentralization involves the organisation of activities into autonomous productive business. Each will have independent product line, market, profit and loss

within the organizational objectives. If for any reason federal decentralization cannot be practiced, it is desirable to introduce functional decentralization, where major departments which contribute to the growth and development should have freedom to act freely within the policy guidelines. Drucker gives highest importance to the inclusion of human factor in business. He considers men as the single most important factor in business. The business must revolve around men but no business can be tailor-made to meet the requirements of an individual. To this extent, his approach is people-oriented.

#### (4) C. K. PRAHALAD (1941-2010):

##### Life and Career:

1941	Born in Coimbatore, Tamil Nadu.
1960-64	Worked as an Industrial Engineer.
1966	Completed MBA at IIM, Ahmedabad.
1975	Completed DBA at Harvard Business School.
1975	Visiting Research Fellow, Harvard Business School.
1975-77	Professor and Chairman, Management Education Programme, IIM, Ahmedabad.
1981	Visiting Professor, INSEAD, Fontainebleau, France.
1986-94	Professor, University of Michigan Business School.
1994	Co-Authored with Gary Hamel "Competing For the Future".
1994	Received award from Indo-American Society for promoting goodwill, understanding and friendship between India and US.
1995	Recognition of his contribution to competitiveness in business by American Society for Competitiveness.
2004	Published "The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits".
2010	Dies.

C. K. Prahalad was recognised as one of the original thinkers on strategy. He observed that large organisations are competent to face competition in the face of international competition and changing business environment. He was against traditional strategic thinking and strongly supported: *Strategic intent, core competence and strategy as stretch and leverage*. A recipient of Padma Bhushan, he was professor of corporate strategy at the

University's Ross School of Business. In 2009 he was honoured with Pravasi Bhartiya Sanman. In the same year, he was named the world's most influential business thinker on The Thinkers 50 list.

### Contributions of C. K. Prahalad:

- (1) **Strategic Intent:** Strategic intent deals with winning at all levels of the organisation. It makes efforts to establish global leadership. It uses **stretch targets** to create competitive advantage e.g., when astronaut Armstrong successfully landed on the moon in early 1960s, it provided the stretch target that gave America global leadership in space. Strategic intent concentrates on **barrier breaking initiative**.
- (2) **Core competencies:** Core competencies indicate ability to surpass products and markets. This situation arises when an organisation learns to bring together multiple technologies, learning and relationships across levels and functions. It provides accessibility to wide variety of markets. It matches business with customer expectations. It becomes difficult for competitors to imitate.
- (3) **Corporate imagination:** The organisation must possess competency to visualise business opportunity in a new market and move before competitors could take advantage. This process of corporate imagination is expedited by:
  - (a) leading customers rather than following them.
  - (b) looking for innovative product concepts.
  - (c) defining price and performance relationships.
  - (d) avoiding continued focus on served markets.
- (4) **Leading customers:** Business must be run by visionary owners and managers. They must have competency to visualize tomorrow's lifestyles, needs and aspirations. Traditional marketing research is found inadequate in this respect. Only creative human science studies can reveal deep insight into this issue. Business can command competitive advantage if it can lead customers to where they want to go, before they know it themselves. In the words of Prahalad "It creates marketers with technological imagination and technologists with marketing imagination, overcoming the

debate about whether an organisation should be market or technology led."

- (5) **Escaping served markets:** When business is well settled in its traditionally strong markets, it does not show interest in exploring new markets. No business can progress unless it explores new markets e.g., a business may be strongly placed in the urban markets but it must make efforts to explore the upcoming rural markets. This will not only expand the area of operation but will also assist to earn higher revenues through meeting new challenges.
- (6) **Innovative product concepts:** Innovation is the process of taking a creative idea and turning it into a product or process that can be used or sold. Every innovation has a process of spreading new idea from its source of creation to its final users. Innovative products reshape markets. Innovation can take one of the three forms.
  - (a) New function added to an established product.
  - (b) New form introduced on the existing product.
  - (c) Developing a new product.
- (7) **Strategic architecture:** It deals with mapping corporate resources towards the strategic intent. It brings together diversified opinion on the evolution of an industry. It provides broad framework within which innovation is planned and managed.
- (8) **Expeditionary marketing:** Expeditionary marketing helps organisations to compose the new product in such a way that it will successfully penetrate the market. It is possible to evaluate success level only when the product is introduced in the market. This style of marketing improves the success rate by increasing the number of market opportunities, niches and product variations.

#### **(5) VIJAY GOVINDARAJAN:**

##### **Education:**

Vijay Govindarajan is a qualified chartered accountant. He was awarded the President's gold medal for obtaining the first rank nationwide. He received his MBA with distinction from the

Harvard Business School, where he was included in the Dean's honour list. He received his doctorate from the Harvard Business School where he was awarded the Robert Brown Prize for the best thesis proposal.

#### **Faculty:**

He was faculty member at the following institutes:

Indian Institute of Management, Ahmedabad.

The Ohio State University.

Harvard Business School.

INSEAD, Fontainebleau, France.

The International University of Japan, Urasa, Japan.

Helsinki School of Economics, Helsinki, Finland.

Dr. Vijay Govindarajan is the Earl C. Daum 1924 Professor of International Business at the Tuck School and founding director of Tuck's Centre for Global Leadership. He is also the faculty co-director Global Leadership 2020. Tuck's executive education programme that focuses on global management is taught in all industrial countries.

#### **Expertise:**

Dr. Govindarajan's area of expertise is strategy with main emphasis on (a) strategic innovation (b) industry transformation and (c) global strategy and organisation. Dr. Govindarajan was ranked by **Management International Review** as one of the Top 20 North American Superstars for research in strategy and organisation. One of his papers was recognised as "one of the 10 most often cited articles" in the 40 year history of the prestigious **Academy of Management Journal**.

#### **Consultancy:**

Dr. Govindarajan worked as a consultant to various global corporations such as IBM, Johnson & Johnson, Abbott Labs, J. P. Morgan, Sony, UBS, AT&T, Hewlett-Packard, International Paper, Motorola, Kodak, The New York Times Company, Stora Enso, Thomson Corporation, Weyerthansuser, Goodrich, GTE, PricewaterhouseCoopers etc.

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### Publications:

Dr. Govindarajan has published more than 60 articles on strategy and organisation that have appeared as book chapters and in journals such as:

- (i) Academy of Management Journal.
- (ii) Academy of Management Review.
- (iii) Strategic Management Journal.
- (iv) Accounting, Organisation and Society.
- (v) Decision Sciences.
- (vi) Journal of Business Strategy.
- (vii) Strategy and Business.
- (viii) Business Horizons.
- (ix) Sloan Management Review.
- (x) Reverse Innovation Playbook.

He has published six books including the co-authored book "The Quest For Global Dominance".

Vijay Govindarajan worked as General Electric first chief innovation consultant from 2008-10. In 2010, his book **Reverse Innovation: Create Far from Home, Win Everywhere** was published by Harvard Business Review Press. It was co-authored by his long-time collaborator Chris Trimble. The book explains the five step thought process that many leaders of MNCs go through when considering how to approach emerging markets.

### Objective Questions with Answers

- (1) **Select the correct alternative and rewrite the statements:**
- (a) Traditional management is based on old \_\_\_\_\_. (Nov. 16; Oct. 18; March 19)
    - (i) records (ii) customs (iii) policies
  - (b) Family run business is less \_\_\_\_\_.
    - (i) profitable (ii) professionalised (iii) demanded (iv) demanding
  - (c) Contemporary management is \_\_\_\_\_. (Nov. 17)
    - (i) crisis (ii) conservative (iii) progressive (iv) engineering
  - (d) Contemporary managers have faith in \_\_\_\_\_ management.
    - (i) Unilateral (ii) participative (iii) engineering (iv) modern
  - (e) TQM is doing right things \_\_\_\_\_.
    - (i) every time (ii) any time (iii) multiple times (iv) right time
  - (f) Peter Drucker advocated \_\_\_\_\_.
    - (i) SWOT (ii) MBO (iii) TQM (iv) MBE



- (g) Fayol suggested \_\_\_\_\_ of individual interest to general interest. (Mar 17, 18)  
 (i) combination (ii) subordination (iii) linking (iv) joining
- (h) Taylor supported \_\_\_\_\_ study. (Nov. 16)  
 (i) market (ii) work (iii) census (iv) research
- (i) C. K. Prahalad is best known for \_\_\_\_\_. (March 17; Oct. 18)  
 (i) MBO (ii) Strategic intent (iii) Marketing research (iv) Accounts
- (j) Vijay Govindarajan is a qualified \_\_\_\_\_.  
 (i) mechanical engineer (ii) CA (iii) doctor (iv) scientist
- (k) Father of Principles of Management is \_\_\_\_\_. (Nov. 17)  
 (i) Henri Fayol (ii) F. W. Taylor (iii) Peter Drucker (iv) F. Washington

[Ans.: (a - ii), (b - ii), (c - ii), (d - ii), (e - i), (f - ii), (g - ii), (h - ii), (i - ii), (j - (k - ii))]

(2) Fill in the blanks choosing the correct alternatives:

- (a) Traditional management practices \_\_\_\_\_ style of management.  
 (i) democratic (ii) autocratic (iii) neurotic
- (b) \_\_\_\_\_ management is based on advanced education.  
 (i) Traditional (ii) Competitive (iii) Contemporary
- (c) \_\_\_\_\_ is team building towards commitment to improvement.  
 (i) Six Sigma (ii) Professionalisation (iii) TQM
- (d) Henri Fayol advocated unity of \_\_\_\_\_.  
 (i) direction (ii) balance (iii) purpose
- (e) Taylor pioneered scientific \_\_\_\_\_ rating.  
 (i) time (ii) tool (iii) task
- (f) \_\_\_\_\_ analysis brings out what kind of work comes together.  
 (i) Decision (ii) Activities (iii) Relation
- (g) \_\_\_\_\_ was one of the original thinkers of strategy.  
 (i) Peter Drucker (ii) Vijay Govindarajan (iii) C. K. Prahalad
- (h) Vijay Govindarajan worked as a consultant with \_\_\_\_\_.  
 (i) IBM (ii) Unilever (iii) Cipla
- (i) \_\_\_\_\_ payment encouraged more efficient employees.  
 (i) Standard (ii) Minimum (iii) Differential
- (j) Esprit de corps means \_\_\_\_\_.  
 (i) team work (ii) team spirit (iii) team group

[Ans.: (a - ii), (b - iii), (c - iii), (d - i), (e - iii), (f - ii), (g - iii), (h - i), (i - iii), (j - ii)]

(3) State whether the following statements are TRUE or FALSE:

- (a) Traditional management is unsuitable to large business. (March 17, 19)
- (b) Contemporary management is socially conscious.
- (c) Traditional management is autocratic.
- (d) Contemporary management is against employee training.
- (e) Indian business represents traits of both traditional and contemporary management.
- (f) TQM does not link quality and productivity. (Oct. 18)
- (g) Fayol favoured centralisation.
- (h) Dual command is not dangerous. (Nov. 16)
- (i) Peter Drucker worked as a consultant to Toyota.
- (j) Vijay Govindarajan worked as a consultant to General Motors.
- (k) Management uses scientific methods. (March 17; Oct. 18)
- (l) Reward for personal loyalty is an incentive in traditional management.
- (m) Traditional management has high adaptability.
- (n) Contemporary management has faith in decentralisation of business.
- (o) Contemporary management is economical and cost effective.
- (p) Six sigma was developed by engineers in Microsoft.
- (q) Six sigma used in the banking industry is referred to as the DMAIC process.

- (r) Professionally managed companies are always better than traditionally managed companies.
- (s) Fayol suggested one head and one plan under the principle of centralisation.
- (t) Peter Drucker is best remembered for his contributions of strategic architecture.

[Ans.: (a) True, (b) True, (c) True, (d) False, (e) True, (f) False, (g) True, (h) False, (i) False, (j) False, (k) True, (l) True, (m) False, (n) True, (o) False, (p) False, (q) True, (r) False, (s) False, (t) False]

(4) State whether the following statements are TRUE or FALSE:

- (a) Six sigma is designed to meet customer needs. (Oct. 18)
- (b) Traditional management started in India.
- (c) Contemporary management supports intuitive decision making.
- (d) TQM is an intermittent process.
- (e) Henri Fayol was an American.
- (f) Division of work and specialisation are interlinked.
- (g) Stability of tenure relates to security of job.
- (h) Scientific management is remotely connected to mental revolution.
- (i) Relation analysis gives guidance for manning the structure.
- (j) C. K. Prahalad was against traditional strategic thinking.
- (k) Vijay Govindarajan is a qualified Chartered Accountant. (March 19)

[Ans.: (a) True, (b) False, (c) False, (d) False, (e) False, (f) True, (g) True, (h) False, (i) True, (j) True]

(5) Match the following:

Group 'A'	Group 'B'
(a) Traditional Management	(i) Traditional Management
(b) Contemporary Management	(ii) Communication
(c) Autocratic Management	(iii) One best way
(d) Unity of Direction	(iv) Strategic intent
(e) Scalar Chain	(v) Stability of tenure
(f) TQM	(vi) Maruti Suzuki
(g) Scientific Management	(vii) Family members
(h) C. K. Prahalad	(viii) Practice of Management
(i) Henri Fayol	(ix) Faith in delegation
(j) Peter Drucker	(x) One head, one plan
	(xi) Stress on quality

[Ans.: (a - vii), (b - ix), (c - i), (d - x), (e - ii), (f - xi), (g - iii), (h - iv), (i - v), (j - viii)]

(6) Match the following:

Group 'A'	Group 'B'
(a) Family Business	(i) Simplifying Processes
(b) Modern Management Techniques	(ii) Efficient Bank Operation
(c) TQM	(iii) Joint Goal-setting
(d) Six Sigma	(iv) Visualise Business Opportunity
(e) Discipline	(v) Moving Target
(f) Method Study	(vi) Role of Karta
(g) Functional Foremanship	(vii) No Arbitrary Rules
(h) MBO	(viii) Doing Right things every Time
(i) Corporate Imagination	(ix) Strict Supervision
(j) Scientific Management	(x) Contemporary Management
	(xi) Self-motivated

[Ans.: (a - vi), (b - x), (c - viii), (d - ii), (e - xi), (f - i), (g - ix), (h - iii), (i - iv), (j - vii)]

## Question Bank for Self-Practice

- (1) Discuss the techniques of scientific management by F. W. Taylor. (Oct. 18)
- (2) Explain the characteristics of traditional management. (Oct. 18)
- (3) Explain the distinctive contributions of F. W. Taylor. (Nov. 17)
- (4) Explain Henri Fayol's fourteen principles of management. (Nov. 16)
- (5) State and explain the features of contemporary management. (Nov. 16)
- (6) Explain contributions of Peter Drucker. (March 17)
- (7) What is meant by traditional management? State its main features.
- (8) Point out advantages and limitations of traditional management.
- (9) What are the advantages of traditional management? (March 18)
- (10) What is contemporary management? What are its features? (March 17)
- (11) State the advantages and limitations of contemporary management.
- (12) Distinguish between traditional and contemporary management.
- (13) Why most of the large business are still traditionally run in India? Give your views.
- (14) Why is Henri Fayol regarded as Father of Modern Management?
- (15) Describe any seven principles explained by Henri Fayol. (March 19)
- (16) Outline the main contributions of Henri Fayol.
- (17) Why Taylor is called Father of Scientific Management?
- (18) Explain Taylor's principles of scientific management.
- (19) Point out the distinctive contributions of Taylor to the Theory of Management.
- (20) Discuss the contributions of scientific management.
- (21) Bring out the contributions of Peter Drucker in the field of management. (March 19)
- (22) Bring out the contributions of Peter Drucker in the development of modern management thought.
- (23) "Peter Drucker was a visionary and a thinking writer." Elaborate.
- (24) Discuss the work and ideas of C. K. Prahalad. (March 19)
- (25) Explain the work and ideas of C. K. Prahalad. Give your views on his "Theory of Core Competence"?
- (26) Elaborate strategic intent as provided by C. K. Prahalad.
- (27) Why is Vijay Govindarajan regarded a management guru? (Oct. 18)
- (28) Write short notes on:
  - (a) Contemporary Management. (Nov. 17)
  - (b) Division of Labour. (March 17)
  - (c) Contribution of Peter Drucker. (Nov. 16)
  - (d) TQM. (Nov. 16)
  - (e) Traditional Management. (March 19)
  - (f) Features of Contemporary Management.
  - (g) Scalar Chain.
  - (h) Taylorism.
  - (i) Contributions of C. K. Prahalad.
  - (j) Contributions of Vijay Govindarajan.
  - (k) F. W. Taylor. (March 18)
  - (l) Scientific Management. (March 19)

## Chapter 3

# Management Process and Practices

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*If you cannot describe what you are doing as a process, you do not know what you're doing.*

*— W. Edwards Deming*

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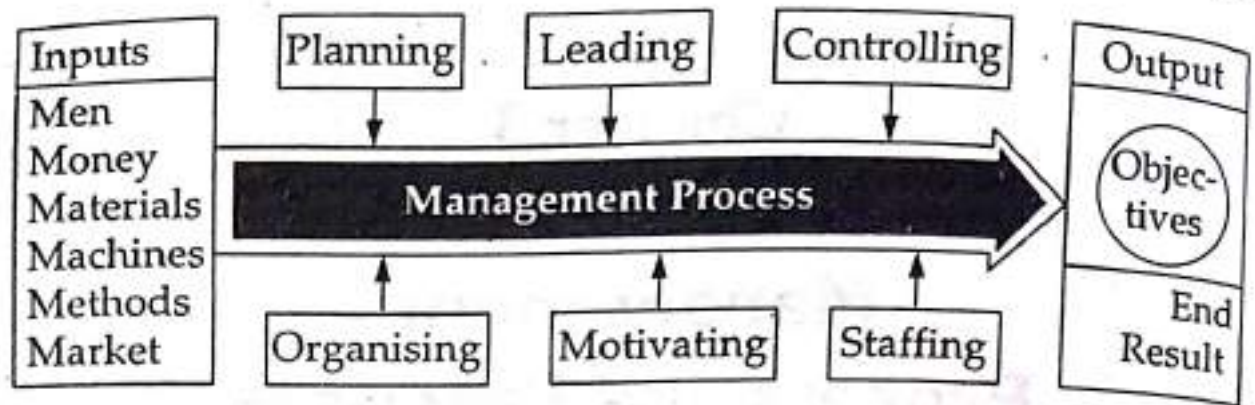
*Meaning of Management Process and Practices – Features/Nature of Management Process – Planning Function of Management in Banking Organisations – Management by Objectives (MBO) – Management Process: (1) Planning (2) Organising (3) Staffing (4) Directing (5) Leading (6) Coordinating (7) Communication (8) Motivating (9) Budgeting (10) Reporting (11) Controlling – Question Bank for Self-Practice..*

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### MEANING OF MANAGEMENT PROCESS AND PRACTICES:

Management is a process of working through people towards goals that have been set for a particular organisation. Process connotes matter or information undergoing dynamic change over a period of time. This means we can analyse the functions a manager performs. This is in fact done by studying the design of the major units or sub-systems of an organisation and the relationships among them. Management is viewed as an integrating process designed to attain organised and meaningful results. Management is defined as the process by which managers create, direct, maintain and operate purposive organisations through co-ordinated co-operative human efforts.

Management as a process is reflected in the manager's responsibility to guide, direct, influence and control the actions of others in working towards common goal. Managerial behaviour which points toward common goal initiates and regulates a number of activities.



### *Process of Management*

Management practices differ from business to business. In some organisations decisions whether routine or special are all taken by the top management and lower management is only expected to report to them. Hence the subordinates remain dependent on their superiors. They will not cultivate competency to deal with challenging issues at a later stage. By contrast, where subordinates are involved in the process of decision making or are made a part of participative management; they cultivate the insight to deal effectively with diversified matters. An organisation revolves around managers. They make or break an organisation.



### *Elements of Management Process (Functions of Management)*

## FEATURES/NATURE OF MANAGEMENT PROCESS:

- (1) **Continuity:** Management is a regular and continuous process. It involves several elements such as planning, organising, staffing, directing, motivating and controlling. This management process may not always move in a specific manner even when the elements/functions involved in the management process are interrelated and interdependent. However, the managerial cycle is continuous or un-ending as long as the business unit is engaged in the conduct of business activities.
- (2) **Circular Process:** Management, being continuous, is circular rather than linear. This means the first element of the management process is not only followed by the next one but it is also influenced by it and, in turn, it influences the latter. For example, organising not only follows planning but also influences and modify the nature of the plan. The same is the case with other elements of management process. Here, all management functions may be considered as sub-functions of each other.
- (3) **Social process:** Management is not a mechanical process but is essentially a human and social process. It influences significantly the people inside (staff) and outside an organisation and the society as a whole. Management process has far-reaching social consequences. The manager, while taking decisions, must consider the likely impact of his decisions on the employees and also on the society. It is equally important to note, here, that management process is carried out by the people, through the people and for the people.
- (4) **Composite Process:** The management process is an organic and integrated one. As a result, all managerial functions need to be considered in their totality. Each management function is important and makes a distinct contribution to the management process but cannot be considered in isolation. All the functions contribute to the whole and derive strength from each other.
- (5) **The management process involves various managerial functions** which include basically four functions, namely,

planning, organising, actuating (directing) and controlling. In addition, there are other functions of management such as coordinating, motivating, staffing and communicating. These functions collectively constitute the management process. It is a composite process.

- (6) The management process is essentially for the accomplishment of certain pre-determined objectives or goals by using the people (manpower or human resource) and other material resources.
- (7) Management process brings effective coordination and integration in the efforts of managers operating at different levels of management.
- (8) Management process creates an organisational structure which is used for coordinating human efforts. The purpose of management process is to ensure that available resources are utilised fully and also purposefully i.e., for achieving objectives.
- (9) Management process, principles and practices are related concepts: Management process and practices are guided by management principles. Management principles are universal and remain uniform for all countries but the processes and practices vary from country to country as per the cultural and socio-economic background.

### MANAGEMENT PROCESS:

#### (1) PLANNING:

##### Meaning/Concept:

Luther Gullick gave a formula word to indicate the principal functions of management. According to him, management functions may be indicated by the word PODSCORB in which 'P' stands for planning, 'O' for 'Organising', 'D' for 'directing', 'CO' for 'Co-ordination', 'R' for 'Reporting' and 'B' for 'Budgeting'. Of these, reporting is covered by the controlling function. Let us, now turn to discuss basic functions of management. Management is now recognised as a **distinct process** in which managers plan, organise, lead, coordinate and control human efforts in order to achieve well defined goals. This is called **management process**. Precisely, process means a series of activities and operations

undertaken to achieve specific objectives e.g., in a factory new materials or semi-finished goods move from one machine to another till the final product is made. This is called production process.

When management is viewed as a process, planning becomes the first function performed by a manager which begins with the setting up of objectives. Basically, planning is a decision-making process. It outlines different courses of action that an organisation and its members are to take over a period of time. The development of alternative courses of action and selection of the best possible alternative is important for any good planning. Perception and foresight are the essence of a good planner. A wise planner can capitalise his opportunities in the competitive world by looking into the future well ahead of others. Planning helps to prepare a blue print for future action. Planning is described as a process of thinking before doing, in the words of Allen, *"Management planning involves the development of forecasts, objectives, policies, programmes, procedures, schedules and budgets."*

#### **Definition of Planning:**

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

#### **Features/Characteristics of Planning (Nature of Planning):**

- (1) **Planning is the primary function of management:** Planning is the primary function of management. It is the very essence of management and the starting point of the whole management process. Without planning, there will be nothing to organise, direct, coordinate and control. Other managerial functions are dependent on planning function and are designed to support the accomplishment of objectives of planning.
- (2) **Pervades all other managerial activities:** Planning is all pervasive. It touches all aspects of a business activity. Planning is the function of every managerial personnel. All managers and all departments have to participate in the planning process. Planning is important to all managers regardless of their level in the organisation: Top level



managers generally spend more time on planning whereas lower level managers are more involved in the execution of the plan.

- (3) **Intellectual and realistic process:** Planning is an intellectual process of decision-making. It is a mental activity and involves thinking and the exercising of foresight and vision. Planning pre-supposes the existence of many alternative courses of action.
- (4) **Objectives-oriented:** Planning is essentially for achieving the objectives of the business enterprise. It is always objective-oriented and result-oriented. It becomes meaningless if it is not related to clearly defined objectives. Planning must pinpoint the expected results in meaningful terms.
- (5) **Continuous activity/function:** Planning is a regular and continuous function of management. This is because the socio-economic environment under which business units have to operate is flexible. Business plans need continuous revision, modification and adjustment in the light of the circumstances prevailing at the time of execution.
- (6) **Planning is a continuous process:** Koontz and O'Donnell 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 plan. He must constantly monitor the conditions/situation to determine if changes are required in his plans.
- (7) **Flexibility:** Planning is always flexible. It changes along with the changes in the business environment. In planning, alternative plans are kept ready and one among them is selected for execution. Planning needs to be flexible as business environment itself is flexible. Flexibility makes planning adaptable to changing environmental conditions.
- (8) **Raises accuracy, economy and operational efficiency:** Planning enables an organisation to achieve its objectives economically and with high degree of accuracy. It focuses attention on the best results at the minimum cost. It raises efficiency and eliminates wastages of all kinds.
- (9) **Link between past, present and future:** Planning is for the future period but is based on the past experience.

Management has to consider the present business environment and problems before the business enterprise while preparing future plans. Planning acts as a link between the past, present and future. In fact, futurity is the soul of planning. It considers the past and prepares plans for the future under the present situation.

- (10) **Brings unity of purpose and action:** Planning brings unity of purpose and action among the executives, departments and staff. Departmental plans are integrated in the master plan of the business unit. Production plan, sales plan, financial plan are inter-related and inter-dependent. Thus, planning brings unity of purpose and action.

#### **Steps in Planning Process (Technique of Planning):**

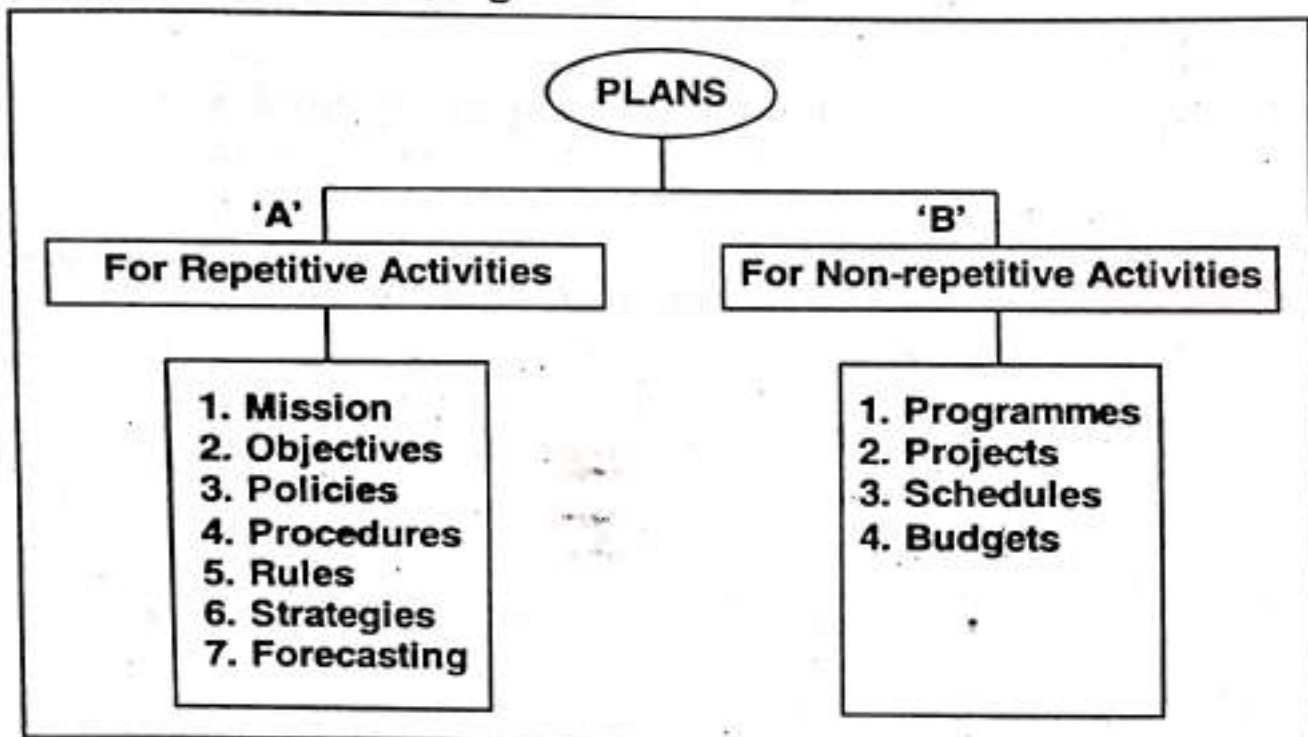
- (1) **Classifying the problems:** The planning process starts with clear understanding and classifying business problems faced by a business unit. **Identification of problems or opportunities by managers justifies the need for action.** It is like the diagnosis of the health problem of a patient by his doctor. Planners have to understand the problems of the organisation first and then prepare a plan to deal with the problems in the light of the prevailing business environment.
- (2) **Determining the objectives:** Planning is always for achieving certain well-defined objectives and naturally objectives must be spelt out precisely. **Objectives act as pillars of the entire planning process.** Business objectives may be decided in terms of profit, sales, production or market reputation. Objectives may be defined in quantitative or qualitative terms.
- (3) **Collecting complete information and data:** The planners have to collect information relating to problems facing the business unit. Such information is useful for analysing the problems in depth and also for accuracy in planning. Information can be collected from internal and external sources. Such sources include old records of the company, documents and reports available in different departments of the company, government reports, government publications, census reports, publications of RBI and financial institutions,

- information published by business newspapers (e.g., Economic Times) and magazines.
- (4) **Analysing and classifying the information:** At this stage, the information collected is analysed and interpreted systematically for drawing specific conclusions. This facilitates purposeful use of information, while preparing alternative plans. Irrelevant information can be discarded through such analysis. Planning will be defective and even dangerous if data collected are not reliable and also not analysed in a fair and systematic manner.
  - (5) **Establishing planning premises:** Planning premises are various assumptions and predictions about the future business situation. Planning premises are expected to supply relevant facts, information and data on the basis of which forecasts are prepared and future trends are indicated. Planning premises reduce uncertainties in the planning process. (For details, refer subsequent pages of this chapter).
  - (6) **Determining alternative plans:** Here, the planners prepare and keep ready alternative plans suitable for use under different situations. The best among the available alternative plans is used for actual execution. The preparation of alternative plans is essential as one plan is normally not adequate under all types of situations. **It is a type of stand-by arrangement useful for meeting any emergency situation.**
  - (7) **Selecting operating plan and preparing derivative plans:** After study of the business environment and the alternative plans available, the planners select the best plan for execution. This decision is a delicate one and must be made with proper care. After the selection of operating plan, the planners have to prepare derivative plans. Such plans are related to different departments/activities and constitute sub-sections of the operating plan. The division of overall plan into derivative plans is necessary for easy execution of the whole plan.
  - (8) **Arranging timing and sequence of operations:** Timing involves fixation of starting and finishing time for each job or piece of work. Sequence of operations ensures proper flow of

work. This step in planning process is important as it brings coordination in the activities of different departments.

- (9) **Securing participation of employees:** Planning needs willing participation of all employees and departments. For this, information regarding the operative plan should be given to all employees and departments well in advance. Here, the internal communication system should be used extensively. For such participation, employees should be associated with the planning process.
- (10) **Follow-up of the proposed plan:** The purpose of follow-up is to make periodical review of the execution process. It is useful for understanding actual progress and deficiencies in the process of execution of the plan. This also facilitates adoption of suitable remedial measures as and when required. Thus, periodical review of the plan which is under execution is absolutely necessary. Planning may fail to give expected results in the absence of periodical review and introduction of suitable remedial measures, if required.

### Components of Planning:



Planning consists of several individual plans or components which are linked together in a consistent structured operation. Planning process normally results several specific plans. Some of these are in the form of **standing plans** while some others are

**single use plans.** Standing plans include objectives, policy, rules, procedures etc. while single use plans include projects, budgets, etc. The basic difference between standing and single use plan lies in their use over a period of time. Single use plans are used only for specific periods while standing plans are used over a long period of time.

**(A) For Repetitive Activities/Standing Plans:**

- (1) **Mission:** There must be a definite mission to make the organisation meaningful. Mission describes the fundamental reason for the existence of an organisation. It also points out beliefs and philosophy of the management. It outlines long-run commitment of the organisation.
- (2) **Objectives/Goals:** Objectives should be related to the problems faced by the company. Similarly, they should be clear, realistic and practical. Such properly defined objectives make planning process purposeful. They also give proper direction to the entire organisation. **Objectives bring unity of purpose and all efforts are diverted for achieving them as per the plan.** In brief, objectives play an important role in the planning process. They act as guiding star of the whole planning process.
- (3) **Policies:** Policy is verbal, written or implied statements, which are followed as guide to action by managers and employees of an organisation. Policies guide managers and provide stability to an organisation. Policies are prepared in regard to purchases; sales and other business activities. Activities of repetitive nature can be conducted easily, quickly and correctly as per the guidelines given by the policies. They are like well-prepared solutions to identical problems.

Top level management prepares the broad policies, while the departmental heads in conformity with the broad policies prepare departmental policies. Policies need to be reviewed from time to time so as to make them upto-date. They should not be rigid but should offer adequate scope to executives to use their discretion.
- (4) **Procedures:** Procedures are closely related to policies. Procedures suggest the exact manner in which a particular

**activity is to be conducted.** Procedures refer to a specified route in which certain activity is to be performed. Procedures are useful for conducting any activity in a systematic manner. **Procedures guide actions and bring consistency in them.** They bring uniformity in the actions of employees. In business units, procedures develop gradually and go on changing with the changed circumstances. The burden of decision-making at the lower levels is avoided due to procedures as they lay down a standard path to be followed for repetitive activities.

- (5) **Rules:** Rules constitute the most specific type of standing plans. Rules are rigid. They do not provide scope for discretion. The breach of rules usually carries penalty. Rules indicate that a specific action be or be not taken with regard to a situation.
- (6) **Strategies:** The term strategy is basically used in military science. Strategy is an art of a Military General leading an army. Here, the enemy is compelled to fight on terms and conditions, which are unfavourable to him. **Strategy is a plan based on the anticipated moves of the opponent.**

In corporate planning, strategy means preparation of a comprehensive plan, which will enable a company to meet any type of situation effectively. The competitor's plans are used as background while preparing a strategy. Strategy is also useful in order to deal with any adverse situation or sudden change in the situation. It is one of the fundamental aspects of planning and has priority over other components of planning. **Evolving master strategy of an enterprise is an important step in the planning process.**

- (7) **Forecasting:** Forecasting is one more essential component of planning. It means estimating future in a scientific and rational manner. Modern age is the "Era of Forecasting" as it is a must for all aspects of human activity including business and politics. Planning involves forecasting of future business trends. A forecast is a prediction of future conditions. It is the estimate of probable events or likely situations. No one is certain about the future. However, it is possible to visualise the future course of events after assembling past and present

facts and then appraising them. Such forecast provides information for preparing operating plans.

**(B) For Non-repetitive Activities/Single-use Plans:**

- (1) **Programmes:** Programmes constitute one more component of planning. A programme is a specific plan prepared to meet a particular situation. Programmes are a combination of policies, procedures, rules, task assignments, etc. to carry out a given course of action. According to Allen, a programme is "a sequence of activities designed to implement policies and accomplish objectives" Programmes are useful for the execution of plans in a systematic manner. They refer to concrete course of action needs to be followed in order to achieve a specific objective. In other words, it is a plan of action. Programme is always supported by the required capital and operating budget. Programmes are prepared and executed at all levels of management and managers working at different levels have to prepare their own programmes in order to achieve the objectives/goals assigned to them or to their departments. For example, a Production Manager may develop his product development programme based on the use of new technology. Similarly, sales promotion drive with the objective of increasing sales by 20% is a sales programme of the Sales Manager.
- (2) **Projects:** A project may be defined as any scheme or a part of scheme for investing resources. A project can be analysed and evaluated as an independent unit. A project is a work-plan established through scientific investigation and analysis. A project has three features:
- (a) It has its own objectives.
  - (b) It is a non-repetitive course of action.
  - (c) It is a time-bound activity.
- (3) **Schedules:** A schedule prescribes the precise time when each of the series of action should take place. When the tasks to be done and the persons who must do them are clear, then scheduling is the only item requiring the attention of the manager. Schedule is a time sequence of the work to be done. When schedules are properly maintained, it ensures successful implementation of plans.

- (4) **Budgets:** Budget is a major planning component. Budgets are plans which indicate statements of expected performance or results, in quantitative terms, i.e. in terms of rupees, product units, etc. According to Koontz and O'Donnell, "A budget is a statement of expected results expressed in numerical term." It is an estimate of expected expense and anticipated income. A budget may be cash, revenue or capital expenditure. A cash budget projects expected flow of cash for a period in advance. A revenue and expense budget shows the anticipated revenues and expenses. Similarly, capital expenditure budget suggests estimated capital outlays over a period. Budget is useful as a planning and also as a controlling device. Budget provides a standard by which actual performance can be measured and variations can be checked.

#### **Advantages of Planning:**

- (1) **Quick achievement of objectives:** The problems of a business enterprise are studied and remedial measures are adopted through the technique of planning. This facilitates quick achievement of business objectives.
- (2) **Brings unity of purpose and direction:** Planning brings unity of purpose and direction before the organisation as it is for achieving certain well-defined objectives. It directs all resources and efforts in one direction for achieving the objectives decided. This brings unity of purpose and direction at the organisation level.
- (3) **Ensures full utilisation of resources:** Planning eliminates wastages of all kinds and this facilitates fuller utilisation of available resources.
- (4) **Avoids inconsistency in efforts:** Planning avoids inconsistency in efforts and also avoids possible frictions and duplications. It ensures economy in business operations.
- (5) **Raises competitiveness:** Planning enables a business unit to stand with confidence in a competitive market. Planning involves forecasting and making provisions for all possible situations. It keeps ready solutions for possible problems and enables a business unit to function effectively.



- (6) **Raises managerial efficiency:** Planning covers all managerial functions and helps management to execute future programmes systematically. It makes managerial direction and control effective. This raises managerial efficiency.

#### Limitations of Planning:

- (1) **Planning is a time-consuming and costly activity:** It is argued that planning is a lengthy process as it involves collection of data, forecast, research and analysis. Similarly, planning is essentially the job of highly paid experts or managers. As a result, planning is a **time-consuming and costly activity**. This delays quick decisions and actions. Only large firms can undertake planning due to heavy cost involved in it.
- (2) **Changes in the situation make planning ineffective:** Business environment changes frequently and plans are required to be adjusted as per the changes in the situation through suitable modifications. However, revision/modification creates a number of problems.
- (3) **Difficulty in securing accurate information and data:** Planning needs accurate facts and data from internal and external sources. The quality of planning depends on such accurate information/feedback. If the information supplied by various departments is defective, incomplete or unreliable, the planning process will be adversely affected. Planning based on incomplete and unreliable information may prove to be even dangerous. In brief, plans based on unreliable data are not useful/effective.
- (4) **Delays actions:** Planning is a lengthy process. As a result, the actions to be taken for execution are delayed. Planning is not useful when quick decisions and actions are required.
- (5) **Unsuitable to small firms:** Small firms prefer to function without long term comprehensive planning as they find planning rather costly and time-consuming. Such firms prefer to have quick result and prefer to face the situations as they come. Similarly, quick decisions and prompt actions are necessary in the case of certain business activities. Planning is not suitable when quick decisions and actions are required.

- (6) **Limited practical value:** It is argued that planning is too theoretical and has limited practical utility. Planning takes long time for preparation and the situation changes when such plans are ready for execution. There are some other methods which are more practical and useful. Planning for example, is not suitable in the case of speculative business. It is also not useful for taking quick benefits of business opportunities.

### PLANNING FUNCTION OF MANAGEMENT IN BANKING ORGANISATIONS:

With the wider use of technology we see revolutionary changes in banking practices. Banks will be more on web rather than in branches. The progress in software tools, computer hardware and telecommunications has shifted the focus of the banks towards computerisation from data processing to information services. Large banks maintain very large data base system for centralised storage of the customer information. Some other banks have distributed data processing at different branches with the updating of a central data base. Planning is a managerial function. It is concerned with defining goals for bank's future direction and determining on the missions and resources to achieve those targets. In order to meet the plans, managers may develop plans such as business plans, marketing plans, strategic plans, contingency plans and so on. Planning is the most fundamental of the managerial functions because all other functions like organising, leading, controlling and staffing emerge from the planning function. Managers can examine critical issues facing banks instead of waiting for them to blow up in future. Managers can set explicit guidelines for decision making. They can be more proactive rather than reactive. Managers can provide sense of direction, vision, rationale and purpose for the plans and communicate them to the bank staff. There are certain specific areas where banks have to undertake planning functions as explained below:

- (1) **Expansion Programmes of Banks:** *Pradhan Mantri Jan Dhan Yojana (JDY)* was launched in India on 28 August, 2014 with the objective of providing banking services to a large

proportion of the unbanked population in India. It is thought such a programme can directly benefit lower income households at the micro level through savings, spending and reduction in transaction costs. In order to provide banking services to such a large population banks will have to increase the number of branches, more particularly in the rural areas.

- (2) **Cashless Economy:** Digital India programme is a flagship programme of Government of India with a vision to transferring India into a digitally empowered society and knowledge economy. "*Faceless, Paperless, Cashless*" is the vital role of digital India. There is a race to make India a cashless economy. Several banking instruments are available to encourage people to go for cashless transactions such as e-wallets like Paytm, Credit and Debit cards, mobile wallets, mobile banking, internet banking, AEPS (Aadhaar Enabled Payment System), USSD (Unstructured Supplementary Service Data) etc. In order to tackle these transactions banks will require qualified and competent staff. The government is in favour of cashless economy and is aiming to restrict circulation of physical currency to the minimum. Banks have to plan to handle the growing transactions in the form of non-physical money.
- (3) **Monitor Non-Performing Assets:** Loans advanced by the banks to companies sometimes remain unpaid by borrowers. This late or non-payment of loans is defined as Non-Performing Assets (NPA). This situation may arise because of insolvency, bankruptcy or intentionally defaulting. Currently our banks are passing through critical phase of high NPAs. The government can create a provision and transfer unclaimed deposits to its account. These funds can be transferred to banks as capital. Banks can regularly monitor the NPAs position and take corrective measures for its recovery. RBI monitors the entire banking system. Interest or instalment amount that remains unpaid for a period exceeding 90 days is termed as non-performing assets.
- (4) **Improve Service Quality:** Banks have started innovative services with the help of advanced technology. Good quality service will always stand out to attract customers. Banks take

care to reduce or avoid inconvenience to customers. Banks earn profits by giving dependable service to customers. Banks that lag behind in providing better quality service to customers reduce their business. Service quality is closely related to customer satisfaction. Customer service is a dynamic interactive process which needs continuous improvement. Customers are aware of the kind of service available around the world and thus expect the best from the banks. A bank can be said as customer oriented if its various activities like organisational restructuring, staffing and coordination are geared up to fulfil the needs of customers. Managers have to plan at regular intervals to update quality of service.

- (5) **Increase Deposits:** Attracting higher deposits improves the financial position of the bank. Customers are careful to put their money in those banks that enjoy sound reputation. Normally customers prefer nationalised banks. Banks can either concentrate on core deposits offered by present customers or seek a mixture of deposits. The deposits are critical source of funding for banks. Banks need effective strategies to attract, retain and manage the depositors although the rates of interests offered by the banks have reduced but still people consider safety element and opt for bank deposits. For many retired people bank interest is their regular monthly income. Banks float "Deposit Mobilisation Week or Month" to attract investments.
- (6) **Disbursement of Loan:** Disbursement is the act of paying on behalf of the customers or pays the amount directly to the borrower. Loans can be of several types such as home loan, personal loan, business loan, education loan, real estate projects etc. The borrowers have to follow the procedure laid out by the banks. They are expected to provide collateral security on the amount of loan sanctioned. When loan is sanctioned it is called **disbursal of loan**. It refers to the transfer money from the bank to the account of the borrower. Banks consider creditworthiness of the borrower and past history if he is a regular borrower. Banks also would like to obtain security against advances. Managers plan the total

amount of disbursement because it is linked to their ability to earn profits.

- (7) **Credit Control:** Credit control is an important tool used by RBI. It controls demand and supply of money. RBI administers control over the credit that the commercial banks grant. The objective of credit control is to ensure an adequate level of liquidity to attain high economic growth rate along with maximum use of resources but without generating high inflationary pressure. RBI can issue directives to banks in respect of: (a) their lending policies (b) margins to be maintained on secured advances and (c) rate of interest. When commercial banks pursue an unsound credit policy, RBI may refuse to grant loans or rediscount bills. Managers have to plan to maintain a sound credit control policy.
- (8) **Recovery of Loans:** Customers expect their banks to provide them with loan and advances to make up the shortfall in their financial needs. The ability of the banks to maintain profitability depends largely on the extent to which the credit policy and debt recovery techniques are maintained. Loan officials must carefully grant loans by using their experience to verify debtor credibility. During early phases of recovery banks must work out solution in co-operation with the customers. During late phases, focus shifts from protecting the customer relationship to protecting assets and minimising losses. Legal action should be reserved as last option. Recovery of loans is the backbone of any and every banks. The banks can initiate loan recovery proceedings without waiting for an account to be formally classified as non-performing. The latest amendments to banking rules allow for faster recovery of bad debts.

### MANAGEMENT BY OBJECTIVES (MBO):

#### Meaning of MBO:

The concept of MBO is closely connected with the concept of planning. MBO involves the establishment of goals by managers and their subordinates acting together, specifying responsibilities and assigning authority for achieving the goals and finally constant monitoring of performance. The genesis of

MBO is attributed to Peter Drucker who in 1954 published his book 'The Practice of Management'.

MBO is a dynamic system of management. It recognizes the need of the manager to achieve and to grow on the job. It integrates the individual needs and the organisational needs. MBO insists that a manager be very clear about his objectives before he starts a task. If a manager is not sure about his destination, he is unlikely to arrive. In all probability he may not even know whether he is in the right direction or not.

#### Definition of MBO:

MBO *"is a process by which the members of a work unit individually meet with their superior to establish performance related goals."* – Carlisle

#### Features of MBO:

- (1) **Superior-subordinate participation:** MBO requires the superior and the subordinate to recognize that the development of objectives is a joint project.
- (2) **Joint goal-setting:** MBO emphasises joint goal-setting that are tangible, verifiable and measurable.
- (3) **Joint decision on methodology:** MBO focuses higher attention on what must be accomplished (goals) rather than how it is to be accomplished (methods).
- (4) **Makes way to attain maximum result:** MBO is a systematic and rational technique that allows management to attain maximum results from available resources by focusing on attainable goals.
- (5) **Support from superior:** When the subordinate makes efforts to achieve his goals, superior's helping hand is always available.

#### Steps in MBO Process:

- (1) **Goal setting:** The first phase in the MBO process is to define the organisational objectives. These are determined by the top management and usually in consultation with other managers. Once these goals are established, they should be made known to all the members. In setting objectives, it is necessary to identify "*Key-Result Areas*" (KRA). Those areas that are considered critical to the firm's long term success are

called Key Result Areas (KRAs). They are specified for each functional areas such as:

- (a) To reduce waste to 3% of raw materials used during 2022-23.
- (b) To increase production by 10% during 2022-23.
- (c) To reserve 2% of advertising budget for institutional advertising during 2022-23.
- (d) To reduce operating costs to 4% below budget during 2022-23.

Peter Drucker in his book, 'The Practice of Management' has identified the following KRAs in business organisations:

- (i) Profitability (ii) Innovation (iii) Market standing (iv) Productivity (v) Worker performance (vi) Financial and physical resources (vii) Manager performance, and (viii) Public responsibility. KRAs are most durable.
- (2) **Manager-Subordinate involvement:** After the organisational goals are defined, the subordinates work with the managers to determine their individual goals. In this way, everyone gets involved in the goal setting.
- (3) **Matching goals and resources:** Management must ensure that the subordinates are provided with necessary tools and materials to achieve these goals. Allocation of resources should also be done in consultation with the subordinates.
- (4) **Developing action plans:** Now the stage is set to develop action plans to achieve the goals. Action plans should include the following:
  - (a) outlining activities to achieve the goals;
  - (b) establishing relationships between various activities;
  - (c) specifying time to perform each activity;
  - (d) starting and completion dates of each activity;
  - (e) setting priority of each activity;
  - (f) identifying person's responsible to get expected results; and
  - (g) resources needed for each activity.
- (5) **Implementation of plan:** After objectives are established and resources are allocated, the subordinates can implement the

plan. If any guidance or clarification is required, they can contact their superiors.

- (6) **Review and appraisal of performance:** There should be periodic reviews of progress between manager and the subordinates. These reviews would determine if the progress is satisfactory or the subordinate is facing some problems. Performance appraisal at these reviews should be conducted, based on fair and measurable standards.
- (7) **Feedback:** Based on final evaluation, superior sends his comments and suggestions on the performance appraisal of each employee. In a joint meeting between the superior and top managers, they decide, if necessary, to make changes in the MBO programme.

#### **Advantages/Benefits of MBO:**

- (1) **Result-oriented approach:** MBO is practical and result-oriented. MBO does not favour management by crisis. Managers are expected to develop individual and group goals.
- (2) **Clearer goals:** In MBO, goals are made verifiable and measurable. They highlight problem areas.
- (3) **Impartial appraisal:** Employees are given freedom to evaluate their own activities. Appraisal becomes highly objective and impartial.
- (4) **Higher morale:** Participative decision-making and two-way communication encourage the subordinates to communicate freely. This improves morale of subordinates.
- (5) **Personal leadership:** MBO helps individual manager to develop personal leadership. Such a manager enjoys better chances to climb promotional ladder.
- (6) **Motivation:** Since MBO aims at providing clear target and their order of priority, employees are adequately motivated.

#### **Disadvantages/Limitations of MBO:**

- (1) **Time-consuming:** MBO is time-consuming. Both objective setting and performance evaluation are time consuming.
- (2) **Conflicting objectives:** Sometimes an individual's goals may come in conflict with those of another e.g., marketing



manager's goal for high sales turnover may find no support from the production manager's goal for production with least cost.

- (3) **Higher paperwork:** The employees are expected to fill in a number of forms thus increasing paperwork.
- (4) **Lack of durability:** Initial failures discourage management and they give up MBO halfway.
- (5) **Reward-punishment approach:** Reward is provided for superior performance and punishment to those whose performance remains below the goal.
- (6) **Organisational problem:** The subordinates try to set the lowest possible targets and superior the highest.

## (2) ORGANISING:

### Meaning/Concept:

Organising is next to planning. It means arranging ways and means for achieving business objectives. It acts as administrative machinery for the execution of business plans. It is universally recognised that a sound organisation structure is highly essential for business success. The whole management process takes place within the framework of the organisation. Naturally, the success of the management will be determined, at least partly, by the soundness of the organisation structure.

An organisation deals with a number of elements which define the relationships between the members of a group. It is concerned with the channels of communication, patterns of influence and lines of authority. It defines the degree of authority and responsibility of each person in the organisation. Thus the organisation clarifies all relationships providing a framework within which all managerial actions take place.

### Definition of Organisation:

James Mooney defines organisation as *"the form of every human association for attainment of a common purpose."*<sup>1</sup>

### Characteristics of Organisation:

- (1) **Coordination of Effort:** Employees who join hands together and coordinate their mental and physical efforts can give

<sup>1</sup> The Principles of Organisation - James D. Mooney, p. 1.

commendable results. Building the great pyramids, conquering polio and sending manned flights to moon; these achievements far exceeded the talents and abilities of any one person. Individual contributions are multiplied with the coordination of all concerned.

- (2) **Common Purpose:** An organisation is created to achieve certain common purpose. When an organisation spells out its common purpose, employees rally around the purpose. Employees are guided by the motive to achieve the purpose and convince themselves about meaningful assembly in the organisation.
- (3) **Division of Labour:** An organisation can use its resources efficiently by dividing complex tasks into specialised jobs. With the implementation of division of labour employees become more proficient by repeatedly doing the same job.
- (4) **Hierarchy of Authority:** Authority is the right to direct the actions of others. Without a clear hierarchy of authority coordination of effort is difficult. Authority brings about accountability and obedience. Accountability is increased by making people to work in a chain of command. Hence authority becomes an essential accompaniment of the job of management.

#### **Principles of Organisation/Organising:**

- (1) **Unity of Objectives:** Objectives of the enterprise influence the organisation structure and hence the objectives of the enterprise should first be decided clearly and firmly. In addition, there should be unity among the objectives decided.
- (2) **Specialisation:** Division of work leads to specialisation. Every department of an organisation should be given specialised functions. This will raise the overall efficiency.
- (3) **Delegation of Authority:** There should be proper delegation of authority in every organisation, particularly in the large organisations. Everyone should be given authority, which is adequate to accomplish the task assigned to him.
- (4) **Coordination:** Due to coordination clear-cut direction will be given to people, departments and efforts will not be wasted/

misdirected. The principle of coordination brings unity of action in the organisation.

- (5) **Unity of Command:** Unity of command as a principle of organisation suggests that each subordinate should have only one superior whose command he has to obey. Dual subordination is undesirable as it leads to confusion and disorder.
- (6) **Flexibility:** Organisation structure should be flexible and not rigid. Flexible structure is adaptable to changing situations.
- (7) **Simplicity:** The organisation should be kept simple for clear understanding of all employees. The structure should be easy to manage through internal communication.
- (8) **Span of Control:** The span of control, as far as possible, should be fair. This means a manager should not be asked to keep supervision on large number of subordinates.
- (9) **Scalar Principle (Chain of Command):** This principle suggests that the line of authority from the chief executive to the first line of superior should be clearly defined. This is necessary so as to avoid any confusion as regards the line of authority.
- (10) **Exception Principle:** The executives at the higher level, are busy in important matters and have limited time for the study of routine matters. It is not desirable to take such matters to the top-level managers frequently. Crucial and exceptionally complex problems should be referred to the top executives and the junior executives should deal with routine matters.
- (11) **Authority and Responsibility:** Authority acts as a tool by which a manager can achieve desired objective. Authority of every manager should be clearly defined. It should be adequate to discharge the responsibilities. Responsibility is the obligation to perform the work.
- (12) **Separation of line and staff functions:** Line functions should be separated from the staff functions even when they are supplementary in character. Line functions are directly connected with operations while staff functions are auxiliary to the line functions.

### (3) STAFFING:

#### Meaning/Concept:

The term "staffing" relates to the recruitment, selection and development of all personnel. Staffing, like all other managerial functions, is a duty which the top management performs at all times. An organisation achieves its objectives only when it has right men in right positions. It is not a matter of choice that some organisations get men of their choice while others do not. The entire machinery of management revolves around efficient and adequate staffing. Manpower planning requires much more than recruitment and training of employees. It calls for satisfaction of wants through individual motivation and fair working conditions.

The need for staffing arises not only in the case of a new organisation but also in established organisation due to the fact that vacancies arise because of resignation, dismissal, retirement or premature death of present occupants. Vacancies also arise because of normal growth in the volume of business. If suitable managers are not appointed there could be dislocation of work and wastage of resources.

#### Definitions of Staffing:

Staffing "*is the function by which managers build an organisation through the recruitment, selection and development of individuals as capable employees.*"

– Dalton E. McFarland

#### Staffing Process in Banking Companies:

Banking is a growing and expanding service activity. At present, lakhs of people are employed in banks in different capacities. Public sector banks have been some of the biggest employers in the past with SBI's employee base alone touching 2 lakh. Comparatively ICICI Bank has about 40,000 employees and HDFC Bank over 50,000. Knowledge of accountancy and IT is a must for banking career. Private sector banks are known to provide better compensation plans as compared to public sector banks. Professional academic qualifications are given priority. Candidates are expected to possess good communication skills along with liking for numbers. Banks give preference to candidates who come with certified training courses from reputed institutes. Candidates are recruited either on contractual jobs or

on probation leading to confirmation on the job. After probation period is completed, salary hike is very sharp. Mostly banks follow the following procedure:

- (a) **Written Test:** After the scrutiny of applications, a final list of candidates for written test is prepared. The purpose of such test is to judge the knowledge of the candidate and also to find out his (a) intelligence, (b) aptitude, (c) capacity, (d) interests and (e) suitability for a specific job. Trade test is particularly necessary in the case of technical jobs such as junior engineer, computer engineer and research assistant. At present, such test is given in the case of supervisory jobs. For example, written tests are used by banks and financial corporations.

It is also possible to reject candidates whose performance in such tests is not upto the mark. Testing of candidates is a lengthy process particularly when the number of applicants is large. In such testing, the process of elimination can be introduced. For example, all candidates may be invited for the first test and the candidates with poor performance in the first test need not be called for the second test.

- (b) **Psychological Test:** The psychological tests given to candidates include the following tests: (a) **Intelligence test** (b) **Aptitude test** (c) **Interest test** (d) **Achievement test** (e) **Analytical test** (f) **Performance test** (g) **Synthetic test** and (h) **Personality test**. Each test needs to be given separately and each test is useful for judging specific quality of a candidate to be selected for the executive post. For example, **intelligence test** is useful for judging the memory and communication skills of candidates and **performance test** is useful for evaluating the education, knowledge and practical experience of candidates. **Personality test** is also important as it suggests the maturity, nature, social qualities and adaptability of candidates.
- (c) **Personal/Selection Interview:** The candidates who have shown reasonably good performance in the written examination and psychological tests are called for personal interview (also called **employment interview** or **selection interview**). Interview technique is used extensively for the

**selection of managerial posts.** This interview is conducted by one interviewer or by a group of interviewers including top officers of the company and other professional experts. The candidate is asked various questions about his qualifications, experience, family background and performance in the written test and psychological tests by the interviewers during the course of the interview. Information on various matters is also supplied to the candidates during the course of personal interview. Interview acts as face to face appraisal of candidates. It is an important and essential element in the selection process. It plays a key role in the final selection of candidates.

In this final interview, an attempt is made to judge overall personality of the candidate. The selection committee notes the strong and weak points of every candidate and selects the best candidates for appointment by applying certain uniform norms. The final selection depends partly on the performance of the candidate in the tests and also on the performance in the personal interview.

- (d) **Reference Check:** The candidate is required to give at least two references which may be (a) educational, (b) social and (c) employment. These references help to cross check the information provided by the candidate.
- (e) **Medical Examination:** The purpose of medical examination is to judge the general health and physical fitness of the candidate. Candidates who are not physically fit for the specific job are rejected even when they show good performance in the tests and personal interview. Medical test is taken in the case of all candidates before appointment. In case of certain jobs, the test is of a general nature. However, medical examination has special importance in armed forces.
- (f) **Final Selection/Approval for Appointment:** The selection procedure comes to an end when the final appointment letter is sent to the candidate with a request to join the organisation on a particular date. The letter states the post, title of the job, the salary and terms and conditions of employment and probation period, if any. At times, a contract of service is signed by both the employer and employee. Initially, the

appointment is on probation and after a year or two, it is confirmed provided the performance of the candidate is satisfactory.

#### (4) DIRECTING:

##### Meaning/Concept:

Directing is the active element which initiates action to translate decisions into productive activities. In the absence of direction, these decisions will remain only as good intentions on paper. Directing has to be performed by managers, though the time and efforts spent on it will vary according to their structure in the organisation e.g., the supervisor has to spend more time than the higher level managers in directing and instructing a large number of employees working under him. Directing refers to providing continuous guidance to employees. It is a process by which the activities and achievements of all workers are guided towards the attainment of common goals of the organisation.

##### Principles of Direction:

- (1) **Directing objectives:** The basic purpose of directing may be summarised by the principle that the more effective the directing process, the greater will be the contribution of subordinates to organisational goals. The job of making the people understand their goals and roles and motivating them for performance is clearly an integral part of the process.
- (2) **Harmony of objective:** Usually a very small number of persons in an enterprise identify their personal objectives with those of the organisation. Moreover, the managers should not expect the goals of the subordinates and the goals of the group to be identical. But in directing subordinates, they must take advantage of individual motives to gain group goals. They must harmonise individual and group objectives. When directing is effective, individuals will perceive that their personal goals are in harmony with the enterprise objectives.
- (3) **Unity of command:** The principle of unity of command is a directing as well as an organising principle. It reflects the desire of an individual to be responsible to one superior; creating greater feeling of personal responsibility for results.

Directing can be most efficiently carried on by one person who knows better than others the character of subordinates, the motivation they respond to and their technical proficiency. Consequently, the superior should be in the best position to select such techniques which maximise productivity both of individual employees and the group.

- (4) **Direct supervision:** It is always desirable that the superiors should maintain direct contact with subordinates. Directing becomes easier when there is informal relationships. It also facilitates fast communication, encourages feedback and quickens decision-making. Directing minimises misunderstandings and mistakes and improves efficiency.
- (5) **Unity of direction:** Each group of activities with the same objective must have one head and one plan. The direction must be clear and unambiguous and from a single chain of command.
- (6) **Democratic process:** When the views of subordinates are incorporated in managerial decision making, it improves employee morale. Democratic process makes the direction easier since it is taken as a guidance for improvements.

#### Process of Directing;

- (a) Issuing orders and instructions to subordinates in a clear and complete manner so as to avoid confusion, etc.
- (b) Providing continuing guidance and supervision to subordinates to ensure that assigned tasks are carried out effectively and as per the plan prepared.
- (c) Maintaining discipline among subordinates as well as appreciating/rewarding those subordinates who perform well.
- (d) Motivating subordinates to work efficiently for achieving individual, departmental as well as organisational objectives.
- (5) **LEADING:**

In leading, the manager has to function as a leader of his subordinates. Leading subordinates is one more sub-function within the scope of directing. Managers need to be good leaders.



They need the qualities of leadership and should lead the subordinates in an effective manner.

Leader is a person who takes charge of or guides performance or activity. A manager is in charge of a specific activity assigned to him. Secondly, he has to give guidance to his subordinates in their work. This is how a good manager needs to be a good instructor, a good communicator, a good motivator and finally a good leader. All these aspects are included within the scope of directing.

Leadership in banks display democratic, authoritative and free rein styles. Banking sector has seen major changes at structural and organisational levels. Banking plays a key role in deciding the best business practices in developing new markets and clients and creates new products for e-commerce and net-based technologies. Leadership in banks are analysed in terms of person's behaviour, ability, attitudes, perception and dynamism. Leader's interaction with others is of great relevance to motivate employees. Situational leader emerged as the best leader.

Insurance industry is entering an age of global operation and digital transformation. It is witnessing rapid changes, unforeseen risks and changing customer behaviour, Managing risk management is a major challenge before all leaders. No one style of leadership is suitable for all situations. Authoritative style is used when you tell your team what needs to be done and you trust that they will do it. When the leader needs ideas from his team he can try democratic leadership style. If the team is experienced, motivated and you want quick results situational leadership style is the right choice. Life Insurance customers are among the most loyal to the insurers. Democratic leadership style is considered most appropriate.

#### (6) CO-ORDINATING:

##### Meaning/Concept:

Co-ordination is the task of arranging the group efforts in an orderly manner. It aims at achieving objectives. It is required at all levels of the organisation. It ensures that all groups and persons work efficiently, economically and in harmony. A manager must co-ordinate the work for which he is accountable. Co-ordination

requires effective channels of communication. Importance of co-ordination requires effective channels of communication. Importance of co-ordination has increased because of multiple and complex activities of large organisations. In every organisation, there is strict division of work providing employment to specialists whose activities require co-ordination. "Co-ordination is the management of interdependence in work situations." It is fitting together of the interdependent efforts of individuals in order to attain common goals e.g., in a hospital the activities of doctors, nurses, ward attendants and lab technicians must be properly co-ordinated, if the patient is to get good care.

### **Importance of Coordination:**

Coordination is essential for achieving the objectives as decided by a business enterprise. Due to coordination, all resources – human and material are diverted in one direction for achieving specific purpose. It facilitates unity of action for the pursuit of a common purpose. Mary Parker Follett, has called this 'plus value of the group'. This suggests that a group becomes effective and productive only when its activities are properly coordinated. The following advantages of coordination also suggest its importance:

- (1) **Develops team spirit:** When people work in groups, they get specific targets and reasonable freedom to achieve them. However, the activities of different groups must be adjusted properly and they must move in one direction in order to achieve the overall objectives of the enterprise. This is possible only through coordination. For example, in a cricket team, every player is allowed to use his skill for scoring more runs. However the captain has a responsibility to direct all players for winning the match.
- (2) **Brings unity of direction:** Coordination brings unity in the actions and activities of different departments. It connects the departments in a purposeful manner. Due to coordination, managers view the organisation as a whole and give one direction to all activities and efforts. This brings harmony in the operations of the organisation.

- (3) **Raises morale and facilitates motivation of employees:** Due to coordination, employees are given proper guidance and directions. They are taken in confidence and are made partners for achieving the overall objectives of an organisation. In this sense, coordination gives proper toning to the morale of employees. It also motivates the employees to take initiative for superior performance.
- (4) **Ensures optimum utilisation of available resources:** Due to coordination, misdirection and wastages are avoided. The resources are allocated for the purposes for which they are meant. This ensures full utilisation of available resources.
- (5) **Acts as a driving force:** Coordination acts as a driving force in an organisation. It combines individual efforts and group efforts for achieving common objectives. The role of coordination in an organisation is similar to the role of the conductor of the orchestra. The conductor directs, regulates and coordinates the efforts of all participants and sees that the music is pleasant and appealing to the audience. The same is true of coordination in management.
- (6) **Facilitates prompt achievement of objectives:** Time bound objectives can be achieved only when all connected activities are coordinated and integrated properly. Coordination enables the authorities to keep a watch on the performance of employees and departments. It puts timely check on deviations, if any. This leads to prompt achievement of objectives.
- (7) **Promotes cordial relations:** Coordination brings managers subordinates and departments closer. It develops team spirit and cooperative outlook among employees. This avoids disputes and unhealthy competition among employees and promotes cordial relations throughout the organisation.
- (8) **Creates favourable corporate image:** Coordination ensures orderly functioning of the whole organisation with high efficiency. The organisational objectives are also achieved quickly. This creates favourable corporate image for the company. It gets market reputation due to regular supply of quality goods at fair prices.

### Steps in Effective Coordination:

- (1) **Simplified organisation:** The entire organisation should be arranged department-wise or function-wise. The need for clear cut organisation and procedure can never be neglected. The procedures of the entire organisation should cover all activities and how a particular individual's work is related to that of other individuals in the organisation.
- (2) **Coordination through supervision:** Proper supervision of the work of sub-ordinates plays an important part in coordinating the work of different units of the organisation. If the workload of an executive is more, assistance should be provided to supervise the work. The executive can use his time for bringing about coordination within the different departments of the organisation.
- (3) **System of communication:** A well designed system of communication is absolutely essential for making adjustments in plans and for preparing programmes for the future. A good system of communication ensures effective coordination among various departments.
- (4) **Voluntary cooperation:** If employees have strong sense of devotion and involvement in the work, voluntary cooperation from individuals from different departments is possible. By maintaining close contacts with staff it is possible to achieve voluntary co-operation which would improve coordination.
- (5) **Harmonised plans:** Rational planning can lead to greater coordination. The plans prepared by different departmental heads should be checked for consistencies. The plan should be an integrated one for the entire organisation.

### (7) COMMUNICATION:

#### Meaning/Concept:

Communication plays a similar role in an organisation as the role played by the nervous system in a human body. It keeps the members of the organisation informed about the internal and external happenings affecting their interests. Effective communication becomes necessary to enable them to think and to act together. Proper communication brings about co-ordination of every human relationship. Information and instruction must flow

down from the directing head. There must be feedback information in the form of reports and suggestions in order to form a basis for future action. It establishes democratic management.

Communication consists of:

- (a) Transmitting and receiving ideas accurately.
- (b) Providing feedback mechanism.
- (c) Giving information on matters done or to be done.
- (d) Interacting views through various channels.
- (e) Avoiding misunderstanding, mal-communication and misinterpretation.

#### Features of Communication/Nature of Communication:

- (1) **Communication is a two way process/traffic:** It is a process of transmitting and receiving information, data, new ideas, etc. accurately by the people working in the organisation. Communication is not merely issuing orders to subordinates. It is a process of telling, listening and understanding certain matters exactly in the same manner by all concerned parties/people. Communication is not complete unless the message has been correctly noted by the receiver and his response (feed-back) becomes known to the sender. It is not merely the transmission of message but also correct understanding and suitable response from the receiver.
- (2) **Communication provides for a feedback mechanism:** It is an essential input in the management process. Information on various management matters is supplied through communication. In response to this, additional information is supplied and this serves as feedback for follow-up actions and communication. In short, the feedback mechanism is provided by communication system in a business enterprise.
- (3) **Communication is internal to the organisation:** Strictly speaking, communication provides information to those who are working in the organisation. Superior giving orders/instructions to subordinates is one example of communication. Similarly, subordinates submitting information through reports is also one example of

communication. Thus, communication is internal in character. It speaks on things done or to be done.

- (4) **Communication identifies the common intentions and interests** by interaction of views through its several channels. Clear understanding among executives and subordinate staff develops due to regular communication.
- (5) **Communication aims at achieving the objectives of organisation** by creating right type of responses. The basic aim/purpose of communication is to create mutual understanding and co-operative human relationships. It is not merely for giving orders and instructions but also for developing understanding and co-operative spirit among the employees working in an organisation.
- (6) **Communication in business is basically administrative in nature.** It relates to business management and serves many administrative purposes. All management functions such as planning, organising, directing decision-making are conducted through communication channels. It acts as a tool for the management of business activities. Managers get the work done from others through effective communication. Communication has official status and is useful for orderly functioning of a business enterprise.
- (7) **Communication is a continuous process:** Communication is a continuous process. Close of communication means an end of human activity. It is as important as regular blood circulation in human body. On-going circulation of information/ideas is essential for organisational activity. Organisations cannot exist/operate without communication.
- (8) **Communication is a pervasive function:** Communication is required while performing all management functions. Planning, for example, needs communication of information. Similar is the position of organising and staffing function: Communication is vital to all managerial functions. It is a universal element in the management process.

#### **Importance of Effective Communication:**

Communication is rightly treated as the life blood of the organisation. It is the lively element which sets the business

enterprise in motion and provides life and energy to organisation structure created. Human body functions efficiently due to regular blood supply to all parts of the body. Blood provides life and energy to human body and thereby keeps it in energetic position. Similarly, communication is the life blood of the organisation. It moves continuously to all departments and employees of the organisation. As a result of continuous flow of communication, the organisation functions in an efficient and orderly manner. It is like blood which moves continuously in a human body. An efficient communication system is a must for every organisation. It facilitates quick and correct decision-making and brings unity of purpose among the employees and different departments. In this sense, **communication is treated as the life blood of the organisation.**

The classicists ignored the importance of communication within an organisation. As a result of the Hawthorne experiments, it was accepted for the first time that every organisation structure is a social system involving the interactions of people working at different levels and proper/purposeful communication among them (staff/employees) is necessary for achieving organisational goals/objectives. **Communication acts as the foundation of an organisation's existence right from its birth.** Organised action comes to an end when communication stops. This suggests growing importance of communication in business management.

When manager acts as a leader, he has to direct, instruct and motivate his subordinates in order to accomplish the organisational objectives. For this, oral/written communication is required. He also uses communication system, while conducting organising function. He collects information and organise the activities accordingly. This suggests that all functions of management are conducted effectively by using the support of communication system. Communication skills are required while performing all managerial functions. It is of utmost importance in an organisation. It acts as an important aid in directing the employees in an organisation. In this sense, it is rightly said that *"Effective communication acts as the foundation of sound management"*.

## (8) MOTIVATING:

### Meaning/Concept:

An employee has to be inspired and actuated to attain the objectives of an organisation. An order issued will not work but an order accepted will be executed. To accept an order and to execute it with interest, requires an element of motivating. The art of getting the work done will mainly depend on whether a person has been motivated properly. Motivation will increase the desire to work. It is an enthusiasm to work. Motivation creates incentives to work. A manager can handle employees only when he can understand their motives. Motivation is a means of triggering human desire to do the work.

Motivation consists of:

- (a) Encouraging initiative and creative talent.
- (b) Creating pleasant working conditions.
- (c) Developing effective communication.
- (d) Reducing employee grievances.
- (e) Recognising positive efforts.

## (9) BUDGETING:

### Meaning of Budget:

The term **Budget** is derived from the French word *Bougette* meaning a leath or bay or a pouch. In this sense, it implies the availability of resources viz., finance in a bag or a purse and their application and utilisation to maximise economic satisfaction. In economic terminology, budget stands for quantitative expression of a future plan of action. It is a plan by which the management charts its future course of action for a specified period usually one year since it is a common practice to prepare annual budgets. A budget estimates the resources needed for future performance and lists the probable sources for future performance and lists the probable sources for the same in numerical terms. Forecasts are statements of sales, costs and other facts. When forecasts are approved by the management they become budget. A business budget is a comprehensive plan for managerial control of affairs of business designed to facilitate coordination and attainment of



the goals of an enterprise. It covers different phases of operation for a given period.

**Budgeting** is the process of formulating financial plans in numerical terms for a specific period. It is the exercise of converting the physical plans into numbers or figures and breaking them up into components consistent with the financial results. Budgeting serves as a tool for achieving the objectives decided by the management. In this context, budgeting may be treated as a technique to obtain a synthesis of the past, the present and the future. The exercise of reducing the plans to define targets brings a sort of *orderliness* that enables managers to clearly see much money will be spent by whom and where; and how much expense, revenue or units of physical input or output will be involved in the plans. Having ascertained this, there is no reason why managers should hesitate to delegate their authority to carry out a plan within the limits of the budget.

According to F. I. Rowland and R. E. Khodel budgeting has five-fold objectives which are:

- (i) To clarify the programmes.
- (ii) To coordinate the activities of various branches.
- (iii) To measure efficiency and simplify executive control.
- (iv) To help in financing business.
- (v) To inform the interested parties entitled to have the information as to the company plans upon which these programmes are predicated.

#### **Types of Budget:**

- (1) **Sales budget:** It is a basic budget. The entire operation of an enterprise is planned around the volume of sales expected during a specific period. It is the nerve centre of the operating budgets. It lays down the sales potential in terms of quantity, value, period, product, area etc. The preparation of sales budget starts with sales forecasts which are prepared for each product separately. Sales budgets are compiled in terms of both value as well as volume. Where the enterprise produces various items, the sales budget should be prepared region wise stating sales target for each region. Sales budget also shows the expected selling and distribution expenses and the

amount of net income likely to be derived from the sale of goods of the company.

- (2) **Finance budget:** Finance budget is a summary of the total amounts of expected receipts and payment during the budget period. The purpose of this budget is to plan for allocation of working capital needs of the enterprise. It provides information relating to the estimated profits to be realized during the budget period thereby helping the management to effectively undertake a long term planning of business operations. Finance budget ensures a steady supply of funds for capital requirements and for paying current obligations of the firm. This budget also helps in making financial provisions for heavy expenditure. As regard anticipated cash requirements, the budget is helpful for timely raising of funds through borrowing or other means.
- (3) **Cash budget:** It is an integral part of the finance budget. It is prepared on the basis of sales forecast operating expenses, financial policies and special arrangements regarding purchases. Cash budget is a forecast of cash receipts and disbursements against which actual cash inflow is measured. It is a control mechanism of a business. It also shows availability of excess cash thereby making possible planning for investment of surplus funds.
- (4) **Manufacturing budget:** Manufacturing activities require combined use of land, building, labour, plant, machine and raw materials. A comprehensive budget for all these items is necessary to determine the manufacturing capacity of the firm. A separate subsidiary budget for each of the above items is prepared. Such subsidiary budgets serve as a means of administrative control over expenses. These budgets are also useful for preparing production budget. R & D is a part of this budget.
- (5) **Capital expenditure budget:** This budget lays down the estimates in respect of capital resources of an enterprise. It is prepared to assure planned and timely capital investments in the business, specifying the intentions of the management. As such this budget reflects the management's policy as regards

growth, investment, expansion, contraction, production and profits. This budget makes provision for future capital expenditure over long period of time. Thus, capital expenditure budget is meant for the guidance of the top management personnels only. This budget is specifically on plant, machinery, equipment, inventories and other items of capital nature. Hence this budget should form a part of a long range planning of the firm.

- (6) **Cost budget:** For the preparation of cost budget the different costs such as distribution costs, R & D costs, advertising costs etc. are separately estimated under different sub-budgets. These sub-budgets are prepared in detail to arrive at a comprehensive picture of a total cost budget. The sub-budgets may include raw materials budget, labour budget, plant and equipment utilization budget, manufacturing cost budget, administrative cost budget, selling and distribution cost budget, etc.

## (10) REPORTING:

### Meaning/Concept:

Reporting means making the subordinates responsible for doing a job and requiring them to inform their superiors about work done or work being done or work not done. Reporting is a vital function of management because it monitors the performance of employees. The superior keeps himself and his subordinates informed through records, research and inspections. Reporting is the function of creating the report and mentioning to the higher authorities regarding the progress and process followed. Information is provided to the team to enable them to do justice with the project. According to Luther Gullick reporting is not a separate function of management but an integral part of planning and controlling.

Reporting is understood as a process of providing information to various levels of management. It judges the effectiveness of this responsibility and acts as a base for taking corrective measures, if necessary. Reporting fulfils the following objectives/purposes:

- (i) Acts as a means of communication.
- (ii) Helps in preparing records.

- (iii) Complies with legal requirements.
- (iv) Satisfies interested parties.
- (v) Develops smooth public relations.
- (vi) Measures performance both individual and group.
- (vii) Puts into practice control mechanism.

## (11) CONTROLLING:

### Meaning/Concept:

The purpose of control function is to examine the past and present activities in order to search out weakness which can be eliminated in the future. The control process implies existence of a standard against which the actual performance is measured. Generally, the comparison may indicate some deviation from the standard. The manager has to determine the reasons for deviation and plan a corrective action. In order to avoid future deviations, the control system should provide regular feedback of information. Control is a continuous process. It has a positive approach.

### Definition of Controlling:

- (1) According to Louis Allen, "Control means to guide something in the direction it is intended to go."

### Importance of Controlling:

- (1) **Facilitates achievement of targets:** Control system enables an enterprise to achieve its targets and goals with confidence as it raises the overall efficiency/productivity of a business enterprise.
- (2) **Facilitates regular consultation:** Attainment of business objectives is unthinkable unless regular consultations take place between all departmental heads and the management regarding implementation of control system.
- (3) **Facilitates coordination and efficiency:** Control system facilitates coordination among departments by taking corrective measures. This increases overall efficiency.
- (4) **Avoids deviations:** Due to control mechanism, deviation between the expected and actual performance will be minimised.

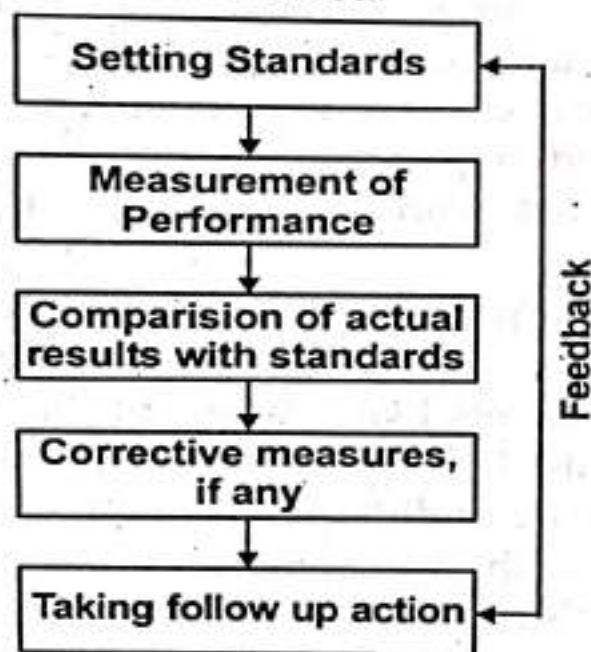
- (5) **Avoids wastages:** Control system avoids wastages of materials and human efforts. It creates discipline in the functioning of the enterprise and ensures optimum utilisation of available resources.
- (6) **Provides remedial measures:** It facilitates the introduction of remedial measures. It avoids the repetition of shortfalls in the achievement of objectives.
- (7) **Objectives oriented:** Controlling steers an enterprise through its changing environment towards its pre-determined objectives.
- (8) **Introduces delegation/decentralisation:** Control facilitates decentralisation and delegation in an organisation.
- (9) **Removes weak points:** Controls identify the weak points in the management process through feedback informations.
- (10) **Raises employee morale:** Control system improves the morale of employees and also goodwill of the organisation through the achievement of pre-determined objectives in terms of quality, costs, etc.

#### Steps/Elements in Control Process/Procedure:

- (1) **Setting/establishing standards/targets:** Setting standards is the first step in the control process. A standard is a criterion or measuring rod against which the actual performance is to be measured. The standard fixed indicates expected result from a particular process or activity. In physical standards output, customers or sales are decided as standards. (e.g. production of 2000 units per day or sale of 1500 articles per day.) In the case of monetary standards cost, revenue, expenditure, net or gross profit are used as standards. Quantitative standards are easy to define as they are in specific quantity. However, qualitative standards are difficult to establish in a precise manner.
- (2) **Measuring actual performance:** In this second step of control process, actual performance will be measured in the light of the standards established. The actual performance may not be exactly as per the expected performance. This may be due to certain unforeseen situations and ad-hoc decisions taken to

meet them. It is, therefore, desirable to accept small margins of deviations.

- (3) **Comparing actual performance with the standard performance and identifying the deviation, if any:** In this step of control process, actual performance is compared with the expected performance in order to find out deviation. For this, the standards are known and the performance report is also available. This makes the comparison work quick and accurate. The deviation can be noted during comparison. The deviation upto tolerance limit (accepted limits of deviation) are accepted and deviation at the strategic control points are taken up for detailed investigation. The causes of such deviation are studied for suitable remedial measures as a manager cannot change instantly whatever wrong has already taken place. For example, shortfall in the production may be due to high rate of labour absenteeism or inadequate raw material supply. These causes will be analysed and remedial measures will be listed.



*Control Process*

- (4) **Introducing suitable corrective measures:** In this step of control process, suitable corrective measures are taken at the appropriate levels to avoid possible deviations in future. Such measures need to be taken promptly. Here, the purpose is to improve the performance in the future. For corrective

measures, the analysis of the deviations is useful. The manager responsible for control has to take the corrective measures and see that such measures are given effect in the right manner.

- (5) **Taking follow-up action:** As deviations can be removed only through the execution of corrective measures an inbuilt feedback mechanism is required. The real benefit of control process will be available only when the corrective actions are taken to their logical end. Thus, the feedback mechanism is important in the control process.

#### **Types of Control Systems:**

- (1) **Strategic Control:** Strategic control works towards developing and updating control system. It takes into account the changing planning premises both internal and external on which the strategy is based. There is an attempt to regularly evaluate the strategy by taking corrective measures so that the strategy does not become outdated. This is an important exercise because strategy formulation is based on certain assumptions. Quite likely some of these assumptions may not hold good because there is a time gap between strategy formulation and implementation. If care is not taken the strategy may not work as effectively as thought by the strategists.
- (2) **Operational Control:** Operational control aims at evaluating the performance of the organisation in totality including different components like strategic business units, divisions and departments. This type of control is highly popular. This control is exercised at different stages of work performance. It is concerned with allocation and use of organisational resources and also cutting down wastages.
- (3) **Feed-forward control:** Feed-forward control identifies and prevents deviations before they occur. It concentrates on human, material and financial resources that flow into the organisation. Feed-forward control is commonly used while selecting new employees. New employees are put to screening tests to find out whether they possess necessary skills.

- (4) **Concurrent Control:** Concurrent control monitors ongoing activities to ensure they are consistent with quality standards. It encourages employees to exercise self-control. It assesses current work activities, takes note of performance standard and guides employee tasks and behaviours. It ensures that work activities produce the correct results. Many manufacturing firms train employees to take note of deviation in production and take corrective measures. Firms using TQM (Total Quality Management) heavily rely on concurrent control.
- (5) **Feedback Control:** Feedback control refers to the measurement of the results of an action. If any deviation is found between performance standards and actual performance, corrective action is undertaken. This enables the organisation to control similar deviations in performance in future. Feedback control works well when corrective action is taken either immediately or as soon as possible.

### Objective Questions with Answers

- (1) Select the correct alternative and rewrite the statements:
- (a) Planning is a \_\_\_\_\_ process. (Nov. 16; Nov. 17)  
(i) rigid (ii) mechanical (iii) mental (iv) virtual
- (b) Organising executes business \_\_\_\_\_.  
(i) policies (ii) plans (iii) strategy (iv) proposal
- (c) \_\_\_\_\_ is useful to small business.  
(i) Centralisation (ii) Decentralisation (iii) Authority (iv) Delegation
- (d) Delegation is transfer of certain \_\_\_\_\_.  
(i) accountability (ii) responsibilities (iii) power (iv) documents
- (e) \_\_\_\_\_ is an integral part of employee selection.  
(i) Physical test (ii) Technical test (iii) Written test (iv) Aptitude test
- (f) \_\_\_\_\_ involves motivating subordinates. (March 19)  
(i) Planning (ii) Organising (iii) Directing
- (g) Coordination is the \_\_\_\_\_ of management.  
(i) focus (ii) essence (iii) centre (iv) basis
- (h) Communication is a two way \_\_\_\_\_.  
(i) dealing (ii) traffic (iii) movement (iv) challenge
- (i) Budgeting is preparation of \_\_\_\_\_.  
(i) plans (ii) policies (iii) estimates (iv) strategy
- (j) Controlling measures \_\_\_\_\_ performance.  
(i) actual (ii) expected (iii) calculated (iv) overall
- (k) Control includes comparing actual performance with the \_\_\_\_\_ performance. (March 18)  
(i) calculated (ii) expected (iii) standard

[Ans.: (a - iii), (b - ii), (c - i), (d - ii), (e - iii), (f - iii), (g - ii), (h - ii), (i - iii), (j - i), (k - iii)]



## (2) Fill in the blanks choosing the correct alternatives:

- (a) Controlling measures \_\_\_\_\_ performance. (Oct. 18; March 19)  
(i) actual (ii) expected (iii) calculated
- (b) Coordination is the \_\_\_\_\_ of management. (Oct. 18)  
(i) tradition (ii) essence (iii) policy
- (c) Management practices have \_\_\_\_\_ application.  
(i) national (ii) international (iii) universal
- (d) In the absence of planning, events are left to \_\_\_\_\_ factors.  
(i) departmental (ii) chance (iii) forecast
- (e) Planning premises are \_\_\_\_\_.  
(i) fixed (ii) assumptions (iii) guarantees
- (f) An organisation is created to achieve \_\_\_\_\_ purpose.  
(i) common (ii) uncommon (iii) business
- (g) Directing harmonises individual and \_\_\_\_\_ objectives.  
(i) business (ii) group (iii) organisational
- (h) Communication provides \_\_\_\_\_ mechanism.  
(i) cordial (ii) confirmation (iii) feedback
- (i) \_\_\_\_\_ simplifies executive control.  
(i) Leadership (ii) Budgeting (iii) Reporting
- (j) Concurrent control monitors \_\_\_\_\_ activities.  
(i) regular (ii) irregular (iii) ongoing

[Ans.: (a - i), (b - ii), (c - iii), (d - ii), (e - ii), (f - i), (g - ii), (h - iii), (i - ii), (j - iii)]

## (3) State whether the following statements are TRUE or FALSE:

- (a) Planning is economical. (Nov. 16, March 18)
- (b) Planning equals rigidity.
- (c) Organising arranges ways and means to execute business plans. (March 17)
- (d) Staffing improves job satisfaction and morale. (March 17; Nov. 17)
- (e) Direction is the action element in business. (Nov. 17; Oct. 18)
- (f) Coordination is a fixed entity.
- (g) Control allows limited deviation in performance.
- (h) Motivation reduces accidents. (Oct. 18)
- (i) A leader may delegate his authority but he cannot shift his responsibility.
- (j) Control is inconsistent with freedom.
- (k) Taylor introduced the concept of MBO. (Nov. 17)
- (l) Staffing improves job satisfaction. (March 18)

[Ans.: (a) False, (b) False, (c) True, (d) True, (e) True, (f) False, (g) False, (h) True, (i) True, (j) False, (k) False, (l) True]

## (4) State whether the following statements are TRUE or FALSE:

- (a) Management functions are put in water-tight compartments.
- (b) Planning premises are actual facts.
- (c) Planning precedes all other functions of management.
- (d) Policies are guidelines to an action.
- (e) Superiors participate in MBO programmes.
- (f) Authority brings about accountability and obedience.
- (g) Democratic process makes the direction difficult.
- (h) A good coordinator is not a good leader.
- (i) Motivation is the art of getting things done willingly through others.
- (j) Control system should be complex and ambiguous.
- (k) Coordination is the essence of management. (March 19)
- (l) Management is a mechanical process.
- (m) Objectives act as pillars of the entire planning process.
- (n) Procedures guides actions and bring consistency in them.
- (o) Budget represents capital expenditure.
- (p) Cashless transactions have increased for banks.
- (q) Key Result Areas are temporary in nature.

- (r) Exception principle of organising covers all employees.
- (s) Free rein style of leadership is found in banks.
- (t) Strategic control covers only external planning premises.

[Ans.: (a) False, (b) False, (c) True, (d) True, (e) True, (f) True, (g) False, (h) False, (i) True, (j) False, (k) True, (l) False, (m) True, (n) True, (o) True, (p) True, (q) False, (r) False, (s) True, (t) False]

(5) Match the following:

Group 'A'	Group 'B'
(a) Planning	(i) Unity of Command
(b) Organisation	(ii) Bonus
(c) Reporting	(iii) Well defined standards
(d) Staffing	(iv) Organisational goals
(e) Direction	(v) Inform Superiors
(f) Coordination	(vi) Strict deviation
(g) Motivation	(vii) Universal application
(h) Control System	(viii) Rules and regulations
(i) Management Process	(ix) Future oriented
(j) Management Practices	(x) Right man to right job
	(xi) Survival of an entrepreneur

[Ans.: (a - ix), (b - viii), (c - v), (d - x), (e - i), (f - xi), (g - ii), (h - iii), (i - iv), (j - vii)]

(6) Match the following:

Group 'A'	Group 'B'
(a) Management Process	(i) Aptitude Test
(b) Planning	(ii) Coordination
(c) Strategies	(iii) Formulating Financial Plans
(d) Digital India	(iv) Digital Transformation
(e) Staffing Process in Banks	(v) Pervasive Function
(f) Insurance Industry	(vi) Well defined Standards
(g) Plus Value of the Group	(vii) Bonus
(h) Communication	(viii) Circular Process
(i) Budgeting	(ix) Faceless, Paperless, Cashless
(j) Control System	(x) Past, Present and Future linked
	(xi) Anticipated moves of the opponents

[Ans.: (a - viii), (b - x), (c - xi), (d - ix), (e - i), (f - iv), (g - ii), (h - v), (i - iii), (j - vi)]

## Question Bank for Self-Practice

- (1) Define coordination. Explain its importance. (Oct. 18)
- (2) Explain budgeting and reporting as functions of management. (Nov. 17)
- (3) Define staffing. Discuss the staffing process in banking companies. (Nov. 16)
- (4) What are the advantages of planning? (Nov. 16)
- (5) What is Planning? What are the advantages of planning? (March 18, 19)
- (6) What is directing? Explain the principles of direction? (Nov. 16)
- (7) Explain budgeting and reporting as a function of management. (March 17)
- (8) Discuss the importance of controlling in management. (March 17; Nov. 17)
- (9) What is staffing? Explain its process. (March 17)
- (10) Explain management process and practices with reference to Indian companies.
- (11) State the role of managers in discharging management practices.
- (12) Discuss Management as a Process. (March 19)
- (13) What is meant by management process? Explain its features.
- (14) Explain Luther Conflict's PODSCORB as functions of management.

- (15) What is meant by planning? Explain its features.
- (16) Discuss the steps in planning process.
- (17) Explain the components of planning.
- (18) Point out the advantages and limitations of planning.
- (19) What is MBO? Explain MBO process.
- (20) Define MBO. State its advantages and limitations.
- (21) What is organising function of management? State its characteristics.
- (22) Explain the principles of organisation.
- (23) Discuss staffing process in banking companies.
- (24) Which styles of leadership are appropriate in banking and insurance sector?
- (25) What is meant by coordination? Explain its importance.
- (26) What are the steps in effective coordination?
- (27) Explain the importance of communication in business management.
- (28) How communication helps management to achieve efficiency in business?
- (29) What do you understand by the term budgeting? Point out its main objectives.
- (30) Explain the various types of budget.
- (31) Discuss control process.
- (32) What are the different types of control?
- (33) Explain the principles of direction.
- (34) Bring out the relationship between authority and responsibility. *(March 18)*
- (35) Write short notes on:
  - (a) PODSCORB.
  - (b) Features of Management Process.
  - (c) Management Practices.
  - (d) MBO Process.
  - (e) Directing. *(Nov. 17)*
  - (f) Staffing.
  - (g) Features of Communication.
  - (h) Controlling.
  - (i) Management as a Process. *(Nov. 17; Oct. 18)*

## Chapter 4

# Functions of Management (Banking and Insurance)

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*The conventional definition of management is getting work done through people, but real management is developing people through work.*

*— Agha Hasan Abedi*

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*Meaning of Functions of Management – (A) Functions of Management Related to Banking: Planning, Organising, Directing, Staffing, Motivating, Coordinating, Communicating, Controlling – Motivating Employees in Banking Sector – CRM Programme in Banking Sector – (B) Functions of Management Related to Insurance: Planning, Organising, Directing, Staffing, Motivating, Coordinating, Communicating, Controlling – Motivating Employees in Insurance Sector – CRM Programme in Insurance Sector – Question Bank for Self-Practice.*

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### MEANING OF FUNCTIONS OF MANAGEMENT:

Functions of management are differently conceptualised by different writers. Henri Fayol identified the functions of management as: planning, organising, directing, coordinating and controlling. According to Ernest Dale function of management include: planning, organising, staffing, directing, controlling, innovation and representation. Luther Gullick summed up the functions of management in the keyword PODSCORB which stands for: planning (P), organising (O), staffing (S), directing (D), coordinating (CO), reporting (R) and budgeting (B). Banks and insurance companies apply all these principles in operating their business. Either they use all principles together or use them as and when required. Functions of management refer to what *activities* are looked after by the managerial staff.

A function is a group of similar activities. It is widely accepted that three management functions viz., planning, organising and controlling cover all the aspects of work in an organisation. Some

sort of directing human behaviour to meaningful activities is required in order to get the work done. Therefore, directing can be taken like the above three functions. Some authors have accepted a fifth function as staffing because it covers human resource. Thus managerial functions may be grouped into planning, organising, directing, staffing and controlling. For our purpose, we shall study the following eight functions:

- |                   |                  |
|-------------------|------------------|
| (1) Planning      | (2) Organising   |
| (3) Directing     | (4) Staffing     |
| (5) Motivating    | (6) Coordinating |
| (7) Communicating | (8) Controlling  |

### (A) FUNCTIONS OF MANAGEMENT RELATED TO BANKING

#### (1) PLANNING:

Managerial activities that lead to attainment of objectives and determination of appropriate means to achieve those objectives relate to planning function. The main function of banks is to accept deposits, lend money, remit funds, collect bills and provide miscellaneous services. There is stiff competition in banking sector. Banks work hard to get customer patronage. Added to this, there are other financial institutions, both in organised and unorganised sector which have entered the field of accepting deposits and lending money. In order to face competition from these institutions banks must improve their quality of service and plan their growth with the objective to mobilise financial resources. Banks undertake planning process at various levels such as:

- (a) Branch expansion planning.
- (b) Human resource planning.
- (c) Advertising planning.
- (d) Business planning, etc.

Plans must be implemented within a given time schedule. Banks undertake both short-term and long-term plans to take advantage of market operations and to ensure sustained future growth. One of the significant planning relates to deployment of

**funds** because banks have to submit to RBI once in six months details of deployment of funds and also actual amount deployed. The Planning and Development Department is responsible to collect data with regard to – consumer index, government policy, inflation, growth of deposits, rise in advances, new schemes introduced by other banks, money supply, profitability and so on. Ordinarily, banks prepare goals at macro level and assign specified performance to zonal/regional offices which in turn prepares performance goal for the branches. Banks organise review meetings which are attended by zonal/regional managers. One of the aspects of planning relates to opening branches overseas. Banks mobilise funds of NRIs and also remit money from India. Banks are instructed to give adequate and timely credit to **priority sector lending** which means those sectors that the central government wants to give priority over other lending sectors.

## (2) ORGANISING:

Organising function represents a structure of task and authority relationships. This function contributes in establishing a formal organisation. The success of a branch depends on praiseworthy work done by the branches. Banks need loyal customers who not only continue their accounts but also recommend to others. This will enable the bank to grow fast. Banks must exercise utmost care to organise its structure properly. While finalising its organisation structure, banks must take into account potentiality and profitability of the services, local conditions, demand for the services, location of the branch and availability of the space. Counter transactions take place every day and only customer friendly staff should be deputed. Term deposits are made infrequently, hence this counter can be maintained next to the counter catering to daily services. Similarly, safe deposit locker facility should be provided on daily basis but during restricted hours. The branch manager and other officials should be made accountable for their performance. Moreover, authority is delegated to administrative staff to enable them to record better performance. The branch manager must be assisted by officers and accountants who know their rights and

duties through an organisation chart. Large banks practice matrix organisation.

### (3) DIRECTING:

Directing refers to the manager's act of interpreting orders to a subordinate to do the work in the right manner. The branch manager is responsible for the performance of his staff. Precisely, the staff contributes towards the achievement of organisational objectives provided they are guided properly. Effective directing ensures full utilisation of available manpower. The staff should be given proper inputs to excel in performance. Banking operations are employee-intensive. It is necessary to keep qualified and competent executives who can guide others with good results. Assignment giving is perhaps the most critical element of effective directing. While planning and organising are carried out mainly by the top management, directing has to be performed by managers at all levels; although the time and efforts spent on it will vary.

### (4) STAFFING:

Staffing is a process that involves the forecasting of personnel needs and the recruitment, selection, placement and training and development of employees. The future need of employees at a bank depends on the business plan, performance and other variables. Business plan has to outline the growth in deposits, advances, profits, branch expansion, number of activities, other services, period of business plan, etc. As a practice, banks study trend in business during the last five years and need for staffing and try to establish relationship between the two factors. The following factors determine the need for staffing at a branch:

- (a) Number of activities and their volume.
- (b) Number of accounts in each activity.
- (c) Number of vouchers per day.
- (d) Number of cash transactions i.e. payments and receipts.
- (e) Rush and non-rush hours.

It is vital to note that if a branch widely uses computers in its operations the need for staffing would be less.

**(5) MOTIVATING:**

Motivating is the process of using a person's inner drives so that he is prepared to accomplish organisational goals. Banks use both monetary and non-monetary incentives to motivate employees. Employees differ in their motivation: for some financial gains directly motivate whereas some other look for recognition and career development. There is no permanent factor to motivate employees e.g., confirmation on the job is motivating to a temporary staff or promotion to a permanent employee will motivate him. Some banks follow the practice of giving incentives to those employees against whom no complaints are received from the customers. Motivation is a complex issue and bank management must constantly revise their plans to keep the morale of employees high. The implementation of attendance bonus or performance bonus has been found effective. The work environment is an important factor of motivation which includes variables like characteristics of employees, leadership style, physical infrastructure, location of the branch, working hours, incentive plans and so on.

**(6) COORDINATING:**

Proper coordination and integration of activities of different departments are essential for orderly working of a bank and also to achieve its objectives. Coordination is needed at all levels of management. Coordination avoids misdirection and wastages and brings unity of action within the bank. Coordination does not happen of its own. Managers have to make concerted efforts to coordinate the entire working of the bank. Bank procedure needs to coordinate with visiting customers. Quality of service largely depends on the overall coordination at the branch. Moreover, a clear cut policy needs to be formulated to coordinate the activities between the main office and branches of the bank.

**(7) COMMUNICATING:**

Communicating is exchange of facts, ideas, opinions by two or more persons. Banking consists of providing diversified services to the customers and bank employees are required to communicate face to face or through phone calls or e-mails. Language and courteous behaviour go a long way in winning



over the customers and giving satisfied treatment. Bank employees have to use telling, listening, understanding and convincing. Communication can be oral or in writing. It may be upward and downward or horizontal and vertical. Bank manager has to use major portion of his time on communication in order to direct and motivate the subordinates. Communication is needed to enable employees to perform their functions efficiently and effectively. Dignified style of communication is necessary to project the sound image of a bank. By maintaining proper communication, banks can improve managerial efficiency.

#### (8) CONTROLLING:

Controlling function refers to the actions and decisions that managers undertake to ensure that actual results are consistent with desired results. Controlling is necessary on individuals and departments to avoid wrong actions and activities. Every bank outlines standards of performance. It measures work and interprets results. In case of any deviation, it suggests corrective measures. Bank managers have to exercise effective control in order to bring success to a business plan. Controlling is a continuous activity and it is closely linked to all other functions of management. In bank administration self-control is considered to be the best technique. Employees are given freedom to determine their own standards of performance, self-evaluation and take corrective actions. Self-control and imposed control are relative terms and they go hand in hand. Banks deal with big money. It is important to implement strict control techniques. Banks periodically review deposits, advances, profits, manpower, etc. to monitor the business of the branches. At fixed intervals head office organises meetings of all branch managers to identify any shortfall in business growth and also decide the corrective actions to be taken to improve performance.

#### MOTIVATING EMPLOYEES IN BANKING SECTOR:

One of the fastest growing industry is the banking sector with lakhs of employees absorbed in this business. Banking sector is characterized by stiff competition. In order to survive, employees must be motivated and kept satisfied. Banks should design their rules, policies and banking structure which gives employees

confidence to work well. Before establishing any employee incentive programme, obtain feedback from the staff. Implement a programme that pleases everyone. Employees need money to survive but they are also motivated by other pleasant environment in the workplace. As human, we all have different motivators. Efficiency performance can be understood as skills developed by motivation. Employees are motivated by good relations prevailing in the bank and appreciation from their co-workers and superiors. They are also motivated by an interesting job where they develop and have many responsibilities. Banks employ a large numbers of women. It is important for women to feel safe at work while men should feel happy to work in a team. There are no fixed criteria to motivate bank employees. The following are the main factors responsible to motivate bank staff:

- (1) **Independence:** Some employees need freedom to set their own schedules, to make their own decisions and to work without interference from others. In banking sector, independence is always a relative concept because employees deal with large sums of money. Independence should not give them opportunity to misuse the funds. Provide opportunities to work on teams as well as to participate in group projects and meetings.
- (2) **Challenging work:** Ambitious and progressive employees want to exercise their talents to attain successive careers. They are self-motivated. When they are provided with challenging assignments they tend to produce better results. Further bank management must allow them to learn from failure. Management's proper handling of occasional failures can be a motivator for future higher productivity.
- (3) **Maintain communication:** Motivating bank staff requires continuous communication with them. When an employee knows he is truly valued and that his boss has a genuine interest in him, he is much likely to perform above average. Bank executives are expected to remain highly interpersonal and communication friendly. Many of the ill feelings and misunderstanding are settled through two-way dialogue.

- (4) **Team building:** Team building is a sequence of activities to gather and analyse data on a team and make changes to increase its effectiveness. Staff members who develop close personal relationships with their co-workers are much more likely to stay with the bank. Team building is a way to assess functioning of a team and take corrective action to improve its effectiveness. A careful assessment of the team's inputs, processes and results should be made. Staff members should participate in data gathering, help in data analysis and collectively decide on actions to be taken.
- (5) **Job Satisfaction:** Job satisfaction is the degree to which an individual feels positive or negative about a job. Bank job is highly testing in nature. A small error will ruin the career of an employee. In order that employees do their work with utmost ease, they must remain in physical comfort and stress free. Satisfied employees are more regular on duty and they prove durable. Bank staff get opportunity to interact with scores of people. This makes the job interesting.
- (6) **Promotion:** Promotion relates to increase in pay, status, authority and better working conditions for bank employees. Banks mostly follow length of service as the criteria to promote employees. Promotion is a reward for good work. It motivates employees to higher productivity. It enables bank management to fill up higher vacancies from within the organisation. Internal promotion is prepared by bank management. However, they keep the option open to fill some key positions from external sources.
- (7) **Sound wages:** Public sector bank compensation is determined by the government with a very limited variable component. Private banks in India are registered under the law to obtain RBI's regulatory approval for remunerating their whole time directors and chief executive officers. The gap between public and private sector banks is huge. Employees in private sector banks are better paid. The finance ministry has asked Indian Bank's Association (IBA) to consider moving towards a cost-to-company (CTC) structure in the next pay settlement to reflect their actual remuneration including all perks and incentives such as concessional rates

of interest on loans and employer's share in provident fund. Banks must maintain wages in keeping with the industry rates.

- (8) **Style of management:** Management plays a significant role in building high-performance teams who have high levels of job satisfaction and organisational commitment. Management of Indian banks are facing greater challenges than ever before due to increased environmental complexity and the changing nature of business. Some studies have revealed that in case of private bank managers there was a positive correlation between managers and subordinates perception which was not the situation in case of public sector banks. The tempo of development for the Indian banking industry has been remarkable. It is evident from the higher pace of credit expansion, expanding profitability and productivity along with lower incidence of non-performing assets. In the current scenario, bank management has to follow customer-friendly and pro employee policies in order to face competition from global banks.
- (9) **Incentives:** Without motivation, no bank can flourish because human resources must be trained and developed in order to realise organisational objectives. The performance of an employee does not depend largely on his ability, intelligence, skills and knowledge but on the motivation he has received. Incentives such as good pay, sound working conditions, decent accommodation, staff training, participation in decision making etc. motivate employees and increases their productive capacity.
- (10) **Personal growth and development:** In order to satisfy this need, management must match employee's interests, strengths and skills with the job to be done. Management should conduct **360 degree assessment** (performance data collected from different sources) and compare the results with employee's capabilities. This test will determine whether employees in specific areas are productive and motivated. Some banks encourage lower level employees to sit for internal examinations and get promoted to higher position.

Employees remain motivated to take benefit of internal promotion.

### **CRM PROGRAMME IN BANKING SECTOR:**

Customer Relationship Management (CRM) refers to practices, strategies and technologies that banks use to manage and analyse customer interactions and data throughout the customer life cycle. It helps in customer retention and improves business turnover. Service providers such as banks and insurance companies have realised the importance of CRM to acquire new customers, retain existing ones and maximise their lifetime value. CRM is a sound business strategy to identify the bank's most profitable customers and devote time and attention to expanding account relationships with those customers through individualised marketing, repricing, discretionary decision making and tailored services through bank's sales channels.

### **CRM OBJECTIVES IN BANKING SECTOR:**

- (1) CRM helps banks to use **technology and human resources** to gain insight into the behaviour of customers.
- (2) It provides **better customer service**, makes call centres more efficient, helps sales staff close deals faster, simplify marketing and sales processes, discover new customers and increase customer revenues.
- (3) It enables brands to decide what **kind of customer information is needed** and how it intends to use them.
- (4) It looks into all the different ways **information about customers is collected**; where and how this data is stored and how it is currently used.
- (5) Banks can **interact with customers** through mail campaigns, websites, call centres, mobile staff and advertising.
- (6) Banks can go through the data to obtain **holistic view of each customer** and pinpoint areas where better services are needed.

### **CRM BOON TO BANKING SECTOR:**

The main challenge that banking sector faces in the digital world is meeting customer expectations. Banking services must not be restricted to counter-dealings but must extend to offering

sound financial advice. This means having in-depth knowledge of each customer's industry, taking a tailored approach and ensuring service faster than ever before. Corporate customers look for goal-based planning, better insight and personalised service. CRM is no longer optional to banking sector. It has emerged as a compulsory addition to ensure future growth of banking sector. Its critical to the success of banking sector. CRM helps to win over new customers, close the deal and provide excellent customer service. CRM in banking has proved lucrative because customers get high quality of service. CRM is a boon to the banking sector because customers establish long term association based on trust and service. The following reasons justify the use of CRM in banking sector:

- (1) Banks establish need-based services. Customers are segmented, communicated on the channels they prefer and offer products/services to meet their financial goals.
- (2) Personalised service to ensure lifetime of trust.
- (3) Friendly internet services/online transactions with proper security.
- (4) Banks keep ready customer data.
- (5) Banks loan out 15 times more money than consumer lenders.
- (6) With CRM banks offer more deeper and more customized customer interactions.
- (7) Banks enjoy increased productivity with more efficient communication.
- (8) Banks strengthen customer trust.
- (9) Customers enjoy improved services leading to increased customer loyalty.
- (10) CRM helps banks in sales management by converting leads into prospective customers.

## (B) FUNCTIONS OF MANAGEMENT RELATED TO INSURANCE

### (1) PLANNING:

Planning is the primary function of management. It is an intellectual process and also a continuous process. Planning

determines the organisational objectives. It formulates policies, strategies and programmes for achieving them. Insurance companies widely use the function of planning. Insurance companies plan and spread the risks e.g., exporters who send shipment by sea route are exposed to risks i.e. perils on high sea. People exposed to the same risks come together and agree that if any one of them suffers loss, the others will share the loss and indemnify the loss. Insurance helps to spread the risks. The risk is spread among all people exposed to risks. The likely big impact on any one is reduced to smaller manageable impact. This is the simple mechanism of insurance and companies have to plan to rope in as many exporters as possible so that when one exporter suffers loss it is easy to make good his loss. Similar planning is applicable to life, fire and mediclaim. Insurance companies ordinarily plan through the following steps:

- (a) To establish organisational objectives.
- (b) To develop strategies and other plans to achieve the objectives.
- (c) To evaluate the environment affecting the business.
- (d) To mobilise the resources.
- (e) To update data relating to settlement.

## (2) ORGANISING:

Organising arranges ways and means for achieving business objectives. It acts as administrative machinery for the execution of business plans. A sound organisation structure is highly essential for business success. The whole management process takes place within the framework of the organisation. The success of any insurance company is determined by the soundness of the organisation structure. The relationship among the employees working for insurance company is defined by an organisation structure. The structure is so composed that it indicates the channels of communication, patterns of influence and lines of authority. It also specifies authority and responsibility of each person in the organisation. When employees get familiar with the organisation structure and their relationships with superiors and subordinates, there is no procedural delay and work is completed on schedule. Insurance business has increased by many times. It

provides service to the people. The ability of insurance companies to organise the efforts of the group of employees has become increasingly important because number of employees has become larger and complex. Insurance companies have enabled employees to apply their intellect and give best quality of service to the people. Insurance companies have made it possible for employees to work as a team and to achieve what a single individual alone could never have achieved.

### **(3) DIRECTING:**

Directing is the active element which initiates action to translate decisions into productive activities. In the absence of direction, these decisions will remain only as good intentions on paper. Directing function involves determining the cause, giving orders and instructions and providing dynamic leadership. Directing works on two basic essentials: (a) effective communication with people and (b) understanding what motivates their behaviour. In insurance business people come in contact with the employees at the time of taking policy, taking loans and settlement of claims. Utmost care should be taken to give due respect to all the policyholders and their inquiries are satisfactorily answered. The executives play a crucial role in directing and guiding the employees to show concern and help the policyholders. Directing is a vital managerial function. It refers to issue of orders to execute work. It is a continuous process and continues throughout the life of the organisation. Insurance companies must take care that subordinates are guided and directed by their superior only. Good directing integrates employees' efforts and tries to get maximum out of individuals. The more effective the directing process, the greater will be the contribution of subordinates to achieve common objectives.

### **(4) STAFFING:**

Staffing is the process of determining human resource of the organisation and filling the various managerial and non-managerial positions with competent persons. Staffing is recurring problem. Life, fire and mediclaim are popular forms of insurance where the young people can think of making a career as agents. Since liberalisation of insurance business in the late 1990s



several private companies have entered into the business. Thus insurance has thrown open the gates for several job opportunities. The clients are provided with total finance solution with fixed returns and protection cover. It is estimated there are 30 crore people of whom only 20 percent is insured. In order to attract the rest, insurance companies offer protection for life, wealth and health. Fresh graduates preferably with commerce or statistics background with analytical skills are preferred. Selection is based on tests, interviews and group discussions. About 50 institutes accredited by the Insurance Regulatory and Development Authority (IRDA) offer specialised courses. Insurance companies offer jobs like Assistant Agency Manager, Junior Advisor, Assistant Claims Executives, Agents, etc. The main objective of insurance companies is to fit the right person to the right job and strengthen the human resources of the organisation.

#### (5) MOTIVATING:

Motivating brings out goal directed behaviour. The managerial staff is expected to inspire, encourage and induce employees to take required action. Employees are motivated when they get pleasant working atmosphere joined with attractive incentives. Insurance companies are known to offer good working conditions, handsome remuneration along with sound incentive plans. This is also established by low employee turnover. Managing gigantic business like that of insurance involves creation and maintenance of an environment for the performance of individuals working together in a group to achieve common objectives. No management can do this job without knowing what motivates employees. The need to build motivating factors into organisational roles, staffing of these roles and the entire process of directing and leading people must be established on knowledge of motivation. Insurance companies must recognise the motivating factors to design an environment for performance. Employees working for insurance companies are motivated with financial and non-financial benefits coupled with other incentives.

#### (6) COORDINATING:

In insurance companies coordination, as a function of management, establishes balancing, timing and integrating

**Balancing** means adjustment in the working of different departments. **Timing** involves the adjustment of time schedules of different activities in such a way that they support and reinforce each other. **Integrating** refers to the unification of all diverse interests which must be brought together to attain organisational objectives. **Coordination** applies to group efforts. The use of coordination is unavoidable because business cannot be operated through coincidence or chance factor. Consider for instance, an individual submits his proposal to take life insurance policy. Right from the time that a proposal is submitted, policy is issued and after many years claim is settled; the entire work can proceed smoothly provided LIC maintains coordination at different levels of work. Coordination emphasises the importance of the skill of human relations. It is relatively easy to find an efficient way of doing a job but the real difficulty lies in getting the various employees to work together in a coordinated manner. Lack of understanding, professional jealousy, stubbornness and failure to achieve goal are among the more common hurdles in achieving coordination.

#### (7) COMMUNICATING:

Communication is transmission of mutual understanding through the use of oral or written message. As insurance represents service sector, communication plays a role of paramount importance. Communication keeps the employees informed about the internal and external happenings. Employees work at different levels and they must communicate with internal staff and outside visitors. Effective communication enables them to think and act together. Potential and actual clients of insurance companies have many inquiries that must be answered with conviction and to the benefit of the clients. For this purpose, every insurance company maintains public relations department which is operated by persons having expertise to deal with public inquiries. Communication brings about feedback mechanism and the company gets to know how it is viewed by the public. Communication gives information on matters regarding things done or to be done. It helps to identify common intentions and interests by interaction of views with public. Insurance companies have to undertake advertising campaign to educate and keep the

public well-informed. Effective communication establishes coordination among employees and departments. Insurance companies commonly use **communication network** which means a system of decision centres or individuals interconnected by communication channels. It is not the responsibility of the insurance company to inform the insured about the payment of premiums. Almost all insurance companies send premium notices whether it is life or fire to the insured informing him to pay the premium. Premium is the periodical payment which the insured has to make to the insurer in return for the insurer's guarantee to make good the loss. Sound communication system is the foundation on which insurance companies succeed.

#### (8) CONTROLLING:

Controlling ensures that actions contribute to goal accomplishment. It maintains business activities on the right path. Performances are observed, measured and compared with what had been planned. Hence controlling monitors employees' activities, keeps organisation on track and makes corrections as required. Where the performance falls below specified standard, corrective measures are introduced to improve results. In order to make controlling function effective it must be preceded by planning. In insurance companies managers are responsible to control the work for which they are accountable. Managers in insurance companies prefer self-direction and self-control. Controlling examines the past and present activities to locate weaknesses which can be eliminated in the future and to make achievement of results certain. Insurance companies are multi-layered and controlling is exercised at all levels of management. In insurance business tasks and activities have to be attended in their totality keeping in mind objectives. In the absence of control, employees become negligent towards their duties. If this situation continues they get used to a level of performance far below their normal standard. In insurance business, employees have to be trusted with large sums of money. In the absence of control there is greater likelihood of their adopting dishonest practices. The need for control arises because human organisations by their nature are fallible. An efficient system of control can help to solve

the problems and to bring about the successful completion of tasks enabling the achievement of goals.

### **MOTIVATING EMPLOYEES IN INSURANCE SECTOR:**

Liberalisation opened insurance business to the private sector. The present market for the insurance business is highly competitive. Insurance companies must find ways to become more efficient, productive, flexible and innovative to achieve improved results. Better companies have result-oriented manpower who work hard and bring more business. Individuals do not join an insurance company only for fair compensation and employment. They also look for job security, ease of working in flexible timing and career advancement. They want to satisfy multiple levels of needs simultaneously and aspire for a job which offers mix of primary, social and esteem needs. According to Garrison motivation is "*the attribute that moves us to do or not to do something*". Motivation is a psychological process resulting from the interaction between the individual and the environment. Work motivation improves workers' programme and satisfaction. There is no significant gender difference in the work motivation level of employees in insurance companies. Employees in the insurance sector can be motivated by adopting the following motivational factors:

- (1) **Setting Goals:** Setting goals focus employee efforts towards achieving specific objectives and helps to track progress over time. Common goals create an improved work culture. Motivation encourages team building and interdepartmental communication which can result in new ideas and higher productivity. Goals allow tracking of employees' performance leading to recognizing personal accomplishments.
- (2) **Inspire Employees:** Every manager has his unique management style. Instead of controlling employees manager should create a work environment that makes each team member to put in their best effort. Managers must lead from the front. Inspiration comes from good administration which is conflict-free. Managers can inspire employees by providing guidance, support, encouragement and praise.

- (3) **Mentoring:** The literal meaning of mentoring is to provide wise counselling. A mentor (senior manager) is normally a matured and experienced person. He systematically develops the abilities of subordinates through intensive coaching and guidance. Mentoring develops self-confidence. Thus, mentoring is a process of guiding, coaching and counselling a promising employee to improve his qualifications, skills and effectiveness in accepting responsibilities at the higher levels. Mentoring becomes a source of motivation.
- (4) **Career Advancement:** No employee desires to get stuck in career graph. Motivated employees always calculate and work hard to go higher up in career. Career advancement includes everything an employee does from the time he begins his career to the time he retires. Career advancement is climbing corporate ladder. Recognition of good work is a motivating factor.
- (5) **Rewards:** Employees can be motivated through financial and non-financial incentives for doing good work. Reward is an acknowledgement that employees are working well on the job. Managers must encourage creativity, innovation and new approaches to solve business problems. Hence, reward is a work outcome of positive value to the individual.
- (6) **Employee participation:** Insurance companies are known to motivate employees by getting them actively involved in the process of decision making. It is a management initiated action to secure the co-operation, commitment and contribution of employees towards achievement of organisational goals. Employee participation ranges from information sharing to self-control.
- (7) **Raising morale:** Motivation is needed in order to raise the morale of employees. Motivation develops cordial relations with the employees. Morale is a collection of feelings, sentiments and attitudes. It describes the level of favourable or unfavourable attitudes of employees collectively to all aspects of their work— the job, the task, the company, superiors, fellow workers and working conditions. Morale is

a relative term when employees are motivated, they enjoy conditions of high morale i.e. favourable state of mind.

- (8) **Recognition:** Recognition is appreciation for employee achievement. A good form of recognition is a round of applause for specific achievements. There need not be a specific time-table to give recognition to the employees. They can be applauded at lunch time or in social gathering or in the middle and end of a shift. Some insurance companies display on the board "Employee of the Month", which not only motivates the concerned employee but it also becomes a source of motivation to others.
- (9) **Job Title:** When an employee is provided with a better job title, it adds to his status. Employees are proud to reveal their attractive and high-sounding designations. The importance of feeling proud of who you are and what you do is monumental. Better job title does not always come with higher pay but it gives positive attitude and improved morale to employees. Over the years, insurance companies have revised job titles to more modern sounding.
- (10) **Work Environment:** Work environment is very important to the way employees feel about their daily job. Work environment involves the physical location as well as the surroundings of the workplace. A positive work environment makes employees feel good about coming to work and this provides the motivation to sustain them throughout the day. Transparent and open form of communication addresses the employee's need to feel that what they want to say carries weight. It is necessary for insurance companies to keep abreast with the charges and train their employees accordingly.

### **CRM PROGRAMME IN INSURANCE SECTOR:**

Insurance is a complex product. Personalised service is provided through an intimate knowledge of customers. With privatisation of insurance business, now customers in India demand superior and personalised service. In order to maintain competitive edge, insurance companies are delivering superior customer service. CRM strategy addresses three issues:

- (1) Providing a unified customer view;
- (2) Retaining customers with great service; and
- (3) Controlling costs as business expands.

Insurance companies have realised that they must focus on the customer. Marketing is now all about building relationships. Indian customers have increasingly become more sophisticated in their buying behaviour. Their demands are higher in terms of service and quality. New methods and techniques such as CRM is required to delight the customers. CRM is a tool through which the company records the data of all the customers and uses it to increase loyalty and retention of the customers. It helps to learn more about customer's needs and behaviours in order to develop stronger relationship with them; thus not only satisfying them but delighting them. CRM in insurance sector consists of four phases:

- (1) Technology.
- (2) Integration.
- (3) Process.
- (4) Customer.

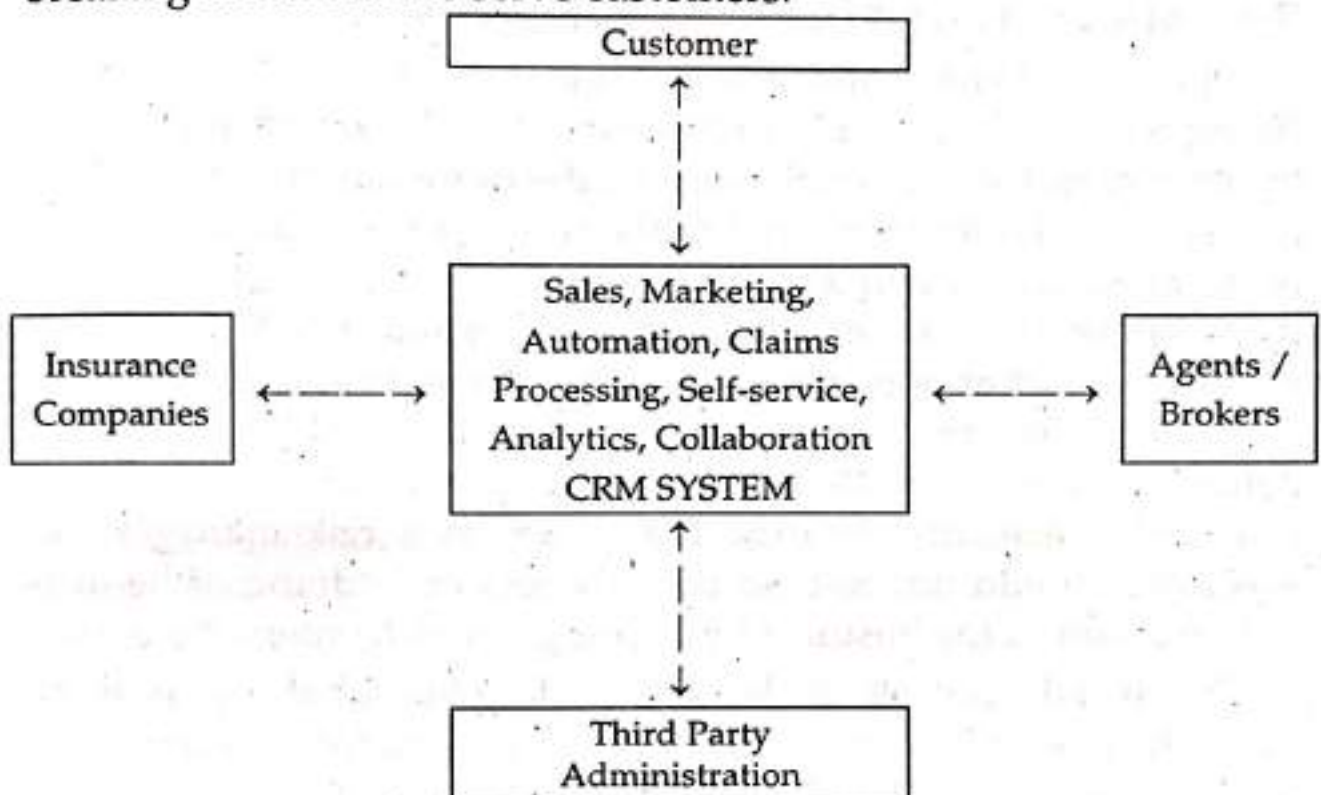
CRM technology now makes it possible to systematically manage one to one customer services on an entirely new scale. CRM is needed in insurance sector because of:

- (1) Highly competitive marketplace.
- (2) New empowered e-customer.
- (3) Ever changing technology.
- (4) Share overall economic prosperity.

### **CRM BOON TO INSURANCE SECTOR:**

In order to remain competitive insurance sector has to adopt digital innovation. Insurance sector has identified digital and technological capabilities and improving customer experience as these two are most important areas to focus to achieve business growth. CRM is a platform for improved customer experience and faster claims settlement. Consumers have become well adapted to the convenience of email, phone, chat and social media. This has increased the expectations of policyholders in terms of customer service and quick handling of claims. CRM is used as a channel for insurance consultation services. CRM system can be a channel

for better relations between policyholders and the company. With private sector insurance companies operating in our country, policyholders would change insurers to get more personalised services. The customer is at the centre of great customer experience with availability of product catalogue and policy references. Nowadays consumers use online channels to decide on their purchases. Hence potential insurance buyers want to understand insurance products fully before opting to purchase them. CRM enables insurers to secure repeat business. CRM presents a cost-effective method for connecting people and breaking down data to serve customers.



CRM is now considered necessary in insurance sector. CRM is a boon to insurance sector because it offers following **benefits**:

- (1) By adopting CRM in insurance sector, it is possible to cut down response time.
- (2) As soon as inquiries come in, insurance companies can send out follow-up messages.
- (3) CRM improves customer experience.
- (4) Rules and regulations affecting insurance companies are strictly followed.
- (5) CRM is used to create personalised one-to-one experience that gives individual customer a sense of being cared for.



- (6) CRM facilitates customer retention.
- (7) CRM ensures better data management and customer profiles.
- (8) CRM brings about better sales predictions.
- (9) It provides improved efficiency in customer interactions.
- (10) It tracks potential clients right from initial contact to when sale is closed.
- (11) Data security is guaranteed.
- (12) CRM offers better management of books and clean audit records.

### **RISK MANAGEMENT IN BANKING SECTOR:**

Operational risk management is the biggest risk that banks are facing today. It is possible to measure credit risk and market risk to some extent. For operational risk, the more important part is to manage it. It is closely related to the reputation of the bank which is the most valuable intangible asset possessed by banks. There is more stress laid on the **Know Your Customer (KYC)** element which is a part of operational risk. Operational risk culture has to be included into the culture of the organisation and into employee behaviour and interactions. The way how banks have expanded now every executive is expected to act as a risk manager. An executive should understand the business he is doing. If he does not understand the business he is doing, the risk enters there only.

**Credit risk** controls are largely in place but what we fail to do in credit risk management is to monitor standard accounts. The banks wake up when the accounts start showing signs of weakness; by that time it is rather too late. Monitoring of accounts should be inculcated at the ground level.

**Strategy risk** is a neglected area in banking sector. Generally banks do not measure strategy risk. When a bank decides to follow a strategy it is always to achieve a particular goal. Unless and until banks evaluate where they are and do course corrections, it is a risk.

**Operational risk** is associated with the problems of accurately processing, settling and taking or making delivery in exchange. This risk is seen in systems failures, record keeping, processing and the compliance with regulations. Operational risks are also

the result of malfunctioning of information systems and of internal monitoring rules. When these risks remain unattended, it leads to disastrous results.

**Liquidity risk** arises when there is need for funding in the face of a crisis. The best situation to deal with this crisis is when the bank can be self-supporting.

**Information technology risk** arises because banks are known to use service providers. Banks must see to it that its legal department screens their documents and establishes their infrastructure facilities so that banks' interests are well protected. Electronic risks are unique aspects of an electronic environment. Factors such as transaction speed, geographic reach and users anonymity introduce new challenges for risk management.

**Monitoring staff deeds and actions** is another risk that banks have to consider now. The banking industry's reputation has been dented because of a recent sting operation which caught bank staff advising clients on how to evade taxes. In their attempt to get increased business and to push customer convenience, bank officials are getting tempted to compromise on norms. This has exposed banks to reputational risks. It is heartening to note that RBI has tightened its grip on the functioning of banks making them accountable for their deeds and actions. Banks are now working hard to improve their operational risk management by evaluating all process and systems. Banks are now insisting on multiple documents to verify a customer's identity. It is high time that banks should review their operational structure.

#### **A NOTE ON KYC:**

KYC means "Know Your Customer". RBI has made it obligatory on the banks to obtain information about the identify and address of the customers. KYC procedure needs to be completed by the banks while opening accounts and also periodically update the same. While opening a bank account, a customer has to submit proof of identity and proof of address with a recent photograph. The government of India has notified six documents for the purpose of KYC which are:

- |                            |                      |
|----------------------------|----------------------|
| (1) Passport.              | (2) Driving License. |
| (3) Voter's Identity Card. | (4) PAN Card.        |

(5) Aadhar Card.

(6) NREGA Card.

Generally banks insist on PAN Card and Aadhar Card. Aadhar card is now accepted as a proof of identity and address. The customer of a bank while purchasing third party products like insurance or mutual fund need not submit proof of identity and address but non-customers willing to take advantage of this facility have to fulfil conditions of KYC. Banks update KYC periodically to prevent frauds in customer accounts. KYC is required to be done at least every two years for high risk customers, atleast every eight years for medium risk customers and ten years for low risk customers.

### BENEFITS OF KYC:

- (1) KYC ensures all monetary transactions are legitimate and transparent.
- (2) It fights criminal activities such as money laundering, bribery, fraud, black money etc.
- (3) It helps to control frauds and discourage scammers from stealing money.
- (4) Due to its transparent nature of working, it helps in tax and legal discrepancies.
- (5) It successfully establishes the credibility of the customer.
- (6) It serves as good news for investors and their assets.

### Objective Questions with Answers

- (1) Select the correct alternative and rewrite the statements:
  - (a) \_\_\_\_\_ plan for deployment of funds.  
(i) Companies (ii) Enterprises (iii) Banks (iv) Hotels
  - (b) Banks need \_\_\_\_\_ customers.  
(i) old (ii) new (iii) loyal (iv) floating
  - (c) \_\_\_\_\_ is responsible for the performance of the staff.  
(i) Branch manager (ii) Supervisor (iii) CEO (iv) PRO
  - (d) \_\_\_\_\_ must regulate rush and non-rush hours.  
(i) Government (ii) Banks (iii) Plans (iv) Companies
  - (e) \_\_\_\_\_ is needed at all levels of management.  
(i) Coordination (ii) Staffing (iii) Quality control (iv) Budgeting
  - (f) Banks need \_\_\_\_\_ style of communication. (March 19)  
(i) oral (ii) rigid (iii) dignified
  - (g) \_\_\_\_\_ brings out goal directed behaviour.  
(i) Staffing (ii) Controlling (iii) Motivating (iv) Organising
  - (h) Dynamic risks are less \_\_\_\_\_.  
(i) predictable (ii) rigid (iii) spoken (iv) Flexible

- (i) \_\_\_\_\_ empowers e-customers.  
(i) SWOT (ii) PEST (iii) CRM (iv) AIDA
- (j) Know Your Customer (KYC) is a part of \_\_\_\_\_ risk. (Nov. 16; Oct. 18)  
(i) technical (ii) operational (iii) physical (iv) Mental
- (k) Coordination is the \_\_\_\_\_ of management. (March 17, 18)  
(i) first step (ii) tradition (iii) essence (iv) policy

[Ans.: (a - iii), (b - iii), (c - i), (d - ii), (e - i), (f - iii), (g - iii), (h - i), (i - iii), (j - ii), (k - iii)]

(2) Fill in the blanks choosing the correct alternatives:

- (a) Safe deposit locker facility should be provided by banks on \_\_\_\_\_ basis.  
(i) daily (ii) on request (iii) infrequent
- (b) Banking operations are \_\_\_\_\_.  
(i) capital intensive (ii) machine intensive (iii) employee intensive
- (c) Banks give incentives to those employees against whom no \_\_\_\_\_ are received.  
(i) compliments (ii) complaints (iii) feedback
- (d) Bank employees have to use \_\_\_\_\_, listening, understanding and convincing.  
(i) imagination (ii) telling (iii) direction
- (e) \_\_\_\_\_ builds team work.  
(i) Organising (ii) Motivation (iii) Reporting
- (f) CRM is a sound business \_\_\_\_\_ for banks and insurance companies.  
(i) plan (ii) tactics (iii) strategy
- (g) In insurance companies, \_\_\_\_\_, timing & integrating coordinate work.  
(i) balancing (ii) formulating (iii) investing
- (h) Insurance companies use \_\_\_\_\_ network.  
(i) telephone (ii) internet (iii) communication
- (i) Motivation improves \_\_\_\_\_ of employees.  
(i) income (ii) status (iii) morale
- (j) \_\_\_\_\_ risk management is the biggest risks that banks are facing today.  
(i) Liquidity (ii) Operational (iii) Credit

[Ans.: (a - i), (b - iii), (c - ii), (d - ii), (e - ii), (f - iii), (g - i), (h - iii), (i - iii), (j - ii)]

(3) State whether the following statements are TRUE or FALSE:

- (a) Branch expansion planning is given preference.
- (b) Small banks practice matrix organisation. (March 19)
- (c) Banking operations are employee intensive.
- (d) Banks offer incentives to all employees.
- (e) Coordination happens on its own. (Nov. 16; March 18)
- (f) Communication is only convincing.
- (g) Banks consider self-control to be the best. (Oct. 18)
- (h) Fundamental risks are beyond the control of individuals. (Oct. 18)
- (i) Employee participation facilitates information saving.
- (j) Planning determines organisational objectives.

[Ans.: (a) True, (b) False, (c) True, (d) False, (e) False, (f) False, (g) True, (h) True, (i) True, (j) True]

(4) State whether the following statements are TRUE or FALSE:

- (a) Deployment of funds is a significant planning undertaken by banks.
- (b) Customers recommendations improve bank deposits.
- (c) There is no permanent factor to motivate insurance employees.
- (d) Every bank outlines standards of performance.
- (e) CRM in banks is against individualised marketing.
- (f) CRM and quality of service do not move together.
- (g) Directing is issue of orders to execute work.
- (h) Coordination applies to individual efforts.
- (i) Managers in insurance companies prefer self-direction and self-control.

- (j) Insurance is a complex product.
- (k) The keyword PODSCORB was coined by Earnest Dale.
- (l) Banks prosper on customer patronage.
- (m) Large banks practice matrix organisation.
- (n) Banks finalise staffing on the basis of rush and non-rush hours.
- (o) Insurance companies allow complete freedom at work to its employees.
- (p) Banks can go through the data to obtain holistic view of each customer.
- (q) LIC maintains coordination at different levels of work.
- (r) CRM is an obstacle in insurance sector.
- (s) Security of deposits is a major risk faced by banks.
- (t) Audit of legal compliance programme enables insurance companies to control frauds.

[Ans.: (a) True, (b) True, (c) True, (d) True, (e) False, (f) False, (g) True, (h) False, (i) True, (j) True, (k) False, (l) True, (m) True, (n) True, (o) False, (p) True, (q) True, (r) False, (s) True, (t) True]

- (5) Match the following:

Group 'A'	Group 'B'
(a) Planning	(i) Main office and branches
(b) Organising	(ii) Review advances
(c) Bank Staffing	(iii) e-mails
(d) Motivation	(iv) Loss or no loss
(e) Coordination	(v) Number of accounts
(f) Communication	(vi) Comprehensive
(g) Controlling	(vii) Reduce financial burden
(h) Pure risks	(viii) Document management
(i) Credit risk	(ix) Safe deposit locker facility
(j) Reinsurance	(x) Attendance bonus
	(xi) Monitor of accounts

[Ans.: (a - vi), (b - ix), (c - v), (d - x), (e - i), (f - iii), (g - ii), (h - iv), (i - xi), (j - vii)]

- (6) Match the following:

Group 'A'	Group 'B'
(a) Planning	(i) Job Satisfaction
(b) Counter Transactions	(ii) Stress on Team Work
(c) Directing	(iii) Improve Managerial Efficiency
(d) Business Plans in Banks	(iv) Recognition of Good Work
(e) Effective Communication	(v) Non-Financial Incentives
(f) Employee Motivation	(vi) Employee Participation
(g) CRM in Banks	(vii) Deposits, Advances, Profits
(h) Insurance Companies	(viii) Branch Expansion
(i) Long Term Motivation	(ix) Better Customer Service
(j) Career Advancement	(x) Daily Activities
	(xi) Assignment giving

[Ans.: (a - viii), (b - x), (c - xi), (d - vii), (e - iii), (f - i), (g - ix), (h - ii), (i - v), (j - iv)]

## Question Bank for Self-Practice

- (1) What is budgeting? What are the different types of budget? (Oct. 18)
- (2) Explain planning function of management in a banking organisation. (Nov. 17)
- (3) What are the functions of management in insurance companies? (March 17; Nov. 17)
- (4) Discuss the functions of management related to insurance. (March 18)
- (5) How to motivate employees in the insurance sector? (Nov. 16)
- (6) Discuss the need to motivate employees in banking sector. (March 17)

- (7) What functions of management would you consider to run a service organisation?
- (8) Discuss the main functions of management related to banking.
- (9) Describe the staffing process in banking. *(March 19)*
- (10) How planning becomes the most important function in banking organisations?
- (11) Why should banks take care in recruiting right man to the right job?
- (12) Describe the need to motivate employees in banking sectors.
- (13) Point out the factors that motivate bank staff.
- (14) Describe CRM programme in banking sector.
- (15) Outline CRM objectives in banking sector.
- (16) How HDFC bank has implemented CRM?
- (17) Do you agree CRM is boon to banking sector?
- (18) Explain CRM programme in ICICI Bank.
- (19) Explain the functions of management related to insurance.
- (20) How insurance companies plan their activities?
- (21) Describe the basis of motivating insurance employees.
- (22) State the motivating factors used in insurance companies.
- (23) Why is communication determinant to the success of insurance company?
- (24) Explain the different types of risk management practices in banks.
- (25) Discuss CRM programme in insurance sector.
- (26) How LIC has successfully used CRM? Give details.
- (27) Explain how insurance companies adopt CRM programme.
- (28) How CRM has proved a boon to insurance sector?
- (29) Write a note on KYC.
- (30) **Write short notes on:**
  - (a) Motivating Bank Employees. *(Nov. 17)*
  - (b) Motivation. *(March 17)*
  - (c) Functions of management.
  - (d) Management Functions in Banking.
  - (e) Management Functions in Insurance.
  - (f) Communication Network.
  - (g) CRM in banking companies.
  - (h) CRM in insurance companies. *(March 19)*
  - (i) CRM in LIC.
  - (j) Motivating Insurance Employees.
  - (k) Benefits of KYC.
  - (l) Reporting. *(Oct. 18)*

## Chapter 5

# Organisation Structure - I

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*Every company has two organisational structures: The formal one is written on the charts; the other is the everyday relationship of the men and women.*

*— Harold Geneen*

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*Meaning of Organisation Structure – Factors Determining Organisation Structure – Importance of Organisation Structure – Steps in Designing Organisation Structure – Features of a Good Organisation Structure – Formal and Informal Organisations – Types of Organisation Structure – Departmentation – Centralisation – Authority and Responsibility Relationship – Question Bank for Self-Practice.*

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### MEANING OF ORGANISATION STRUCTURE:

In the words of Kast and Rosenzweig, "Structure is the established pattern of relationships among the component parts of the organisation."<sup>1</sup>

Organisation structure suggests its framework. Just as human beings have skeletons that define their parameters likewise organisations have structures that define their parameters. While preparing an architectural plan, an architect considers different factors such as space, cost, time, special features and resources. In the same way, a manager is expected to take into account factors such as creating authority levels, channels of communication, specialisation, etc., before designing the organisation structure.

Organisation as a structure implies the following four elements:

- (1) **Intentionally created:** In order to attain specific goals, organisation structure is deliberately created which converts resources into a productive enterprise.

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<sup>1</sup> Organisation and Management - F. E. Kast and S. E. Rosenzweig, p. 198.

- (2) **Provides framework:** Organisation structure usually takes the shape of a pyramid. Once structure is established, it acts as a framework that can either constrain or facilitate managerial actions.
- (3) **Use of Chart:** In an organisation, the structural relationships are normally shown through organisation charts. These charts indicate the intended final relationships at a given time.
- (4) **Provides formal picture:** Organisation structure may be horizontal or vertical. The horizontal aspects display basic departmentalisation and vertical aspects display creation of hierarchy of superiors and subordinates.

#### **FACTORS DETERMINING ORGANISATION STRUCTURE:**

- (1) **Environment:** An organisation is an open system. It always interacts with its external environment. While designing organisational structure it is necessary to closely examine the external environment. Organisations operating in complex and dynamic environment are forced to adopt more differentiation and integration in their structure. The forces of external environment are interrelated and interdependent. What might be a suitable structure for one organisation may not be suitable for another organisation. There is no one structure which is suitable to all organisations.
- (2) **Goals:** A business organisation is invariably goal-oriented. Goals play an important role in designing organisational structure. An organisation should be so structured that it facilitates attainment of business goals most economically. Business goals determine tasks and activities. The sub-division of tasks and their grouping depends on what the organisation is trying to accomplish.
- (3) **Strategy:** Strategy is a business plan to achieve objectives. It decides what industry to enter, how to compete and defeat the competitors. Managers formulate sound strategy after assessing strengths and weaknesses of the organisation in the light of available opportunities in the environment. It works out organisational tasks and choice of technology. Changes in strategy lead to changes in organisational structure.



- (4) **Size:** As an organisation expands in size, there is a tendency towards specialisation. More departments are added and the hierarchy in the organisational level also increases. Rules and procedures are introduced to streamline day-to-day administration and the organisation becomes more structured. Large-sized organisations are highly specialized, formalized, decentralized and documented.
- (5) **Workforce:** Value system, attitude and philosophy of management are important factors influencing organisation structure. Ordinarily, workforce should fit into the structure. A rigid organisation structure will create dissatisfaction and dissension among the employees. Organisational structure should reflect the thinking and way of working of the employees. A structure built around workforce will last long keeping employees happy and content.
- (6) **Quality of technology:** Modern business uses equipment, technical skills and the type of work flow in the transformation process. Use of superior technology calls for creation of superior organisation structure. Type of technology decides span of control, chain of command and ratio of managers to employees.

#### IMPORTANCE OF ORGANISATION STRUCTURE:

- (1) **Facilitates administration:** Effective administration of business will not be possible without the support of sound organisation structure. Delegation, departmentation and decentralisation are the tools for effective administration.
- (2) **Facilitates coordination:** It acts as a means of bringing coordination and integration among the activities of individuals and departments of the enterprise. It establishes clear-cut relationships between operating departments and brings proper balance in their activities.
- (3) **Facilitates division of work:** Different departments are created for division of work, specialisation and orderly working of the enterprise. Similarly, delegation relieves top level managers from routine duties.
- (4) **Facilitates growth, expansion and diversification:** Sound organisation structure facilitates expansion and

diversification of an enterprise. Such organisation structure has in-built capacity to absorb additional activities and also effective control on them. A business enterprise brings diversification in its activities within the framework provided by its organisation.

- (5) **Facilitates effective communication:** With the clear definition of authority, an organisation can develop the most efficient channels of communication.
- (6) **Ensures optimum utilisation of human resources:** Every enterprise appoints employees for the conduct of various business activities and operations. They are given the work according to their qualifications and experience. Organisation ensures that every individual is placed on the job for which he is best suited.
- (7) **Stimulates creativity:** Organisation provides training and self-development facilities to managers and subordinates through delegation and departmentation. It also encourages initiative and creative thinking on the part of managers and others.
- (8) **Balanced emphasis on various activities:** Organisation gives more priority for urgent and important problems. Routine problems can be decided at the lower or middle level. Managing crisis, managing change, managing credibility is well handled through hierarchy of organisation.
- (9) **Optimum use of technology:** Sound organisation structure provides opportunities to make optimum use of technology. It facilitates proper maintenance of equipment and also meets high cost of installation.
- (10) **Determines individual responsibility:** Responsibility is an obligation to perform an assigned work. In a sound organisation, the manager finds it easy to pinpoint individual responsibility when the work is spoilt.

#### STEPS IN DESIGNING ORGANISATION STRUCTURE:

- (1) **Determination of objectives:** The top-level management sets up the overall objective of the organisation. When objectives are determined and communicated, the persons who are assigned the work come to know the purpose for which the

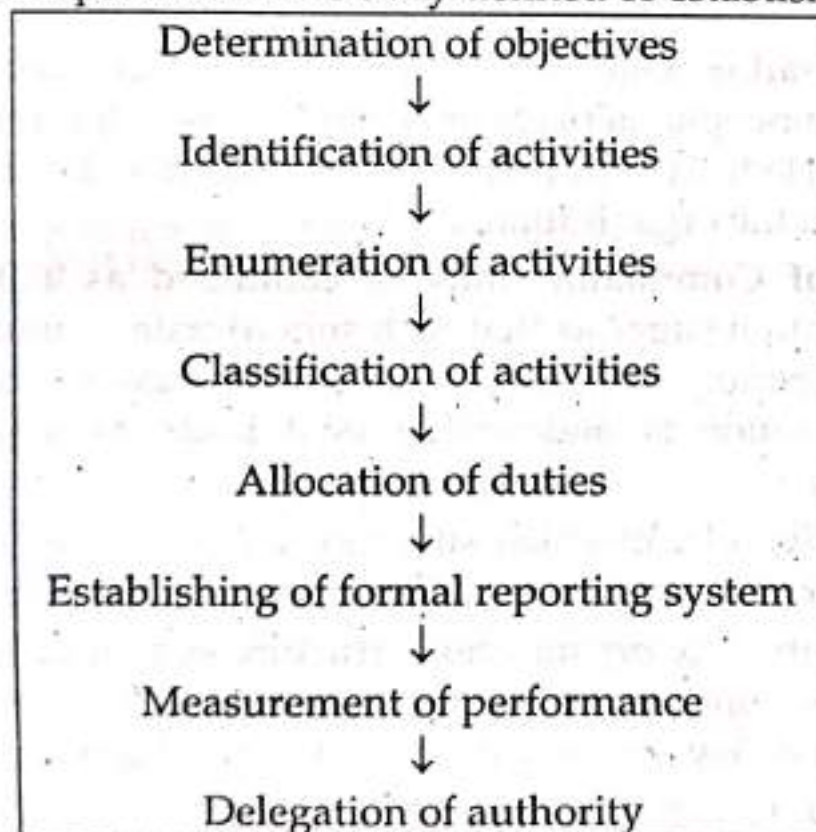
organisation has been created e.g., whether the proposed organisation will be dealing in production and marketing or will act merely as a marketing unit. Well defined objectives are needed to balance the organisation.

- (2) **Identification of activities / work involved:** It is important to identify precisely the total work involved in order to achieve the goals. The work must then be classified and divided in a systematic way so that each person in the organisation gets a distinct task. Identification of work enables the managers to avoid duplication, overlapping and wastage of efforts.
- (3) **Enumeration / Grouping of activities:** Organising assesses total work and breaks it into essential activities such as production, financing, purchasing and personnel. These activities are properly grouped and assigned to different departments. In addition, they are properly coordinated and integrated. Grouping of activities is called **departmentation**.
- (4) **Classification of activities:** The next step is to classify activities according to common purposes taking into consideration the human and material resources. While classifying the activities, each class of activity may be assigned to a department and for each sub-class, a section within the department may be created. Various activities relating to marketing function, for example, may be grouped and classified as activities of the marketing department. This is how departmentation is an integral aspect of organising.
- (5) **Allocation / Assignment of duties:** Each person responsible for the completion of a job has to be allocated specific duties. This step will ensure allotment of right job to the right man.
- (6) **Establishing formal reporting system:** Without formal reporting system, it would be difficult to understand how the work is progressing in different departments, who is expected to perform the work and how the work has to be coordinated in order to achieve organisational objectives.

When reporting system is established, effective coordination in the business activities will be ensured. Coordination is the interlinking of activities of departments in an orderly manner. In brief, coordination in the activities of

individuals and departments is a must and for such coordination, reporting system acts as a tool.

- (7) **Measurement of performance:** It is important to measure, evaluate and control the performance of subordinates at regular intervals. This work can be assigned to superiors who must exercise supervision on limited number of subordinates. This aspect relates to span of control/management.
- (8) **Delegation of authority:** Effective performance can be expected from the employees provided they have been given adequate authority to perform their duties. It is also necessary to delegate authority in order to ensure completion of job without deviation. Delegation establishes relationship in the organisation structure and the manager succeed in getting the work done from others. For this, superior-subordinate relationships should be clearly defined or established.



*Process of Organising*

Along with delegation, decentralisation of organisation structure is essential, particularly when there is expansion in the activities of an enterprise. Departmentation, span of control, decentralisation and delegation of authority are included within the scope of organising as these elements are

concerned with the work performance and control/supervision on the work performance of employees.

### PRINCIPLES OF ORGANISATION (FEATURES OF GOOD ORGANISATION STRUCTURE):

- (1) **Unity of Objectives:** Objectives of the enterprise influence the organisation structure and hence the objectives of the enterprise should first be decided clearly and firmly. In addition, there should be unity among the objectives decided.
- (2) **Specialisation:** Division of work leads to specialisation. Every department of an organisation should be given specialised functions. This will raise the overall efficiency.
- (3) **Delegation of Authority:** There should be proper delegation of authority in every organisation, particularly in the large organisations. Everyone should be given authority, which is adequate to accomplish the task assigned to him.
- (4) **Coordination:** Due to coordination clear-cut direction will be given to people, departments and efforts will not be wasted/misdirected. The principle of coordination brings unity of action in the organisation.
- (5) **Unity of Command:** Unity of command as a principle of organisation suggests that each subordinate should have only one superior whose command he has to obey. Dual subordination is undesirable as it leads to confusion and disorder.
- (6) **Flexibility:** Organisation structure should be flexible and not rigid. Flexible structure is adaptable to changing situations.
- (7) **Simplicity:** The organisation structure should be kept simple for clear understanding of all employees. The structure should be easy to manage through internal communication.
- (8) **Span of Control:** The span of control, as far as possible, should be fair. This means a manager should not be asked to keep supervision on large number of subordinates.
- (9) **Scalar Principle (Chain of Command):** This principle suggests that the line of authority from the chief executive to the first line of superior should be clearly defined. This is necessary so as to avoid any confusion as regards the line of authority.

- (10) **Exception Principle:** The executives at the higher level are busy in important matters and have limited time for the study of routine matters. It is not desirable to take such matters to the top-level managers frequently. Crucial and exceptionally complex problems should be referred to the top executives and the junior executives should deal with routine matters.

### FORMAL AND INFORMAL ORGANISATION:

- (a) **Formal Organisation Structure:** According to Chester Bernard, "An organisation is "formal" when the activities of two or more persons are consciously coordinated towards a common objective". Such formal organisation comes into existence when: (a) Two or more persons come together, (b) They share one common purpose/objective, and (c) They are willing to work together in order to achieve a common objective.

#### Features of Formal Organisation:

- (1) A formal organisation is a group of people working together towards objectives which mutually benefit the participants and the organisation.
- (2) Formal groups exist in all organisations. Such groups are created in order to carry out specific duties.
- (3) Formal groups are in the form of committees, task force, project teams, etc.
- (4) Formal groups are given proper official status and operate as per certain rules and procedures.
- (5) In a formal organisation, the structure of jobs and positions are clearly defined. Each job has definite measure of authority, responsibility and accountability.

#### Merits of formal organisation:

- (1) The members show confidence.
- (2) The objectives are easily achieved.
- (3) The efforts of employees are well-coordinated.
- (4) The subordinates are made accountable for the work.

#### Limitations of formal organisation:

- (1) This organisation is found to be rigid.
- (2) Individual objectives often influence organisational objectives.

- (3) Employees get limited opportunity to show initiative.
- (4) Decision-making becomes time-consuming because of constant consultations.

(b) **Informal Organisation Structure:** According to Keith Davis, *"Informal organisation is a network of personal and social relations not established or required by the formal organisation but arising spontaneously as people associate with one another."*

**Features of Informal Organisation:**

- (1) It is unwritten and develops unconsciously.
- (2) It is not governed by any established rules.
- (3) It exists within a formal organisation.
- (4) It uses grapevine as a means of communication.
- (5) It brings people together to realise common interests.
- (6) It helps to develop close relationship within the group through personal and social ties.

**Merits of Informal Organisation:**

- (1) It reinforces each member's individual personality.
- (2) It protects one another from authoritative action.
- (3) It provides opportunity to display creativity.
- (4) It reduces the burden of supervision.
- (5) It provides feedback to the managers.

**Demerits of Informal Organisation:**

- (1) It puts up resistance to change.
- (2) It spreads rumours through grapevine.
- (3) It bounds an individual by group decisions.
- (4) It may use the group as a protective shield against the management.
- (5) It may wipe out individual identity because group dominates.

**FORMAL V/S INFORMAL ORGANISATION:**

Formal Organisation	Informal Organisation
<p>(1) <b>Formation:</b> Formal organisation is created by the top management deliberately and consciously. It is a prescribed structure.</p>	<p>Informal organisation develops by social forces existing within the formal organisation. It is a natural and spontaneous formation.</p>

<p><b>(2) Appearance:</b> It can be shown through organisation charts.</p>	<p>It cannot be shown through organisation charts.</p>
<p><b>(3) Relationship:</b> The superior-subordinate relationship is clearly defined.</p>	<p>The superior-subordinate relationship is absent.</p>
<p><b>(4) Communication:</b> Communication is normally through formal channels.</p>	<p>Communication is normally through grapevine.</p>
<p><b>(5) Suitability:</b> It is suitable to large business enterprises.</p>	<p>It is suitable to small business enterprises.</p>
<p><b>(6) Behaviour norms:</b> Formal organisation operates as per rules, systems and procedures.</p>	<p>Informal organisations operate as per informal understanding and conventions.</p>
<p><b>(7) Stability:</b> It is a stable type of organisation structure.</p>	<p>There is no stability to informal organisation.</p>
<p><b>(8) Operation:</b> It exists and operates independently.</p>	<p>It exists and operates within a formal organisation.</p>
<p><b>(9) Authority:</b> The members get authority through delegation or due to their official position.</p>	<p>Some members may command more authority by virtue of their personal qualities.</p>
<p><b>(10) Reward and punishment:</b> Rewards are monetary and non-monetary whereas punishment is for breaking rules.</p>	<p>Reward is continuation of group membership whereas punishment may be removal from the group.</p>
<p><b>(11) Focus:</b> It is built around jobs.</p>	<p>It is built around people and their roles.</p>
<p><b>(12) Termination:</b> Formal groups may be terminated by organisational process or automatically when formed for specific purpose or period.</p>	<p>Informal groups are difficult to terminate by organisational process. They may be terminated automatically when the relationships become sour.</p>



## TYPES OF ORGANISATION STRUCTURE:

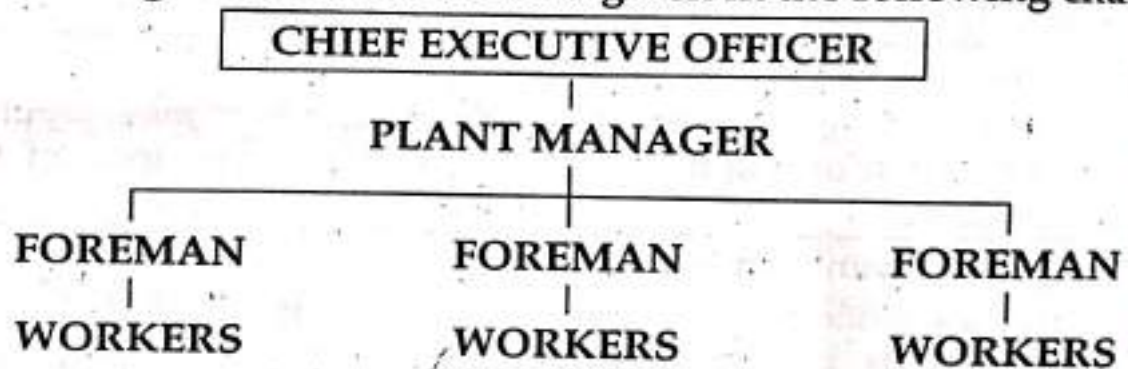
### (1) LINE ORGANISATION:

#### Meaning of Line Organisation (What is line Organisation?):

Line organisation (also called Military or Scalar Organisation) is the oldest and the simplest form of organisation structure. It was first developed by the Roman army and later adopted by armies all over the world.

In the line organisation, the line of authority moves directly from the top level to the lowest level in a step-by-step manner. It is straight and vertical. The top-level management takes all major decisions and the top management for actual execution issues directions. The general manager, for example, issues order to various departmental managers. Thereafter, the departmental manager issues instructions to works manager. The works manager will issue instructions to foreman. In this manner, the orders and instructions will be issued to the workers working at the lowest level. Thus authority moves downward and also step-by-step. The responsibility, on the other hand, moves in the upward direction.

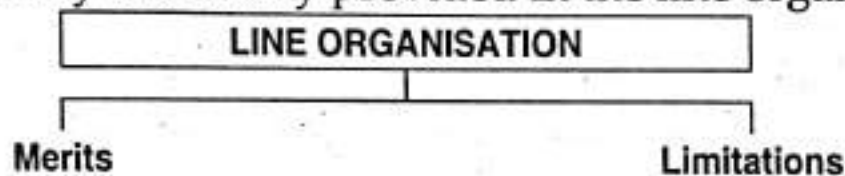
Line Organisation Structure is given in the following chart:



#### Features of Line Organisation Structure:

- (1) There is direct downward flow of authority from the top management to the lowest level in the line organisation.
- (2) The flow of responsibility/accountability is also direct but in an upward direction.
- (3) There is direct vertical relationship in the whole organisation.
- (4) Each position in the organisation structure enjoys general authority over all the lower positions. The managers enjoy complete authority in the area of their operations.

- (5) There is no provision of staff managers in the line organisation.
- (6) Principle of scalar chain and the principle of unity of command are followed strictly in the line organisation.
- (7) The superior-subordinate relationship is direct and clear.
- (8) All departmental managers have equal status. They get directions from the chief executive and are also accountable to him.
- (9) The line authority serves as a direct operative authority. It acts as a chain of command, communication and accountability.
- (10) No scope for confusion as the line of authority and responsibility are clearly provided in the line organisation.



- |   |  |
|---|--|
| <ol style="list-style-type: none"> <li>(1) Simplicity</li> <li>(2) Discipline</li> <li>(3) Economical</li> <li>(4) Flexibility</li> <li>(5) Strict control</li> <li>(6) High Efficiency</li> <li>(7) Quick decisions</li> <li>(8) High employee morale</li> <li>(9) Attraction to talented persons</li> <li>(10) Division of labour and specialisation</li> </ol> | <ol style="list-style-type: none"> <li>(1) Favouritism</li> <li>(2) Rigidity</li> <li>(3) Instability</li> <li>(4) Limited freedom</li> <li>(5) Autocratic leadership</li> <li>(6) Delay in communication process</li> <li>(7) Heavy burden on line executives</li> <li>(8) Non-availability of experts</li> <li>(9) Unsuitable to large business</li> <li>(10) Difficulty in co-ordination</li> </ol> |
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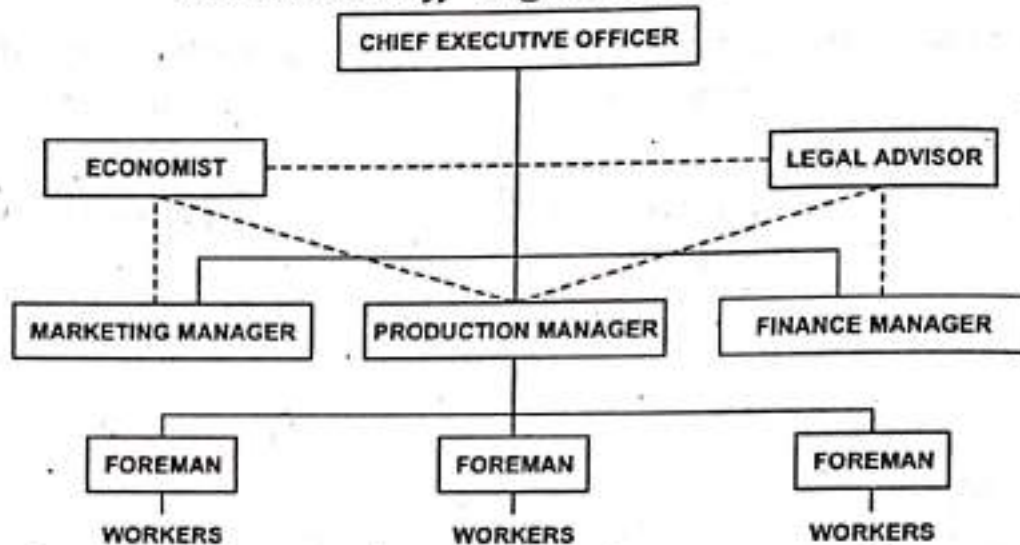
## (2) LINE AND STAFF ORGANISATION:

**Meaning of Line and Staff Organisation (What is "Line and Staff" Organisation?):**

A combination of line and functional organisations is made in order to create a new/superior organisation structure called **Line and Staff Organisation**. It tries to retain the advantages of both and also tries to remove the limitations of both. This new structure is suitable to a growing business enterprise. It provides the services of experts/specialists/ professionals to the line executives to perform their duties efficiently. Here, staff specialists advice

line managers. Line and staff organisation is rightly treated as a happy mixture of line organisation and functional organisation as the benefits of both are achieved in this new organisation structure. Similarly, efforts are made to remove the limitations of line and functional organisations. The services of experts are available to line managers for raising efficiency of the whole organisation structure.

### *Line and Staff Organisation Chart*



*Note: Straight lines represent line and broken lines represent staff.*

In the line and staff organisation, line executives and staff (specialists) are combined together. The line executives are 'doers' whereas staff refers to experts and act as 'thinkers'. Here, the authority flows in a vertical line in the same way as in the line organisation. Staff specialists do not have power of command over subordinates in the functional departments. Their functions are purely advisory in nature. Staff positions are created to support line managers when their work increases and also when they need advice, information and help of staff specialists. The staff specialist has line authority over the subordinates in his own department but has only advisory relationship with other departments such as production, marketing, etc.

The line executives are concerned with the execution of plans and policies. They do their best to achieve the organisational objectives. The staff concentrates their attention on research and planning activities. They are experts and conduct advisory functions. They suggest/recommend but have no power to command the line executive. However, their advice is normally

accepted because of their status in the organisation and also because of their specialised knowledge.

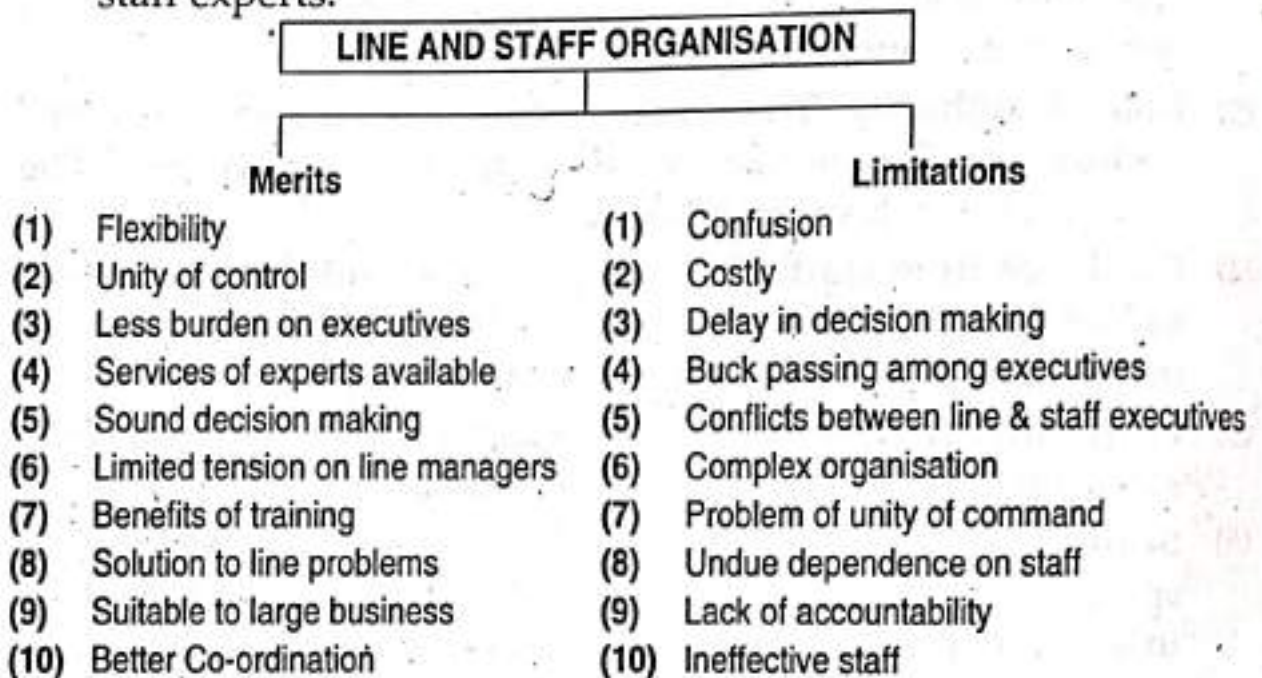
#### **Features of Line and Staff Organisation:**

- (1) **Planning and execution:** There are two aspects of administration in this organisation, viz., planning and execution. Planning is the staffing function entrusted to staff specialists while execution is the line function and is entrusted to line executives. However, both functions are inter-linked and supportive in nature.
- (2) **Combining line and staff:** Planning function is entrusted to staff specialists who are 'thinkers' while execution function is given to line executives who are 'doers'. The staff is supportive to line.
- (3) **Role of authority:** The line managers have authority to take decisions as they are concerned with actual production. The staff officers lack such authority.
- (4) **Guidance from staff:** The staff provides guidance and advice to line executives when asked for. Moreover, line executives may or may not act as per the guidance offered.
- (5) **Exercising control:** The staff manager has authority over subordinates working in his department.
- (6) **Scope for specialisation:** There is wide scope for specialisation in this organisation as planning work is given to staff and execution work is given to line executives.
- (7) **Possibility of conflicts:** Conflicts between line and staff executives are quite common in this organisation but can be minimised through special measures.
- (8) **Suitability:** Line and staff organisation structure is suitable to large-scale business and also to growing/expanding business enterprises.

#### **Suitability of Line and Staff Organisation:**

- (1) Line and staff organisation can be adopted in large size enterprises where specialisation is essential. It provides wide scope for specialisation without violating the unity of command.

- (2) Along with the expansion of an enterprise, line executives will be given the support of staff as such support is useful along with the expansion of business activities. This will lead to the shifting of line organisation by line and staff organisation as it is convenient to growing business enterprises.
- (3) The line and staff organisation structure is now convenient because the management problems are becoming complex and the services of professional experts are required.
- (4) Line and staff structure is not suitable/useful for small business organisations which cannot take full advantages of staff experts.



### Line and Staff Conflict (Why Line and Staff Conflict Arise?):

Line and staff conflicts are quite common in the line and staff organisation. Line managers and staff specialists have to play supporting role. They have to work together for achieving organisational objectives. However, there is absence of understanding about authority relationships between line and staff. The approach of line managers and staff specialists is partly responsible for the line and staff conflicts. There is misunderstanding as regards their supporting role. As a result, conflicts are common and co-operation between the two is rarely available.

## Reasons/Causes/Sources for Line and Staff Conflict:

### Reasons for Conflict

A	B
<b>Arguments/Complaints of Line Executives against Staff</b>	<b>Arguments/Complaints of Staff Executives against Line</b>
(1) Dilution of Authority. (2) Stealing show. (3) Lacks practical knowledge. (4) Lacks human skills. (5) Domination of staff managers. (6) Easy access to top management. (7) Stress on paperwork.	(1) Resistance to new plans and ideas. (2) Inadequate support from line executives. (3) Inadequate scope for the use of authority. (4) Lack of support from top management. (5) Limited cooperation from line executives. (6) Supply of inadequate information. (7) Absence of authority.

#### (A) Arguments/Complaints of Line Executives Against Staff Managers/Officers:

- (1) **Dilution of authority:** Line executives argue that the introduction of staff managers dilutes their authority and also leads to interference in their work. They feel that their jobs become less important.
- (2) **Stealing show:** Line managers feel that the staff executives tend to steal show for the work that turns out to be successful. On the other hand, when things go wrong, they alone have to face the criticism.
- (3) **Lacks practical knowledge:** Line executives argue that staff executives are not familiar with the situation where actual work is carried out. The services offered by staff executives are rather theoretical and not practical.
- (4) **Lacks human skills:** Line executives argue that staff managers with human relations skills are rarely available. Staff presents matters mechanically.
- (5) **Domination of staff managers:** Line executives argue that staff managers always feel that they are superior as regards education and skills. They dominate line executives. This is treated as unwanted interference. (Line plans, Staff cuts).
- (6) **Easy access to top management:** The staff managers work at the head office and have easy access to top management. They show their superiority by making new plans and suggestions which may not be acceptable to line executives.

The top management feels that the line executives are incompetent due to which the services of staff officers are required. This is a source of agony for line managers.

- (7) **Stress on paper work:** The staff executives are engaged in the paper work. In addition, they need information and various details from the line executives. As a result, there is increase in the paper work of line executives, which they resent.
- (B) **Complaints of Staff Managers Against Line Executives:**
- (1) **Resistance to new plans and ideas:** According to staff managers, the line managers oppose/resist new plans/ideas. They treat this as interference in their work. A staff manager is a professional critic. He suggests modifications, which are useful, but the suggestions are opposed as unnecessary interference. This leads to conflicts.
  - (2) **Inadequate support from line executives:** Staff managers argue that line managers does not take benefit of their services. Their services are used only as a measure of last resort.
  - (3) **Inadequate scope for the use of authority:** Staff managers argue that line managers do not give importance to suggestions given by them. This reduces the scope of activities of staff managers. Moreover, the suggestions of staff managers are not binding on line executives and this affects their importance and contribution.
  - (4) **Lack of support from top management:** Staff managers also feel that they do not get full support from the top management. The top management is more concerned with regular production and gives better treatment to line bosses and this makes their position difficult.
  - (5) **Limited cooperation from line executives:** Staff managers argue that line executives adopt negative approach towards staff managers even when both are working in the same organisation with identical objectives. Line executives do not take the advice/suggestions of staff managers in the right spirit. They reject the suggestions on the ground that they are not practicable even without giving fair trial.
  - (6) **Supply of inadequate information:** Staff managers argue that line executives do not approach them well in advance



with all necessary details of the problems faced by them. They do not supply relevant information but want the solution quickly. If solution is suggested within the time limit, it is again rejected on the ground that it is not workable. This leads to dissatisfaction and conflicts.

- (7) **Absence of authority:** Staff managers feel frustrated as they offer suggestions for solving the problem by using their skills and experience. However, they do not have commanding authority to execute their suggestions.

**How to Resolve the Line and Staff Conflict? (Suggestions / Remedial Measures for Resolving conflicts between line and staff):**

It is already noted that line and staff conflicts are a result of lack of understanding of authority relationships. Two agencies for one and the same purpose is a situation which creates confrontation in place of co-operation. As a result, conflicts are bound to come from time to time. However, such conflicts are undesirable and must be avoided or at least minimised. For this, the following measures need to be taken:

- (1) Efforts should be made to have proper understanding among the line and staff executives.
- (2) Overlapping of functions should be avoided.
- (3) Mutual respect among the line and staff managers should be established and encouraged.

The suggestions for resolving the conflicts between line and staff executives are as explained below:

- (1) **Clear demarcation of functions of line and staff executives:** There should be clear demarcation between the line and staff functions. Such demarcation will also solve the problem of overlapping of functions and the possible conflicts.
- (2) **Relationship should be noted in writing:** The line and staff relationship should be clear and it should be kept in black and white for avoiding confusion and jurisdictional disputes.
- (3) **Clear understanding of staff role:** The primary role of staff is to provide support to line managers through advice, guidance and service. There should be clear understanding on the part of staff executives about their role.



- (4) **Frequent meetings of line and staff executives:** The top-level management should arrange regular formal meetings between line and staff executives. In such formal meetings line executives and staff officers should be advised to adopt an attitude of understanding as regards common problems. Meeting facilitates effective communication among the line and staff executives.
- (5) **Clear understanding of authority of line executives:** Line executives should have clear authority to accept, reject, modify the advice by staff officers. Similarly, the staff should not feel frustrated when their advice is rejected. This avoids possible conflicts.
- (6) **Selection of competent staff:** Management should take adequate care while selecting the staff. Staff should be satisfied with the provision of timely help and advice to line officers but should not get offended when their advice is not accepted.
- (7) **Staff should be treated as team members of the group:** Staff executives should not be treated as outsiders but as members of one operating team. They should offer all necessary help to line executives but avoid any act which is treated as insulting.
- (8) **Recognition of mutual dependency:** There should be proper understanding as regards mutual dependency of line managers and staff specialists.
- (9) **Quick settlement of conflicts:** Efforts should be made to settle the conflict between the line and staff at an early stage by referring the matter to higher line authority for amicable settlement. This avoids bitterness.
- (10) **Problems should be made clear to staff officers:** Staff officers are supposed to provide assistance to line executives for solving urgent problems. Naturally, the line managers should make their problems clear to the staff executives. This will enable staff officers to provide timely help to line executives.
- (11) **No shifting of responsibility:** The line executives always share the responsibility of completion of work in time. Such responsibility should not be shifted to staff officers.

(12) **Job rotation:** The job of line executives and staff officers should be made rotating after two or three years. Job rotation is useful for avoiding probable conflicts.

### (3) COMMITTEE ORGANISATION:

#### Meaning of Committee Organisation:

Committee Organisation Structure is adopted along with line and staff organisations. It is not a separate form of organisation but a supplement to existing organisation structures. It involves formation of small committees of line or staff executives for quick and coordinated decisions through collective thinking. A committee consists of a group of executives specially designed to perform specific administrative activities. Committees may be:

(a) formal, (b) informal, (c) permanent/temporary, (d) advisory, (e) joint advisory committee, (f) plant advisory committee, (g) consultative committee, (h) finance committee, (i) coordinating committee, etc.

#### Definitions of a Committee:

(1) According to Koontz and O'Donnell, '*Committee is a group of persons to whom as a group some matter is committed.*'

#### Characteristics of Committees:

- (1) **Committees are normally of departmental executives:** Two to five executives are associated with each committee, depending on the nature and scope of the problem.
- (2) Members of the committees are **experienced and skilled** in their respective fields. They are competent to study the matter and offer recommendations.
- (3) The recommendations of the committee are through **free and frank** deliberations in the committee meetings.
- (4) Committee will have a **chairman** who will coordinate the activities of the committee and monitor its working.
- (5) Committee prepares its report after **detailed study of the whole problem**. The report is submitted to the appointing authority for consideration and approval.
- (6) Committees are normally **temporary in character**. It comes to an end once the report is submitted. New committees may be appointed as and when need arises.

### Why Committees are Formed? (Need of Committees):

- (1) **Collective decisions:** Committees are needed as the decisions taken by one single individual may not be accurate. On the other hand, decisions/recommendations made by a committee are more appropriate as more persons who are competent to study the problem consider all aspects of the problem.
- (2) **Effective communication:** Committees are set-up in order to have effective communication and understanding among the executives and departments. This facilitates implementation of recommendations by all departments easily and smoothly.
- (3) **Democratic management:** Committees are needed in order to give a democratic outlook to managerial activities and decision-making.
- (4) **Effective coordination:** Committees are needed as they bring effective coordination in the plans and policies of the organisation. The decisions of various departments are linked together through inter-departmental committees.
- (5) **Widening outlook of managers:** Committees are needed in order to widen the outlook and viewpoint of departmental managers.

### COMMITTEE ORGANISATION

#### Merits

- (1) Balanced view.
- (2) Effective Communication.
- (3) Pooling of managerial resources
- (4) Training for management development
- (5) Decentralisation in decision making
- (6) Pools information and ideas
- (7) Promotes co-ordination
- (8) Dispersal of authority
- (9) Motivates executives
- (10) Continuity in policy matters

#### Limitations

- (1) Delay in decision making
- (2) Costly Decisions
- (3) Compromised decisions
- (4) Decisions lack secrecy
- (5) Breeding ground for inefficiency
- (6) Dominance by strong personality
- (7) Problem of instability
- (8) Lack of personal appeal
- (9) Wastage of time of executives
- (10) Diverse responsibility

#### (4) MATRIX ORGANISATION:

##### Meaning/Concept of Matrix Organisation:

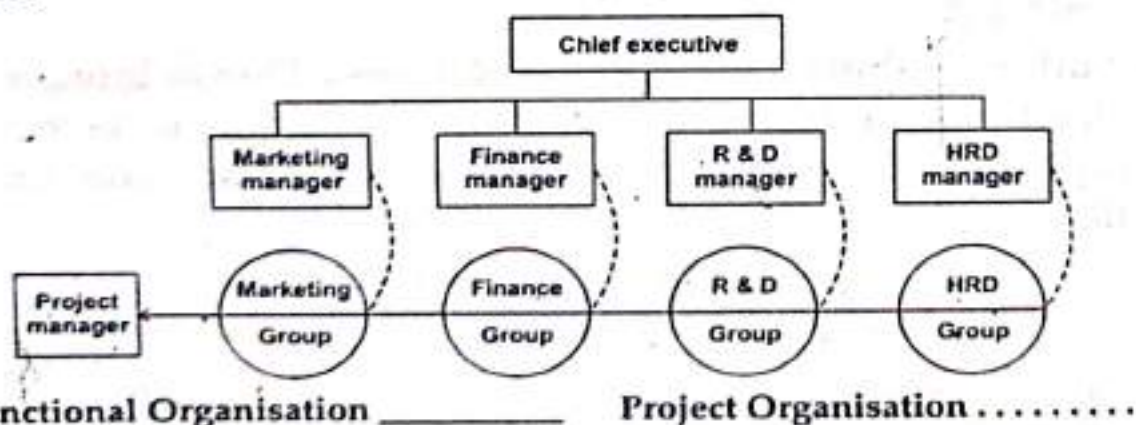
Matrix organisation structure was first developed in the USA in the early 1960s to solve the management problems developed in the aerospace industry. The idea of matrix structure originated from aerospace technology in the USA for the construction of a new airport. It is a concept useful for successful execution of large projects which require diverse technical enterprise. It is a new organisation structure which is a step ahead of project structure.

In matrix, two complementary organisation structures, i.e. the project organisation and functional organisation are merged together in order to create a matrix structure. Matrix organisation is a compromise between the project and functional organisations. In the matrix structure, the employees have to work under dual authority. One authority is the functional and the other is project manager who is an expert in the specific area.

##### Definition of Matrix Organisation:

According to **Kenneth Knight**, 'Matrix organisation is a balanced compromise between departmentation on the basis of functions and departmentation on the basis of specific products or projects to be completed.'<sup>2</sup>

A matrix organisation design is as given in the following diagram:



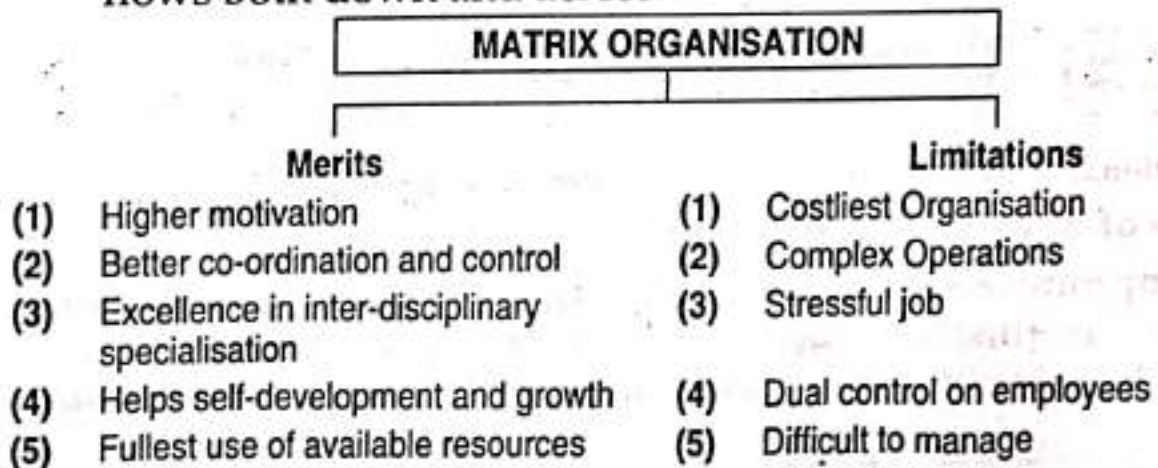
##### Features of Matrix Organisation:

- (1) **Compromise structure:** Matrix organisation is a compromise between functional organisation and project organisation. The benefits of both are combined in the matrix organisation.

<sup>2</sup> Kenneth Knight - Matrix Organisation, p. 111.

In addition, the drawbacks of both the types are avoided in matrix structure.

- (2) **Role of functional heads:** Permanent functional departments such as research and engineering are created in order to provide a stable base for specialised activities/projects. The functional heads are given authority as regards the technical aspects of the project.
- (3) **Role of project manager:** Project manager has a responsibility to coordinate the activities of functional departments and also the activities relating to specific project assigned to him. He has authority over administrative aspects of the project.
- (4) **Subordinates under dual control:** Subordinate employees under matrix organisation receive orders from two bosses - the functional head and the project manager. They are responsible to both.
- (5) **Suitable to large projects:** Matrix is a complex organisation but is suitable to the present complex business environment. It is used mostly in engineering and research projects.
- (6) **Need of effective communication:** Effective communication system is essential for the smooth functioning of matrix organisation.
- (7) **Importance of training:** Training of managers and subordinates is essential for effective working of matrix structure.
- (8) **Authority flows both down and across:** Due to integration of efforts of functional and project authority, the vertical and horizontal lines of authority are combined and the authority flows both down and across.



- |  |   |
|--|---|
| (6) Reduces pressure of work on top management | (6) Creates communication gap                 |
| (7) Effective response to dynamic environment  | (7) Difficulty in establishing proper balance |
| (8) Attains social Justice                     | (8) Non-homogeneous group                     |
| (9) Motivation to project staff                | (9) Conflicts common                          |
| (10) Duplication of work avoided               | (10) Scalar principle violated                |

**Suitability of Matrix Organisation structure:**

- (1) **Used in different activities:** Matrix structure is of recent origin but its use has extended to various fields. For example, matrix structure can be successfully applied to the following types of activities:
  - (a) **Manufacturing:** Aerospace, chemicals, electronics, etc.
  - (b) **Services:** Banking, brokerage, insurance, construction, etc.
  - (c) **Professional activities:** Accounting, advertising, consulting, etc.
- (2) **Suitable to huge projects:** Matrix organisation is used for the execution of huge projects by large companies.
- (3) **Suitable to complex business world:** Matrix organisation is suitable in the present business world due to market competition, global nature of business and technological developments taking place rapidly. Large multi-product manufacturing companies and technical consultancy firms use matrix structure.
- (4) **Suitable for execution of many projects simultaneously:** Various projects can be executed simultaneously by using matrix organisation. Moreover, the benefit of cost control and efficient utilisation of available resources are available.

**DEPARTMENTATION**

**MEANING OF DEPARTMENTATION:**

*Departmentation is a process of dividing an organisation into convenient smaller units called departments. Such departments are created for the division of work and also for the smooth and efficient working of the whole business unit. Departmentation suggests the grouping of activities for managing.*

The term 'Departmentation/Departmentalisation' refers to the process of grouping of activities into units for the purpose of easy and efficient functioning.

The term 'departmentation' has a simple, clear and precise meaning. It is the process by which an organisation expands horizontally. It is a common feature of many large organisations involving a decision by the Chief Executive as regards a logical division of work and leading to the establishment of different manageable units in the horizontal direction. Each of these units is then assigned to a specialist to secure intended results. Thus, each unit acquires a manageable size making it possible for the specialist to concentrate on his area of activity. Thus the organisation is able to secure the benefits of specialisation. An organiser is free to use any means of departmentation in constructing an organisation structure.

#### DEFINITIONS OF DEPARTMENTATION:

- (1) According to Pearce and Robinson, "Departmentation is the grouping of jobs, processes and resources into logical units to perform some organisational task."
- (2) According to James and Stoner, "Departmentalisation is the grouping of work functions so that similar and logically related activities occur together."

#### WHY DEPARTMENTATION IS NECESSARY?

#### (NEED, SIGNIFICANCE AND IMPORTANCE OF DEPARTMENTATION):

Departmentation is needed in every business unit for convenience and also for administrative efficiency. The needs of departmentation are universally accepted even when it is costly.

- (1) Departmentation is needed in every business unit/organisation for convenience and also for raising administrative efficiency.
- (2) Departmentation is also needed as it facilitates division of work and specialisation.
- (3) Departmentation is required as it facilitates optimum utilisation of resources available with the organisation.
- (4) Departmentation is needed as it facilitates performance appraisal of different departments and also for introducing

remedial measures, if required. Targets can be given to departments and their performance can be judged. This gives justification for departmentation at the enterprise level.

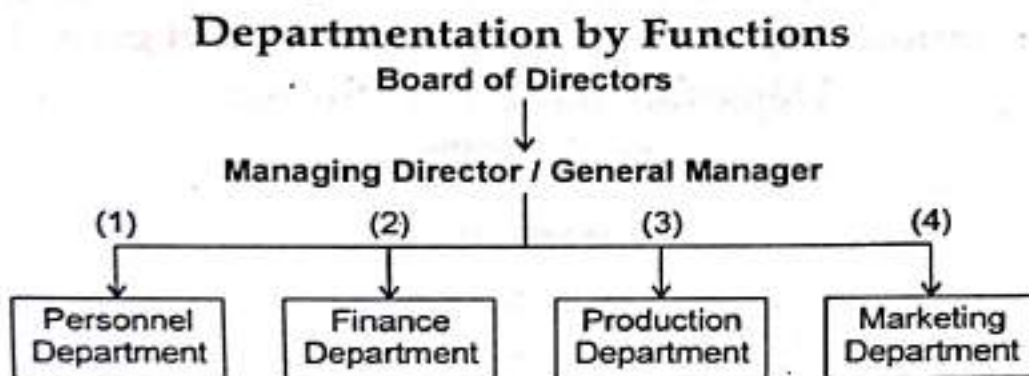
- (5) Departmentation is needed as it enables top-level management to keep effective supervision and control on the whole organisation through the departmental heads.

**BASES OF DEPARTMENTATION:**

An organisations grow they must constantly be recognised in order to cope with increasing complexities. Over a period of time, certain well-recognised and accepted bases for departmentation starting developing. The most common bases of departmentation are:

**(A) Departmentation by Functions:**

Every manufacturing unit, except a very small one, has to perform some basic functions such as production, marketing, finance and personnel. Each of these functions is grouped into a separate department such as the Production Department, the Marketing Department, the Finance Department and the Personnel Department. This is known as **Departmentation by Functions**. Generally, manufacturing companies are organised on this basis.



**Merits/Advantages:**

- (1) Functional departmentation is a logical and time-tasted method.
- (2) The available manpower in the departments is utilised fully.
- (3) It is suitable and convenient for creating major departments.
- (4) It facilitates intra-departmental coordination. It also promotes and provides the benefits of occupational specialisation.



- (5) It facilitates performance appraisal and control of departments.

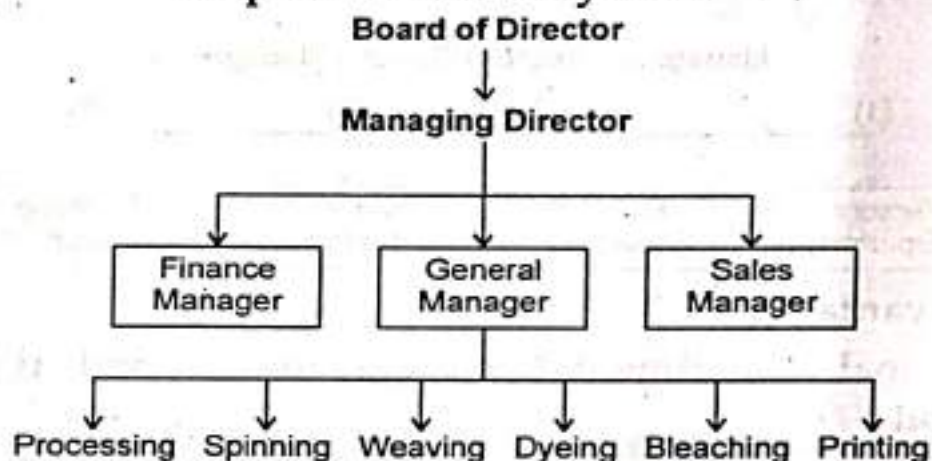
#### Demerits/Limitations:

- (1) In functional departmentation, the decision-making process is delayed due to specialisation.
- (2) It is not conducive to overall organisational strength and survival.
- (3) Functional departmentation may not be suitable when the area covered by business activities is rather wide.
- (4) Conflicts between departments are possible if proper mechanism for cooperation and coordination is not instituted.

#### (B) Departmentation by Process:

Another way of the horizontal grouping of activities is to organise them according to the process of production performed. Thus, a textile mill may have a separate department for spinning, weaving, dyeing, bleaching and printing, as these are its most important processes in the manufacturing of cloth. In the case of administrative office, the grouping of activities can be made easily. For example, an office will have departments such as filing, accounts, correspondence and so on. They will operate under overall supervision and control of the general manager. The departmentation by process is shown in the chart given below:

#### Departmentation by Process



#### Merits/Advantages:

- (1) It ensures specialisation.
- (2) It is possible to appoint experts at each stage.
- (3) It can use costly equipments.

- (4) It provides economical repairs and maintenance because similar machines are put together.
- (5) It is suitable to concerns manufacturing products requiring a number of processes.

#### Demerits/Limitations:

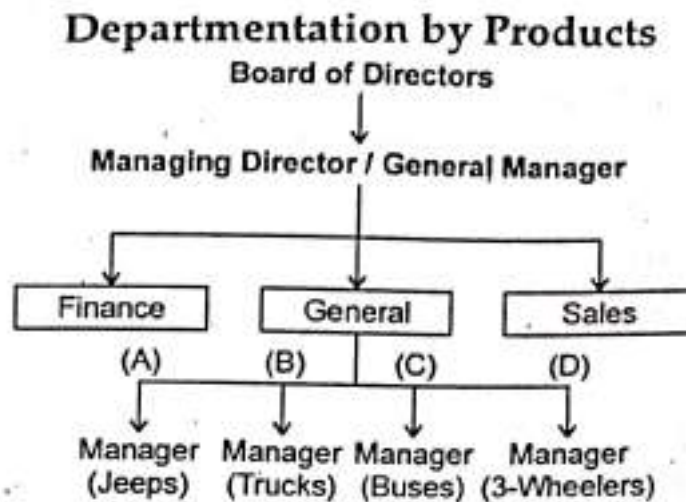
- (1) It is difficult to compare the performance of different process-based departments because their nature of work differs.
- (2) It faces the problem of coordinating processes between different departments.
- (3) It may create conflicts among managers of different processes.
- (4) It is unsuitable where manufacturing activity does not involve distinct processes.
- (5) It provides little scope for managerial developments.

#### (C) Departmentation by Product:

Under the departmentation by product, the organisation is divided into as many departments as the number of products in the product line of the company. All functions and activities related to particular products are brought under the one departmental umbrella. Each of these departments is then entrusted with the responsibility of manufacturing and marketing that product. The incharge of the department is called **Product Manager** who is given the operating authority by the top management. Thus, an automobile company will have one department for passenger cars, another for jeeps and a third one for trucks. Departmentation by products is quite convenient in the case of a large multi-product enterprise.

#### Advantages:

- (1) It **motivates** departmental managers to take more initiative for raising efficiency and productivity of their departments.
- (2) As the comparison of different departments is possible, the management can make investment in the profit making departments and can even close loss-making departments.
- (3) It also provides **training and development** opportunities to managerial staff. In addition, it facilitates **growth and diversification** of products at the departmental level.



### Disadvantages:

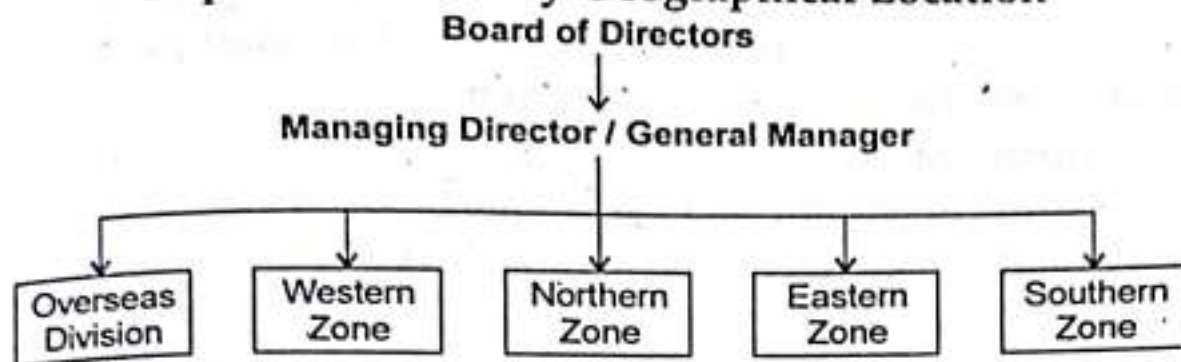
- (1) This type of departmentation is costly as service functions are duplicated.
- (2) It is not convenient to small and medium-sized concerns due to cost factor.
- (3) The top management finds it difficult to have effective control on the departments. The chart given below explains departmentation by products in the case of an automobile manufacturing company:

### (D) Departmentation by Geographical Location/Area:

Here, geographical area covered by the company for business purpose is taken as a base for departmentation.

Along with the increase in the company's volume of business it may find it necessary to establish regional factories and branch offices to meet the increasing demand for its products/services. These factories/offices are then given the status of separate departments or divisions. This type of departmentation is on the basis of territory/region/area and has been found more suitable for service organisations such as insurance companies, banks and so on. In India, the Indian railways have different divisions such as Central railway, Western railway and so on. Similarly, LIC has its zonal and divisional offices. The chart given below suggests departmentation by geographical location:

## Departmentation by Geographical Location



### Merits/Advantages:

- (1) It motivates each regional head to achieve high performance.
- (2) It can adapt to local conditions.
- (3) It provides training to middle level executives.
- (4) It facilitates expansion of business to various regions.

### Demerits/Limitations:

- (1) It cannot avoid duplication of activities e.g., service functions performed by regional units can be performed centrally by the head office.
- (2) It is likely that each regional unit may give higher importance to its unit and neglect the overall interest of the organisation.
- (3) It may lead to conflicts between regional managers.
- (4) It may be difficult to control different branches from the head office.

### (E) Departmentation by Customers:

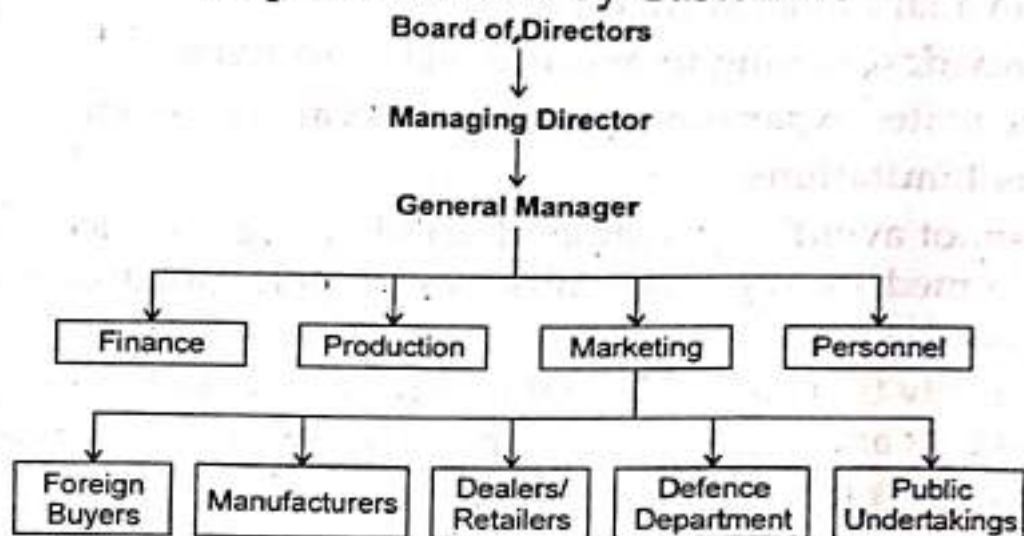
In the departmentation by customers, the departments are established as per the customers that it serves. Enterprises offering specialised services prefer departmentation by customers. Manufacturers of products such as tyres, compressors, spare parts, etc., who sell their products to different categories of customers, have found it convenient to set up customer-wise departmentation for marketing their products. For example, a tyre manufacturing company will have one department for selling tyres to manufacturers of automobiles, a second department for selling to the defence department, the third one for export markets, a fourth one for transport undertakings and a fifth for dealers and distributors. This type of departmentation is useful for giving individual attention to diverse groups of buyers interested in purchasing company's products. Such departmenta-

tion is possible in the case of big automobile company supplying cars to different categories of customers. The chart given below suggests departmentation by customers.

### Merits/Advantages:

- (1) It ensures full attention to customers.
- (2) It provides benefits of division of work.
- (3) It is possible to know likes and dislikes of customers.
- (4) It helps organisation to each higher goodwill through better service.

### Departmentation by Customers



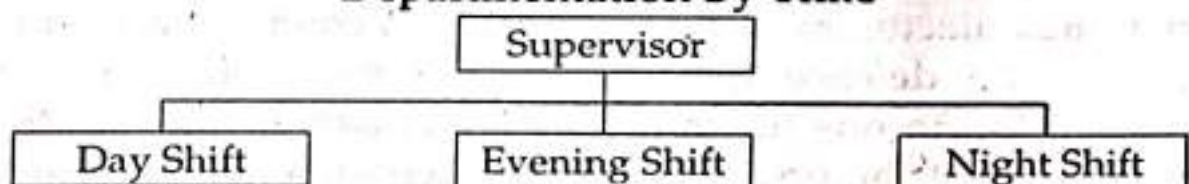
### Demerits/Limitations:

- (1) It may result in underutilisation of resources.
- (2) It may create duplication of facilities.
- (3) It may face heavy overheads.
- (4) It may give special treatment to certain class of customers.

### (F) Departmentation by Time:

Public service institutions like hospitals, telephone company and fire brigade work round the clock. They are generally departmentalised on the basis of time shifts as shown below:

### Departmentation By Time



## CENTRALISATION

### MEANING OF CENTRALISATION:

Centralisation refers to concentration of decision making authority in the hands of top management. Lower level personnels are asked only to implement the decisions taken by the top management. Basically, every organisation starts with centralised decision-making structure. With the growth of the organisation come a number of problems and challenges which centralisation is not able to cope up with.

### ADVANTAGES OF CENTRALISATION:

- (1) **Economical:** Centralisation is economical as the activities and operations are integrated and the duplication of work and operating overheads are avoided.
- (2) **Prompt decisions and actions:** In centralisation, top-level management makes decisions. Consultation is not required. As a result, quick decisions and follow-up actions are possible.
- (3) **Promotes uniformity of actions:** There is uniform rules and procedures. As a result, there is uniformity in the operations of departments, divisions, branches, etc.
- (4) **Less paperwork:** In centralisation, decision-making is quick, direct and also there is personal involvement by the top management. Scrutiny of reports, correspondence, etc. is avoided. Naturally, paperwork involved is limited.
- (5) **Suitable to small business:** Centralisation is convenient in the case of small business due to limited activities.
- (6) **Facilitates coordination:** Because of centralisation of authority, activities of a small business are well-co-ordinated.

### DISADVANTAGES OF CENTRALISATION:

- (1) **Restricts the process of delegation:** In centralisation, functions, duties and responsibilities are concentrated in the hands of few managers. This restricts the scope of delegation and decentralisation which is harmful to large organisations.
- (2) **Imposes heavy burden on top executives:** Due to centralisation, the decision-making power rests with few top

- executives. This puts heavy burden on top executives. They have to face mental tension and even their decisions may not be appropriate on all times.
- (3) **Subordinates suffer:** In centralisation, limited authority is given to subordinates. They are like machines and have to act as per decisions taken at the top-level. The opportunity to learn, to accept new responsibilities and also of self-development is not given to them.
  - (4) **Limited dedication and motivation:** In centralisation, decisions are imposed on lower levels. Subordinates work as per orders issued. They are not dedicated or committed to the organisation. There is no motivation to work hard. Centralisation kills initiative, self-reliance and motivation.
  - (5) **Communication difficulties:** In the absence of efficient communication system, centralisation, may lead to communication gap between higher and lower levels of management. This may lead to inefficiency, lack of coordination and confusion on the part of subordinates.
  - (6) **Lack of training:** Centralisation does not train subordinates for higher positions.

#### **AUTHORITY AND RESPONSIBILITY RELATIONSHIP:**

It is necessary to have brief understanding of three terms intimately connected with the process of delegation. These terms are: (a) Authority, (b) Responsibility, and (c) Accountability.

##### **(a) AUTHORITY:**

Authority is the power assigned to a manager. A manager will not be able to function efficiently without proper authority. Authority is the genesis of organisational framework. It is one of the founding stones of formal organisations. **An organisation cannot survive without authority.**

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

##### **(b) RESPONSIBILITY:**

Responsibility indicates the duty assigned to a position. The person holding the position has to perform the duty assigned. It is his responsibility. The term 'responsibility' is often referred to as

an obligation to perform a particular task assigned to a subordinate.

In the words of Theo Haimann, "Responsibility is the obligation of a subordinate to perform the duty as required by his superior."

**RELATIONSHIP BETWEEN AUTHORITY AND RESPONSIBILITY:**

- (1) Authority indicates the powers and rights of a superior to make people work. Responsibility is the obligation of the person to discharge the work assigned to him.
- (2) Authority is delegated whereas responsibility is not delegated.
- (3) Authority flows downward but responsibility does not flow. It remains with the person.
- (4) Authority can be withdrawn whereas responsibility cannot be withdrawn.
- (5) Authority is durable and longer lasting. Responsibility is no longer lasting. It ends with the performance.
- (6) Authority comes into being from the legal provisions or from the contract of service. Responsibility comes into being from the superior subordinate relationship.
- (7) Authority is at the discretion of higher management. It cannot be demanded as a matter of right. Responsibility is compulsorily given with the assignment.
- (8) Authority is always less whereas responsibility is always more. In certain cases, responsibility may be unlimited.

**Objective Questions with Answers**

- (1) Select the correct alternative and rewrite the statements:
  - (a) Organisation is derived from the word \_\_\_\_\_.  
(i) Organisational (ii) Organising (iii) Organism (iv) Origen
  - (b) Organisation facilitates \_\_\_\_\_.  
(i) administration (ii) plans (iii) budgets (iv) management
  - (c) Grouping of activities is called \_\_\_\_\_. (March 18, 19; Oct. 18)  
(i) decentralization (ii) departmentation (iii) management (iv) delegation
  - (d) Informal organisation uses \_\_\_\_\_ as communication.  
(i) grapevine (ii) internet (iii) public announcement (iv) press release
  - (e) Formal organisations are \_\_\_\_\_. (Nov. 17)  
(i) static (ii) Non-performing (iii) delegated (iv) created
  - (f) Departmentation by function is suitable to \_\_\_\_\_ organisation. (Nov. 17)  
(i) small (ii) domestic (iii) medium (iv) large



- (g) Departmentation by process ensures \_\_\_\_\_.  
 (i) specialisation (ii) confrontation (iii) settlement (iv) negotiation
- (h) Committee organisation facilitates \_\_\_\_\_ judgement. (Nov. 17)  
 (i) individual (ii) group (iii) rigid (iv) anytime
- (i) Exception principle reserves \_\_\_\_\_ problems for superiors.  
 (i) routine (ii) complex (iii) special (iv) recurring
- (j) Delegation \_\_\_\_\_ burden on the superior. (Nov. 16; Oct. 18)  
 (i) reduces (ii) increases (iii) balances (iv) imposes
- (k) Delegation is transfer of certain \_\_\_\_\_. (Nov. 17; March 18)  
 (i) accountability (ii) responsibilities (iii) documents (iv) finance
- (l) Centralisation faces the problem of \_\_\_\_\_ gap.  
 (i) administrative (ii) supervision (iii) communication

[Ans.: (a - iii), (b - i), (c - ii), (d - i), (e - iv), (f - iii), (g - i), (h - ii), (i - ii), (j - ii), (k - ii), (l - iii)]

(2) Fill in the blanks choosing the correct alternatives:

- (a) Organisation structure has its own \_\_\_\_\_.  
 (i) outlines (ii) parameters (iii) being
- (b) Workforce should \_\_\_\_\_ into the structure.  
 (i) get (ii) enter (iii) fit
- (c) Only exceptionally \_\_\_\_\_ problems should be referred to top executives  
 (i) simple (ii) complex (iii) Routine
- (d) Informal organisation is \_\_\_\_\_.  
 (i) written (ii) documented (iii) unwritten
- (e) In line organisation there is \_\_\_\_\_ flow of authority.  
 (i) downward (ii) indirect (iii) balanced
- (f) Staff has \_\_\_\_\_ role in business.  
 (i) administrative (ii) public relation (iii) advisory
- (g) Aerospace industry uses \_\_\_\_\_ organisation.  
 (i) committee (ii) line and staff (iii) matrix
- (h) Departmentation by \_\_\_\_\_ ensures specialisation.  
 (i) functions (ii) process (iii) product
- (i) Centralisation is \_\_\_\_\_.  
 (i) costly (ii) economical (iii) affordable
- (j) \_\_\_\_\_ handles emergencies effectively.  
 (i) Centralisation (ii) Decentralisation (iii) Departmentation

[Ans.: (a - ii), (b - iii), (c - ii), (d - iii), (e - i), (f - iii), (g - iii), (h - ii), (i - ii), (j - i)]

(3) State whether the following statements are TRUE or FALSE:

- (a) Organisation is unintentionally created. (March 18, 19)
- (b) Organisation has tendency towards specialization.
- (c) Organisation ensures optimum utilization of human resources. (Nov. 17)
- (d) Formal Organisation is unwritten. (Oct. 18)
- (e) Informal Organisation is not governed by rules. (Nov. 16)
- (f) Informal Organisation is shown through organisation chart.
- (g) Committee organisations are always formal. (March 17)
- (h) Departmentation links departments.
- (i) Departmentation by product is economical. (Oct. 18)
- (j) Departmentation by geographical location avoids duplication of activities.
- (k) Formal and informal organisations are same. (Nov. 17)
- (l) Small banks practice matrix organization. (March 18)
- (m) Matrix organisation structure is very easy to manage. (Nov. 17)

[Ans.: (a) False, (b) True, (c) True, (d) False, (e) True, (f) False, (g) False, (h) False, (i) False, (j) False, (k) False, (l) False, (m) False]

(4) State whether the following statements are TRUE or FALSE:

- (a) Every organisation structure has its framework.
- (b) Organisation stimulates creativity.

- (c) Informal organisation operates independently.
- (d) Line and staff organisation is universally suitable to every organisation.
- (e) Committee organisation facilitates group judgement.
- (f) Matrix organisation does not violate scalar principle.
- (g) Departmentation and specialisation go hand in hand.
- (h) Quick decision making is the main feature of departmentation by functions.
- (i) Departmentation by process faces the problem of coordination.
- (j) Centralisation discourages uniformity of actions.
- (k) Business adopt fixed organisation structure.
- (l) Activities are grouped to prepare sound organisation structure.
- (m) Line and staff functions are put together in every organisation.
- (n) Superior-subordinate relationship is clearly defined in informal organisation.
- (o) Efforts of employees are well coordinated in informal organisation.
- (p) Formal organisation is found to be rigid.
- (q) Jurisdictional disputes are well handled if relationship is defined in writing between line and staff.
- (r) Matrix organisation works under dual authority.
- (s) Centralisation allows process of delegation.
- (t) Departmentation by customers enjoys benefit of division of work.

[Ans.: (a) True, (b) True, (c) False, (d) False, (e) True, (f) False, (g) True, (h) False, (i) True, (j) False, (k) False, (l) True, (m) False, (n) False, (o) False, (p) True, (q) True, (r) True, (s) False, (t) True]

(5) Match the following:

Group 'A'	Group 'B'
(a) Organisation	(i) Fixed time and cost
(b) Formal Organisation	(ii) Inter-departmentation coordination
(c) Informal Organisation	(iii) Span of control
(d) Exception Principle	(iv) Costly equipments
(e) Process of Organising	(v) Smaller units
(f) Project Organisation	(vi) Durable
(g) Departmentation	(vii) Multi-product enterprise
(h) Departmentation by Functions	(viii) Identification of activities
(i) Departmentation by Process	(ix) Built around people
(j) Departmentation by Product	(x) Political link
(k) Centralisation	(xi) Non-routine matters
	(xii) Limited motivation

[Ans.: (a – iii), (b – vi), (c – ix), (d – xi), (e – viii), (f – i), (g – v), (h – ii), (i – iv), (j – vii), (k – xii)]

(6) Match the following:

Group 'A'	Group 'B'
(a) Line Organisation	(i) Duplication of Activities Unavoidable
(b) Line and Staff Organisation	(ii) Informal Organisation
(c) Matrix Organisation	(iii) Underutilisation of Resources
(d) Organisation Structure	(iv) Unity of Control
(e) Principles of Organisation	(v) Consultation not Required
(f) Grapevine	(vi) Rigidity
(g) Departmentation by Geographical Location	(vii) Facilitates Administration
(h) Departmentation by Customers	(viii) Centralised Management
(i) Centralisation	(ix) Suitable to Small Business
(j) Limited Authority	(x) Unity of Objectives
	(xi) Inter-disciplinary Specialisation

[Ans.: (a – ix), (b – iv), (c – xi), (d – vii), (e – x), (f – ii), (g – i), (h – iii), (i – v), (j – viii)]

## Question Bank for Self-Practice

- (1) What is line and staff organisation? Explain the features of line and staff organisation. *(Oct. 18)*
- (2) What is centralisation of authority? What are the advantages of centralisation of authority? *(Oct. 18)*
- (3) Explain the merits and demerits of formal and informal organization structure. *(Nov. 16)*
- (4) Explain the merits and demerits of formal organization. *(March 18)*
- (5) What is an organisation structure? Explain its importance. *(Nov. 17)*
- (6) Explain the factors determining organisation structure.
- (7) Define organisation structure. What factors influence organisation structure?
- (8) What is the importance of organisation structure? *(March 19)*
- (9) Discuss the steps involved in designing organisation structure.
- (10) Explain the principles of organisation. *(Oct. 18)*
- (11) Identify the features of a good organisation structure. *(March 17)*
- (12) What is formal organisation? State its features.
- (13) Highlight the importance of informal organisation. What are its advantages and limitations?
- (14) Describe the main types of organisation structure.
- (15) Distinguish between formal and informal organisation. *(Nov. 17)*
- (16) What is line organisation? State its main features.
- (17) What are the advantages and limitation of line organisation?
- (18) Why is line and staff organisation needed in a large business?
- (19) Explain the features of line and staff organisation.
- (20) Point out merits and limitation of line and staff organisation.
- (21) What are the reasons of conflicts between line and staff managers?
- (22) How would you resolve conflicts between line and staff managers?
- (23) State the merits and limitations of line and staff organisation.
- (24) What is committee organisation? State its features.
- (25) What are the advantages and limitation of committee organisation?
- (26) What do you understand by matrix organisation? State suitability of matrix organisation.
- (27) Define matrix organisation and state its main features.
- (28) What are the merits and limitations of matrix organisation?
- (29) What is meant by departmentation? Explain the bases of departmentation.
- (30) Describe an organisation in which you would use more than one bases of departmentation.
- (31) Describe the benefits of centralization. *(March 18)*
- (32) Explain the disadvantages of centralization.
- (33) Bring out the relationship between Authority and Responsibility. *(March 19)*
- (34) Write short notes on:
  - (a) Factors determining Organisation Structure.
  - (b) Importance of Organisation structure.
  - (c) Designing an Organisation Structure.
  - (d) Features of a Good Organisation Structure.
  - (e) Distinguish between Formal and Informal Organisation. *(Oct. 18; March 19)*
  - (f) Line Organisation. *(March 19)*
  - (g) Conflicts between Line and Staff Executives.
  - (h) Suitability of Matrix Organisation.
  - (i) Matrix Organisation. *(March 18; Oct. 18)*
  - (j) Departmentation.
  - (k) Departmentation by Functions. *(Nov. 16)*
  - (l) Departmentation by Process. *(March 18)*
  - (m) Committee Organisation. *(March 17)*

## Chapter 6

# Organisation Structure – II (Banking and Insurance)

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*Organisation isn't about perfection; it's about efficiency, reducing stress and clutter, saving time and money and improving your overall quality of life.*

— Christina Scalise

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**(A) Organisation Structure of Banking Companies:** General Organisation, Planning Organisation, Functional Organisation, Operational Organisation, Full-fledged Organisation – **(B) Organisation Structure of Insurance Companies:** Centralised Organisation, Decentralised Organisation, Regional Organisation – Centralised v/s Decentralised Organisation in Insurance Companies – Question Bank for Self-Practice.

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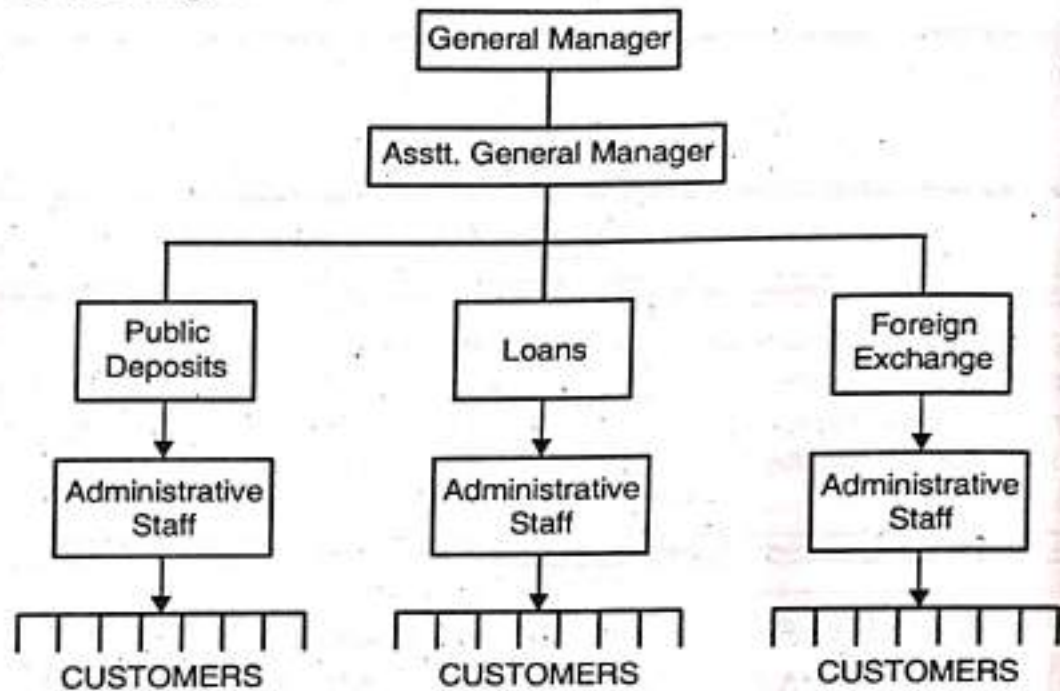
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### (A) ORGANISATION STRUCTURE OF BANKING COMPANIES

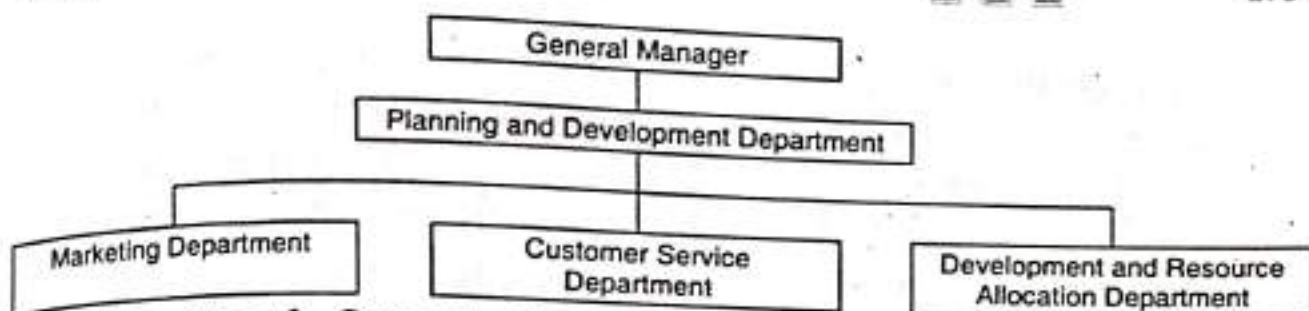
Management of banks is vested with the Board of Directors. These directors must have special knowledge relating to banking practices and procedures. The chairman of BOD holds full time employment. In a nationalised bank, BOD is constituted by the Central Government by nominating persons in consultation with RBI. Under the BOD there is MD or CEO or General Manager who acts as a link between the Board and the executives. The general manager enjoys administrative powers and is responsible to maintain high volume of business. Ordinarily, the general manager has an assistant general manager, to whom he delegates authority in order to get the departmental work done. The following are the types of organisation structure generally followed by banks:

- (1) **General organisation:** In a small bank, the general manager is all in all. The entire bank transactions and administrative work revolves around him. He coordinates the work between

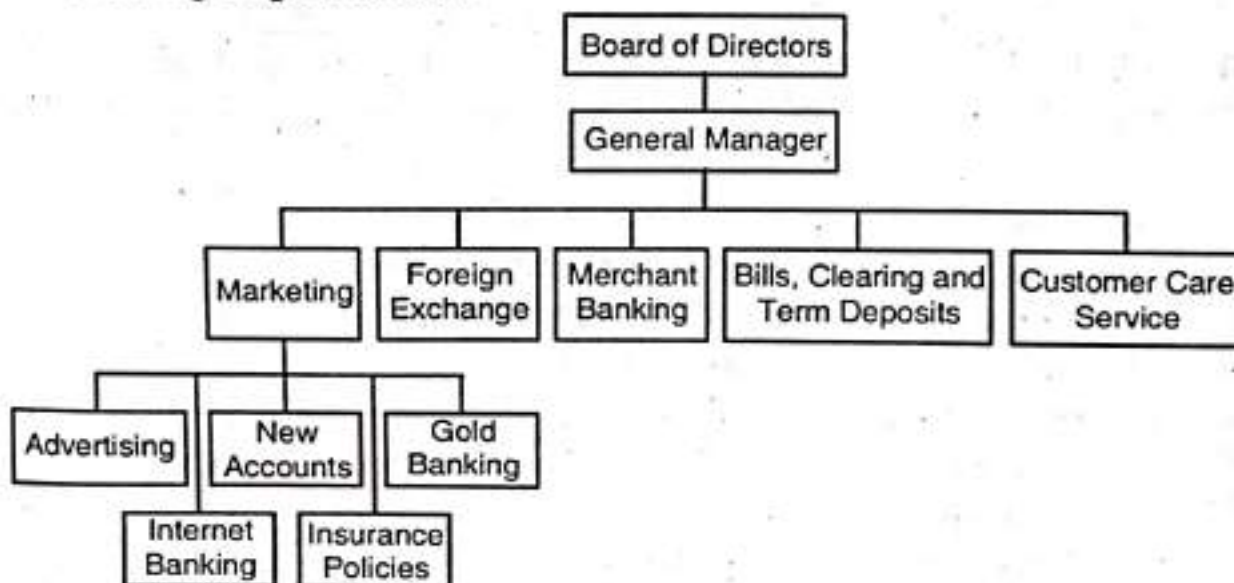
different departments. He also controls bank activities. When the bank grows in size, it becomes necessary to establish separate departments for each work. This organisational division makes administration more efficient. The departmental heads report directly to the general manager. This reporting system enables the general manager to introduce corrective measures, if performance has fallen short of the targets.



- (2) **Planning Organisation:** Organisation structure in a bank is often composed with the objective to plan the resources. All-important ingredients like marketing, customer service, development, acquiring new business, optimum use of resources are brought together to give final shape to the plan. Organisational objective is communicated to the employees in advance. They are motivated and their morale is kept high who work hard to achieve organisational objective. It is necessary to involve all operational managers to collect their target and also understand their contribution in the overall plan. In a large bank a separate department is prepared called planning and development department. Each department is headed by an experienced executive.

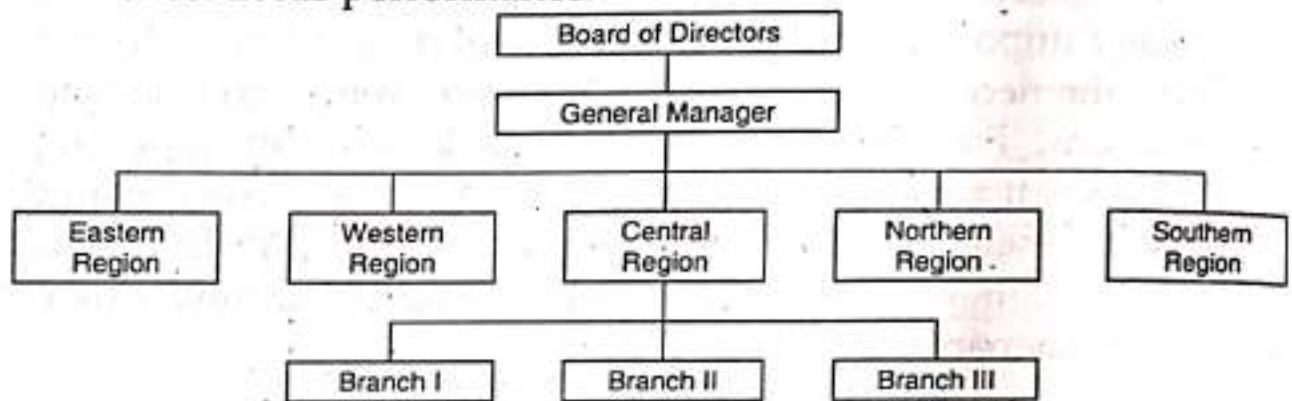


(3) **Functional Organisation:** Functional organisation is most commonly used in banks. This organisation provides specialisation and ensures performance of activities necessary to achieve bank objectives. Irrelevant activities are eliminated. With an integrated organisation it is easy to exercise control over all the functions. Training can be provided to the managers and employees to update their skills and knowledge. As business grows in size additional department can be added. This becomes necessary because new functions which were previously regarded as minor either assume greater importance or the existing department heads do not have the necessary technical competence to manage the new functions. Functional organisation is known for grouping activities. It is a highly flexible organisation because as banks increase their volume of business without much difficulty the organisation can be updated by adding or closing down existing department.

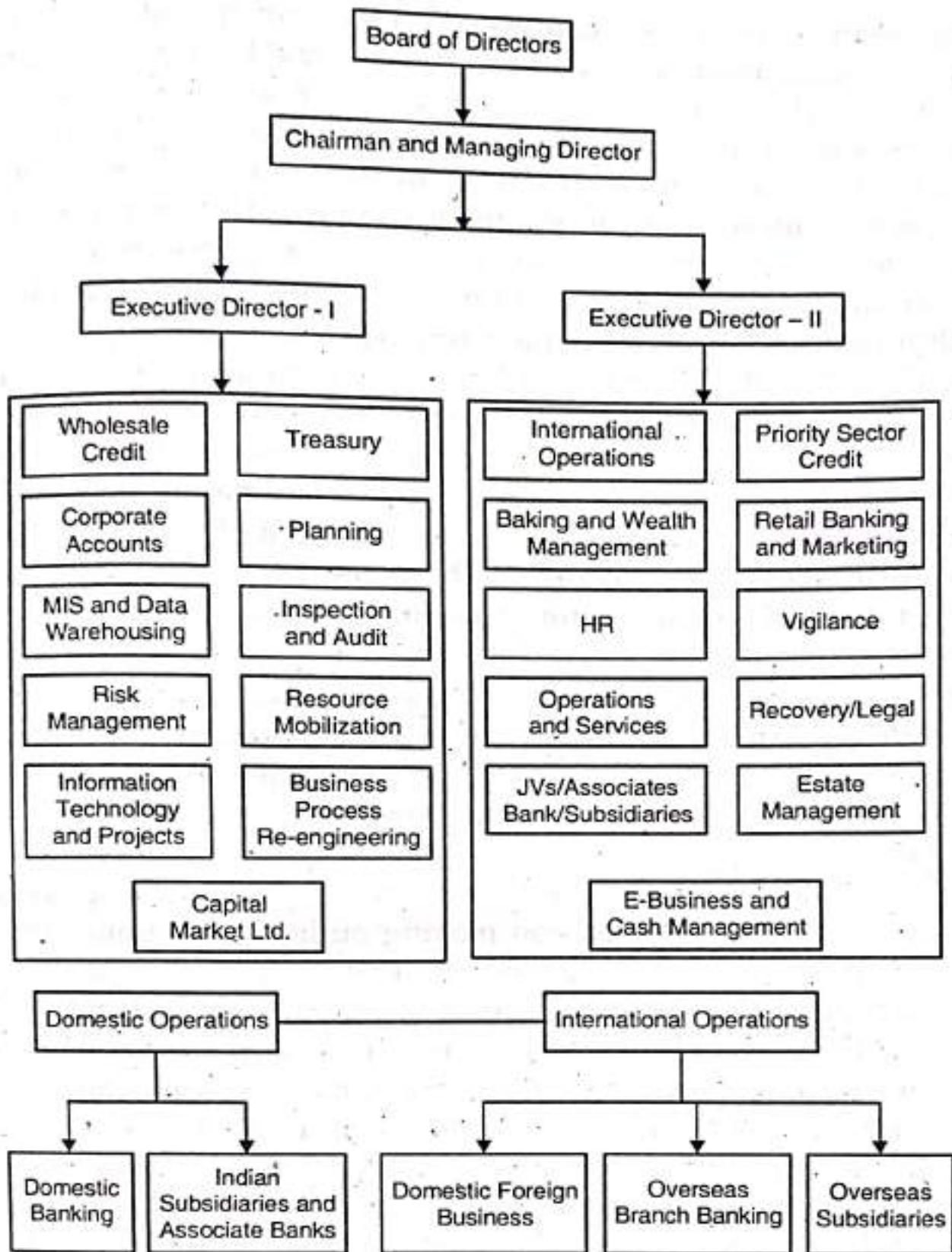


(4) **Operational Organisation:** With the opening of branches of banks in rural areas and in far flung areas it has become necessary to appoint functional experts. Geographical expansion has increased the size of the business. Big banks

have established zonal offices while the small ones have set up regional offices. With banks performing new services, product numbers have also increased making it necessary to set up departmentation based on products. Under operational organisation, activities are divided into zones, divisions and branches. It is not possible for one functional manager to manage efficiently such widely separated activities. Hence regional managers or zonal managers or branch managers are appointed. Business is conducted by giving priority to local customs and preferences. It is an economical organisation because time and money is saved. Every zonal/regional/branch manager can specialise in the peculiar problems of the region. This decentralisation establishes better coordination of activities. Each operational manager is given autonomy to excel in his performance.



- (5) **Full-fledged Organisation:** Some banks respond well to the changes in the environment. They remodel departments depending on market changes and trends. Such banks not only open new branches but also enter into joint ventures. This organisation functions on the basis of the principle of specialisation. It is also technology friendly and ensures banking services within shortest possible time. Within the country it maintains domestic foreign business and in overseas market it runs branch banking and subsidiaries. The organisation structure shows designations of personnels in modern terminology. Banks have expanded in size beyond imagination. They are now clearing transactions of astronomical figures. The overall organisation structure of banks have also undergone many changes. A typical organisation structure of a full-fledged bank having domestic and international operations would look as shown below:



**(B) ORGANISATION STRUCTURE OF INSURANCE COMPANIES**

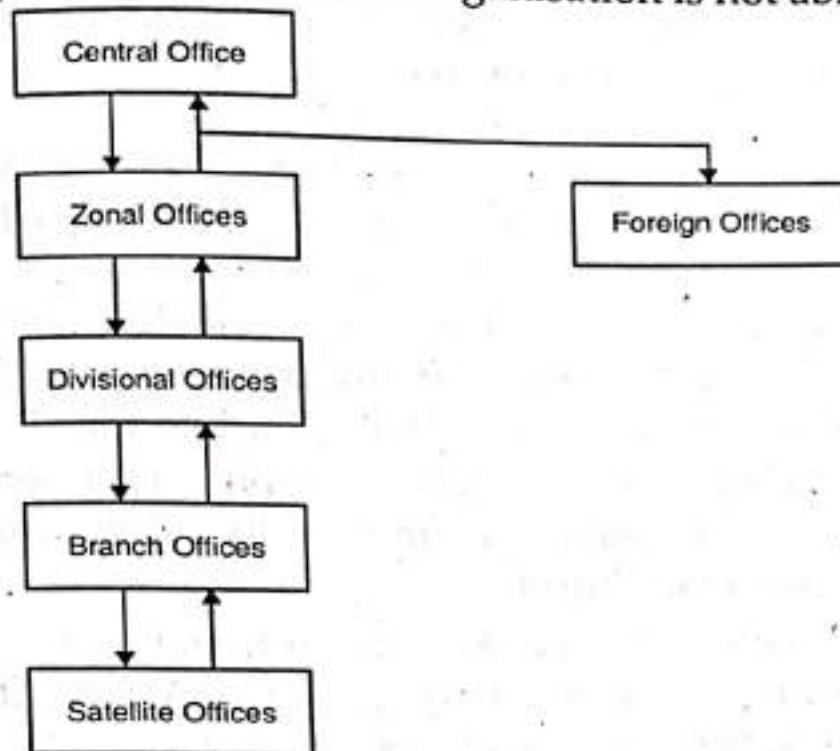
Organisation structure of insurance companies indicates relationships that exist between different departments of the organisation that will help to achieve its goals. The entire



organisation structure is composed on the principle of division of labour. Tasks are divided and sub-divided and handed over to the respective departments and employees. An attempt is made to create specialised units and hierarchy of posts. In creating organisation structure insurance companies use the principle of **linear submission**. This technique is used to calculate how best to allocate scarce resources among various users to ensure their optimum use. There is another principle called **functional subordination** based on which organisation structure is made. Functional subordination refers to assignment of specific functions regardless of who performs them e.g., the chief accountant can guide any unit if a request is received for relevant information. Likewise, marketing department may receive media work instructions from different departments and has to carry out the assignment and also report about results. The following are the **types of organisation structure** generally followed by insurance companies:

- (1) **Centralised Organisation:** Centralised organisation is the concentration of authority for most decisions at the top level of an organisation. Insurance companies handling large volume business ensure actual operations are performed by different persons at different levels and at different places. In the branch offices there is only dispersion of physical activities and the decision making authority continues to be centralised at the head office. This organisation structure facilitates uniformity of action which is always desirable. It facilitates prompt decisions and also handles emergencies well. Centralised organisation may increase the problem of communication unless care is taken to keep the flow of communication continuous and free from barriers. Overlapping and duplication of work along with wastage and inefficiency are eliminated. Outstanding results are obtained through specialisation. It can satisfactorily handle emergencies because no consultations are required. Unity of action results in integration of the activities of the insurance business. With computer technology fast sweeping insurance business paperwork is reduced. Primarily, every insurance company starts with centralised decision-making. With the

growth of the business a number of problems and challenges crop up which a centralised organisation is not able to handle.



In the diagram given above all the important decisions are made by the central office. Other offices enjoy the authority to perform routine work and take related decisions as communicated by HO.

**Advantages:**

- (1) Dynamic leader enjoying full authority can take vital and bold decisions.
- (2) Operations are united and integrated.
- (3) Uniform decisions are universally desirable.
- (4) Decision making process is expedited.
- (5) Possible to prepare and implement contingency plans.

**Limitations:**

- (1) Subordinates lacking initiative.
- (2) Management under pressure of work.
- (3) Lack of specialisation.
- (4) Delay in decision when permission is needed from higher authority.
- (5) Obstacle in communication causing distortion and delay.

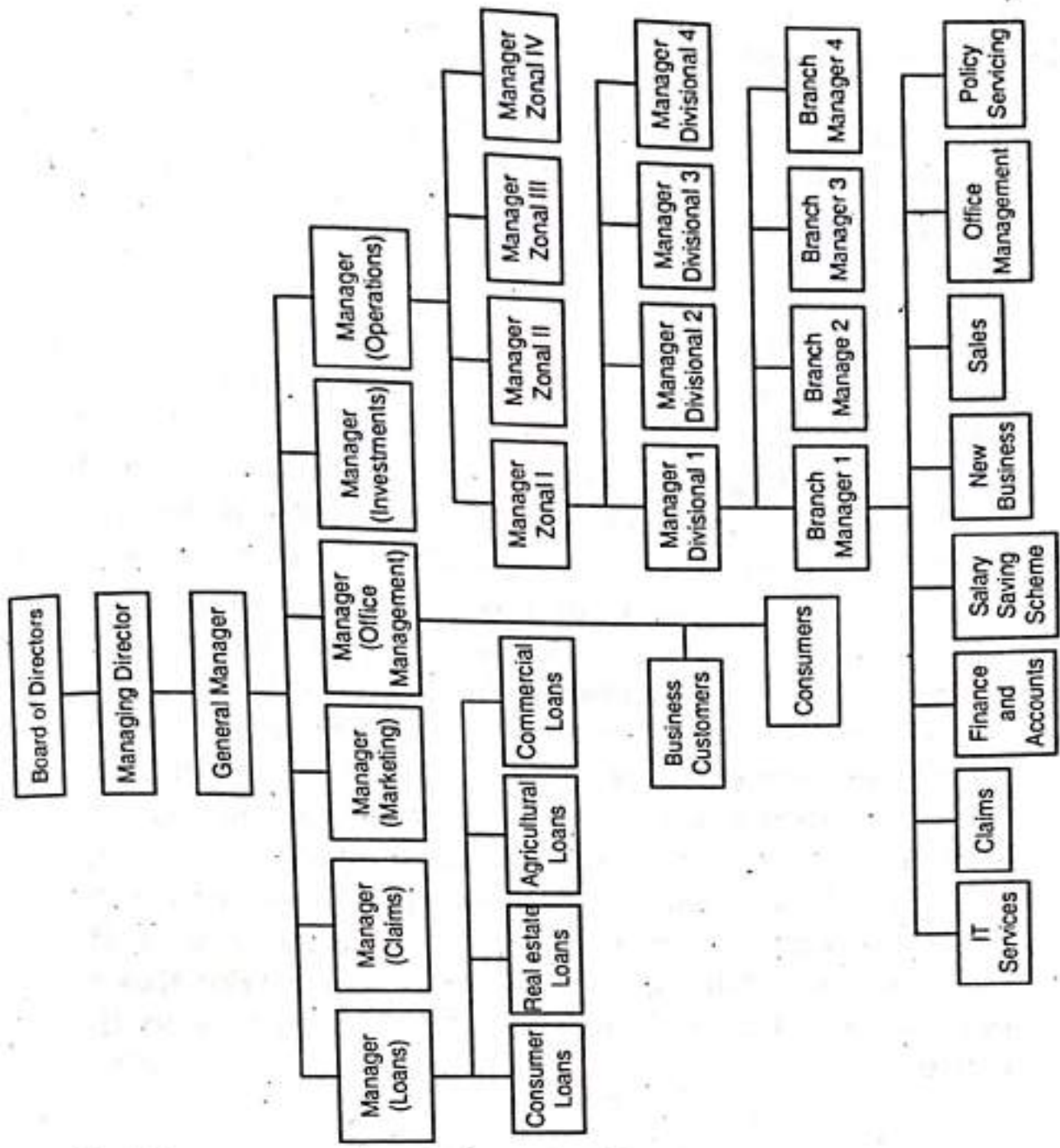
- (2) **Decentralised Organisation:** Under this organisation there is dispersion of authority to make decisions at all levels of organisation. There is an arrangement to delegate to lower levels all authority except that which can be exercised by the head office. Managerial functions of planning, organising, coordinating and controlling are distributed at all levels in the organisation. The work is assigned to the place where it is to be done otherwise its achievement will become physically impossible. Employees have faith in the democratic spirit of the business. Delegation of authority is practiced throughout the organisation. Unit head is responsible for all deeds and actions. Decentralised organisation represents semi-autonomous decision making units. Top management exercises the final control.

Decisions do not have to be referred upwards in the hierarchy. It is possible to have quicker and better decisions at lower levels. Departmental heads are motivated to make such decisions that will create maximum profit with improved service because they are held responsible for the effect of their decisions on profits and enlargement of business. Decentralised organisation is a natural development when the business is large and complex. In insurance companies, decentralised organisation ensures delegation of authority to all departments in the organisation. Decentralised organisation reduces the pressure on top executives because administrative duties are delegated to the subordinates working at lower levels.

In the diagram given on the next page, the branch manager is delegated maximum authority to run the branch. Each department is headed by an executive who controls day to day work e.g., claims department will handle survival benefit, maturity claims and death claims whereas office management will look into office upkeep, leave records, salary, furniture, stationery and employee records.

**Advantages:**

- (1) Enables top management to improve its quality of decision making.

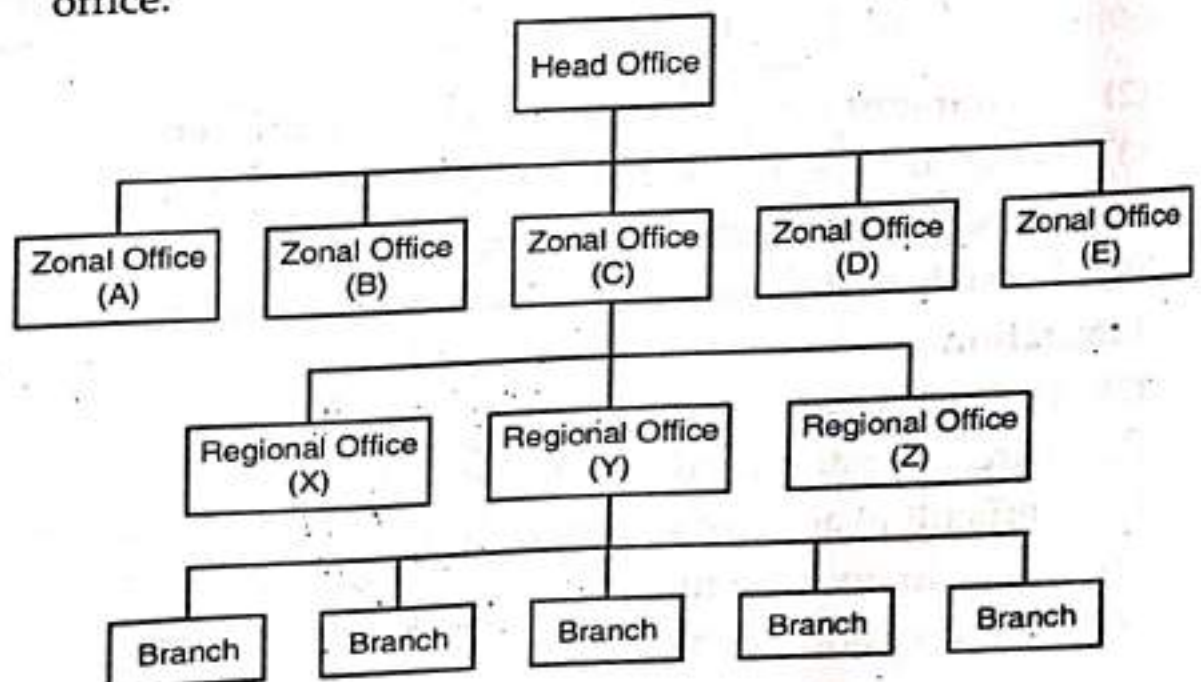


- (2) Encourages development of younger managers.
- (3) Brings decision making close to scene of action.
- (4) Opportunity to learn by doing.
- (5) Possible to diversify in products and markets.

**Limitations:**

- (1) Problem of coordination.
- (2) Threat of parallel administration.
- (3) Difficult to achieve specialisation.
- (4) Delay in decision making.
- (5) Increases administrative expenses.

- (3) **Regional Organisation:** Regional organisation is supportive to the branches in the region. They serve the needs to several branches operating in the region. It is a compromise between centralised and decentralised organisation. Regional organisation looks after evaluation and compensation. High speed computers, fax machines; printers, copy machines are used to process insurance services. It also receives wealth of information from the branches relating to policies, premiums, commission fees, claims, IT services, compensation, salary, loan applications etc. On the one hand, regional organisation must maintain good relations with branches and on the other with the head office. Regional organisations are headed by regional manager. Every branch manager is required to report to the regional manager. In order to regulate and monitor the branch operations, regional manager will convene meetings of branch manager and will also exercise the discretion of visiting the branches from time to time. Employee work needs to be given due recognition and a word of appreciation from the regional manager will do wonders. Each employee must understand how important it is to work for mutual success. The head office provides projections about various activities of insurance on the basis of feedback obtained from regional offices. For this purpose only factual information should be submitted to the head office.



**Advantages:**

- (1) Suitable to large insurance companies.
- (2) Motivates regional managers to achieve high performance.
- (3) Facilitates expansion of business to various regions.
- (4) Training facilities to middle level executives.
- (5) Adapts business to suit local conditions.

**Limitations:**

- (1) Suffers from serious problem of coordination and communication gap.
- (2) Distance between policy framers and policy executors.
- (3) Possible conflicts between regional managers.
- (4) Difficult to control all branches with equal efficiency.
- (5) Duplication of work between regional office and branches.

**CENTRALISED V/S DECENTRALISED ORGANISATION IN INSURANCE COMPANIES:**

Centralised Organisation	Decentralised Organisation
<p><b>(1) Meaning:</b> The decision making authority is concentrated at the level of top management.</p>	<p>There is delegation and dispersal of authority throughout the organisation.</p>
<p><b>(2) Suitability:</b> It is suitable in case of small insurance companies.</p>	<p>It is suitable in case of large insurance companies.</p>
<p><b>(3) Motivation:</b> There is limited scope for motivation of managers at lower levels.</p>	<p>There is wide scope to motivate managers because they get opportunity for self-development.</p>
<p><b>(4) Morale:</b> Employee morale is low.</p>	<p>Employee morale is high.</p>
<p><b>(5) Results:</b> It provides good results because of better control on lower level managers.</p>	<p>It provides good results with employees' involvement.</p>



<p>(6) <b>Communication gap:</b> Communication gets delayed and distorted when it reaches lower level.</p>	<p>There is no communication gap because instructions are issued and inquiries answered at all levels.</p>
<p>(7) <b>Decision making:</b> Better quality and uniformity in decision making.</p>	<p>There is difference in quality of decision making in various levels.</p>
<p>(8) <b>Burden on executives</b> There is heavy burden of work on top executives.</p>	<p>There is relief to top management.</p>
<p>(9) <b>Concept:</b> It is an old concept.</p>	<p>It is a new concept.</p>

### A NOTE ON IRDA:

IRDA was passed in December 1999 to protect the interests of policyholders. The Act provided for legal protection to give confidence to the policyholders. It was said that the Act is committed to regulate, promote and ensure systematic expansion of insurance business. IRDA is an improvement over earlier Acts such as Insurance Act, 1938, Life Insurance Corporation Act, 1956 and the General Insurance Business (Nationalisation) Act, 1972. IRDA is a body corporate. The regulations framed by the IRDA directly affect the working of the agents. IRDA is helped by an Insurance Advisory Committee. The committee is composed of not more than 25 members representing various fields of insurance business. The members are chosen from research bodies, commerce, industry, transport, agriculture, agents, surveyors, consumer forums, employees' associations formed in insurance sector, organisations engaged in safety and loss prevention. The post of "Controller of Insurance" has been abolished and in its place IRDA has been introduced. IRDA is found to be effective in taking matters like registrations, licensing and creating framework for smooth conduct of the business and primarily to protect the interests of policyholders.

IRDA has been welcomed by the policyholders because it has streamlined the working of insurance industry thereby safeguarding the interests of the policyholders e.g., to simplify settlement of claim IRDA has suggested the following:

- (1) The insurer is advised to ask for all the documents in case of death claim at one time and not in instalments.
- (2) The insurer must admit or reject the claim within 30 days of receipt of papers.
- (3) In case the insurer wants to conduct investigation, it must be completed within six months.
- (4) The insurer will pay interest at 2% over the bank rate when there is delay in settling death claims.
- (5) When the insurer is ready to pay but the claimants are not ready to collect, interest at the savings bank rate becomes payable.

#### Functions of IRDA:

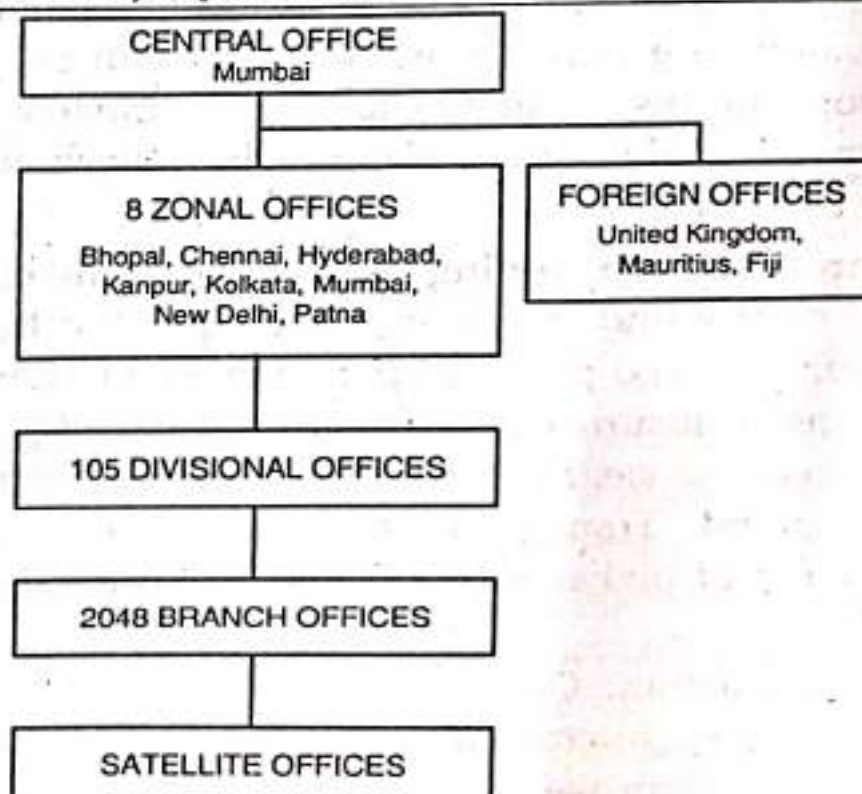
- (1) **Regulatory function:** IRDA performs regulatory function in providing licenses to transact insurance business. It gives guidelines in maintaining financial and legal requirements for starting insurance business. It also provides licences to the intermediaries such as agents and brokers and regulates their workings.
- (2) **Security to policyholders:** IRDA ensures highest possible security to the policyholders. It supervises the day-to-day functioning of insurance companies so that the interests of the policyholders are well protected. It conducts periodical evaluations to ensure that insurances companies maintain adequate assets. No genuine claim of the policyholders can be delayed or denied.
- (3) **Transparency in functioning:** IRDA wants to make insurance business clearly understood by the people. For this purpose sales literature is so prepared that everyone understands the functioning of insurance companies. Insurance products are fairly priced and clearly illustrated to enable people to make up their mind. Transparency in functioning adds to the procurement of higher business and builds goodwill among insured.
- (4) **Higher interaction:** One of the approaches of IRDA is to develop higher interaction with consumer forums. Such interactions improve relations and help to fight



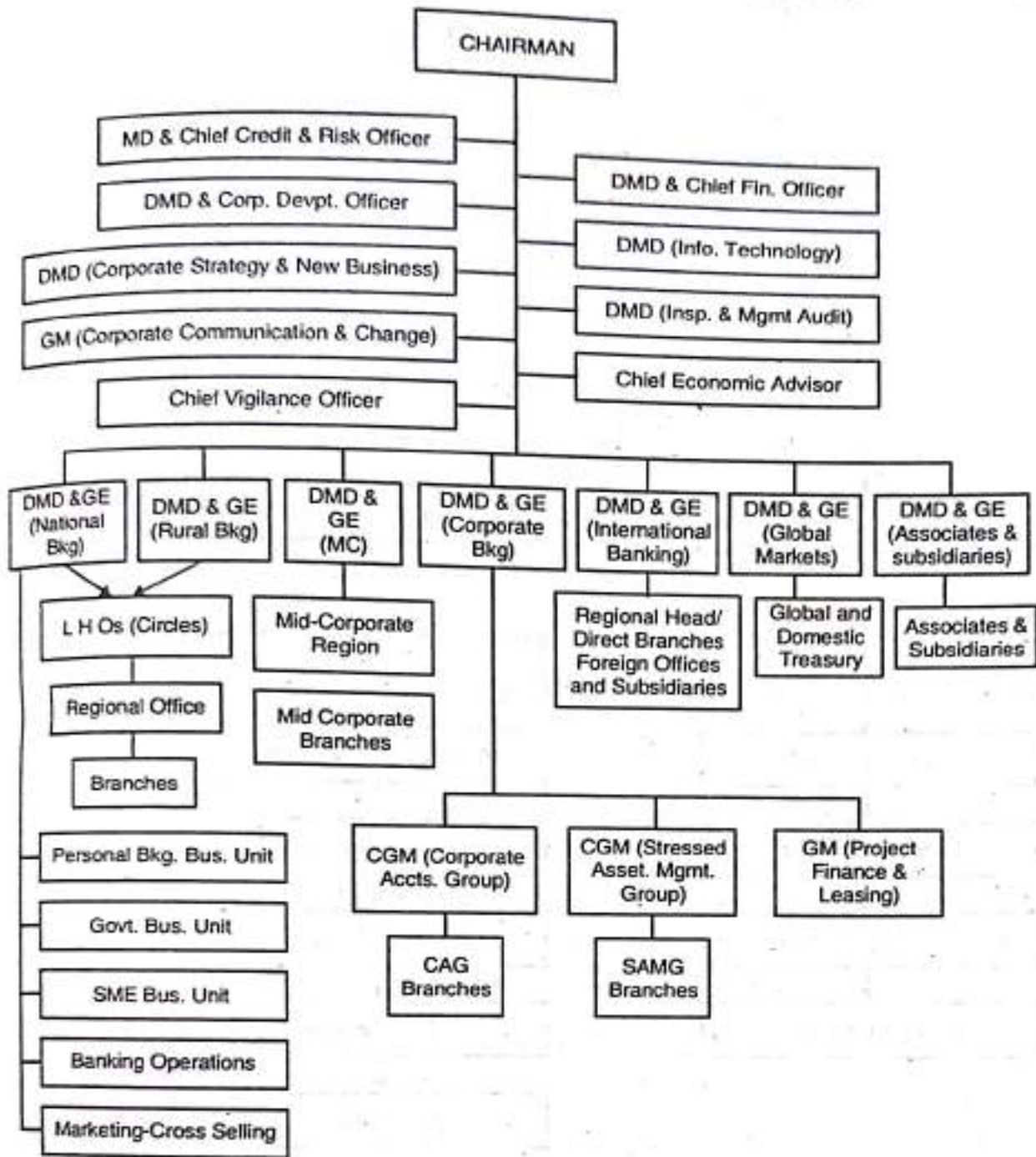
misunderstandings and rumours. Further insurance companies can be inspected from time to time.

- (5) **Appointment of actuary:** An actuary is an expert in statistics who calculates insurance risks and premiums. Under IRDA, it is compulsory for every insurance company to appoint an actuary in order to ensure professional treatment to the business. Such an appointment requires approval from IRDA. The person appointed as actuary can work till 70 years of age.
- (6) **Promoting confidence:** IRDA outlines measures to promote confidence among the people. It has prescribed paid up capital of insurance companies as follows:
- Insurance companies desiring to transact life or general insurance must maintain a minimum of Rs. 100 crore of paid up capital.
  - Insurance companies desiring to transact reinsurance business must maintain a minimum of Rs. 200 crore of paid up capital.

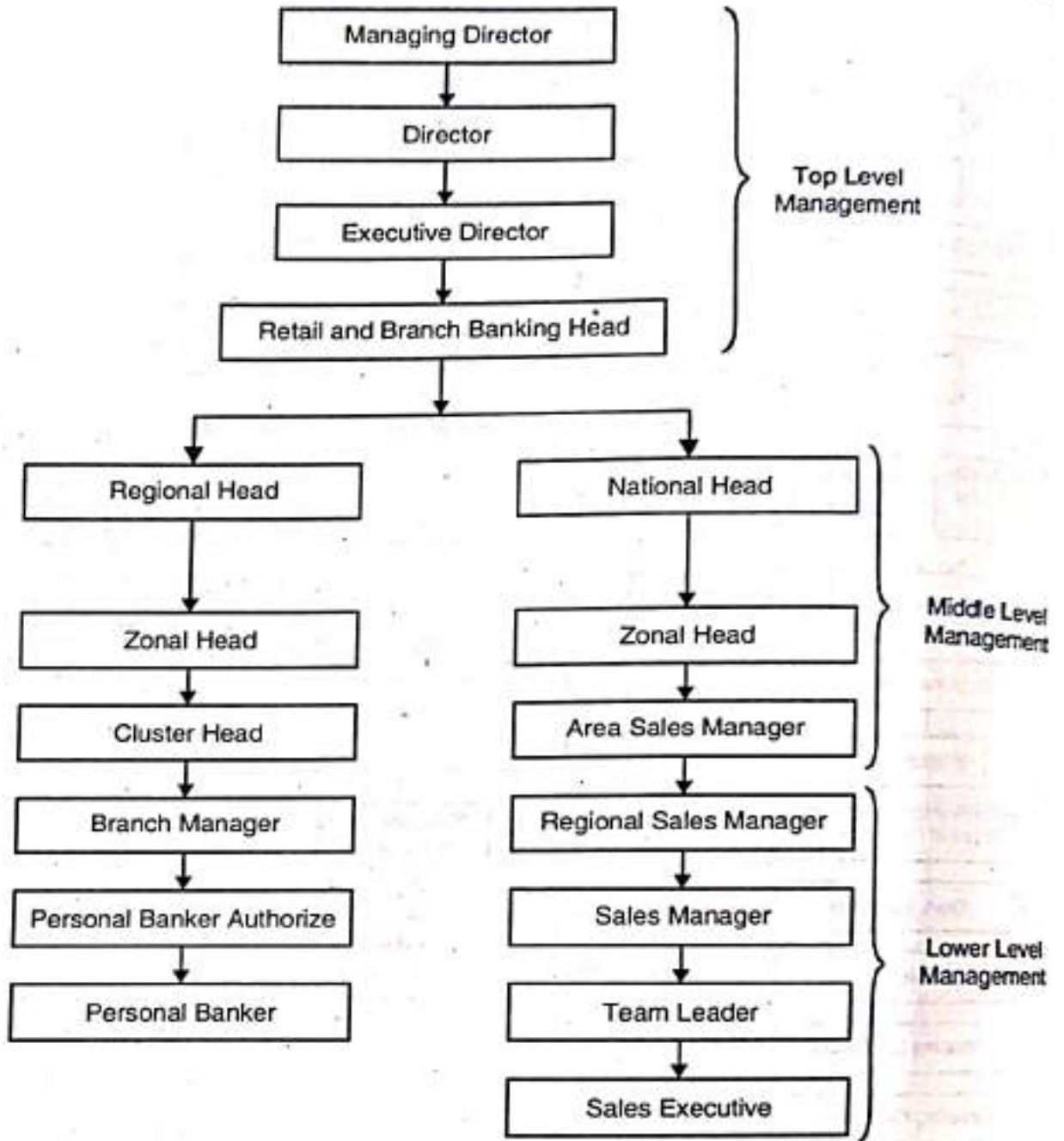
*Specimen of Organisation Structure of Public and Private Sector Banks along with LIC, GIC and Private Insurance Companies are provided for ready reference.*



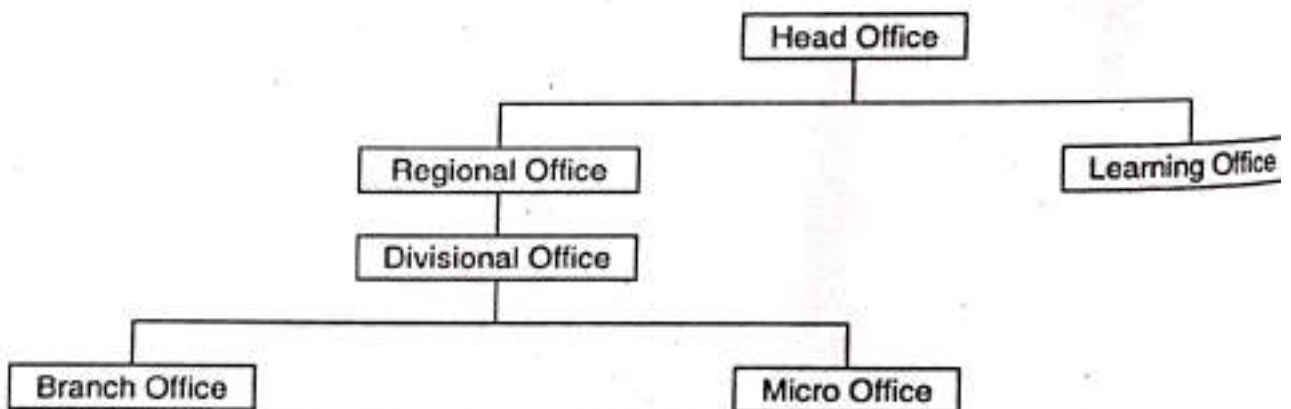
*Organisation Structure of Life Insurance Corporation of India*



**Organisation Structure of State Bank of India**



*Organisation Structure of Axis Bank*



*Organisation Structure of United India Insurance Company*

## Objective Questions with Answers

- (1) **Select the correct alternative and rewrite the statements:**
- (a) In a small bank the \_\_\_\_\_ is all in all. *(March 19)*  
(i) Chief Manager (ii) General Manager (iii) Administrative Manager
  - (b) \_\_\_\_\_ has gained lot of importance in banks. *(Oct. 18)*  
(i) Home delivery (ii) Customer service (iii) Financial planning (iv) Recruitment
  - (c) Irrelevant activities are eliminated in \_\_\_\_\_ organisation.  
(i) Functional (ii) Operational (iii) Planning (iv) Departmental
  - (d) Full-fledged organisations \_\_\_\_\_ departments.  
(i) create (ii) remodel (iii) remove (iv) drop
  - (e) Insurance companies are based on \_\_\_\_\_.  
(i) unity of command (ii) unity of direction (iii) division of work (iv) feedback
  - (f) Insurance companies favour \_\_\_\_\_ organisation. *(March 19)*  
(i) centralised (ii) decentralised (iii) matrix
  - (g) \_\_\_\_\_ organisation is supportive to the branches in the region.  
(i) Centralised (ii) Decentralised (iii) Regional (iv) National
  - (h) Employee morale is high in \_\_\_\_\_ organisation. *(March 18)*  
(i) centralised (ii) decentralised (iii) project (iv) matrix
  - (i) IRDA has \_\_\_\_\_ functions. *(Nov. 16)*  
(i) regulatory (ii) audit (iii) legal (iv) professional
  - (j) IRDA \_\_\_\_\_ customer confidence.  
(i) supports (ii) promotes (iii) favours (iv) directs
  - (k) \_\_\_\_\_ is useful for small business. *(March 17; Oct. 18)*  
(i) Centralization (ii) Decentralization (iii) Power (iv) Authority
- [Ans.: (a – ii), (b – ii), (c – i), (d – ii), (e – iii), (f – ii), (g – iii), (h – ii), (i – i), (j – ii), (k – i)]*
- (2) **Fill in the blanks choosing the correct alternatives:**
- (a) In small banks, transactions and administrative work revolves around the \_\_\_\_\_  
(i) CEO (ii) branch manager (iii) general manager
  - (b) Operational managers are given \_\_\_\_\_ to achieve.  
(i) results (ii) options (iii) targets
  - (c) Functional organisation \_\_\_\_\_ irrelevant activities.  
(i) specifies (ii) eliminates (iii) pinpoints
  - (d) Under \_\_\_\_\_ organisation, activities are divided into zones, divisions and branches.  
(i) functional (ii) operational (iii) planning
  - (e) \_\_\_\_\_ organisation encourage joint ventures.  
(i) Functional (ii) Operational (iii) Full-fledged
  - (f) \_\_\_\_\_ organisation in insurance companies avoids overlapping and duplication of work.  
(i) Centralised (ii) Decentralised (iii) Regional
  - (g) In decentralised organisation, \_\_\_\_\_ is responsible for all deeds and actions.  
(i) CEO (ii) unit head (iii) general manager
  - (h) \_\_\_\_\_ organisation is a compromise between centralised and decentralised organisation.  
(i) General (ii) Operational (iii) Regional
  - (i) In \_\_\_\_\_ organisation there is dispersal of authority.  
(i) centralised (ii) decentralised (iii) full-fledged
  - (j) IRDA favours higher \_\_\_\_\_ with customers.  
(i) investment (ii) interaction (iii) dealings

- (k) Mr. Kumar Mangalam Birla is \_\_\_\_\_ by a profession.  
(i) CA (ii) Doctor (iii) Cost Accountant (iii) Professor

[Ans.: (a - iii), (b - iii), (c - ii), (d - ii), (e - iii), (f - i), (g - ii), (h - iii), (i - ii), (j - ii), (k - i)]

- (3) State whether the following statements are TRUE or FALSE:

- (a) Management of banks is vested with the Board of Directors. (Oct. 18; March 19)  
(b) In small banks administrative work revolves around General Manager.  
(c) Additional departments cannot be added in functional organisation.  
(d) Small banks set up zonal offices.  
(e) Big banks enter into joint ventures.  
(f) Full-fledged organisation is technology friendly.  
(g) Functional subordination is assignment of specific functions regardless of who performs them.  
(h) Overlapping and duplication of work are not removed in centralised organisation.  
(i) Decentralised organisation represents semi-autonomous decision making units.  
(j) In regional organisation, regional managers are motivated to achieve high performance.  
(k) Functional organization is most commonly used in banks. (Nov. 16)

[Ans.: (a) True, (b) True, (c) False, (d) False, (e) True, (f) True, (g) True, (h) False, (i) True, (j) True, (k) True]

- (4) State whether the following statements are TRUE or FALSE:

- (a) General Manager is the administrative head in every banking organisation.  
(b) Bank employees are motivated through communication of organisational objectives.  
(c) Functional organisation is an integrated organisation.  
(d) Operational organisation handles widely separated activities.  
(e) Full-fledged organisation does not respond to changes in the environment.  
(f) Insurance companies use the principle of linear submission.  
(g) Operations are scattered under centralised organisation.  
(h) Decentralised organisation does not face the problem of coordination.  
(i) Regional organisation is headed by regional manager.  
(j) IRDA ensures highest possible security to policyholders.

[Ans.: (a) False, (b) True, (c) True, (d) True, (e) False, (f) True, (g) False, (h) False, (i) True, (j) True]

- (5) Match the following:

Group 'A'	Group 'B'
(a) General Organisation	(i) Departmentation by product
(b) Planning Organisation	(ii) Security to policy holders
(c) Functional Organisation	(iii) Remodel departments
(d) Operational Organisation	(iv) Dispersion of authority
(e) Full-fledged Organisation	(v) Regional manger
(f) Centralised Organisation	(vi) Scope for expansion
(g) Insurance Business	(vii) Transparency
(h) Decentralised Organisation	(viii) Control over functions
(i) Regional Organisation	(ix) Acquiring new business
(j) IRDA	(x) Global coverage
	(xi) Centralisation of authority

[Ans.: (a - vi), (b - ix), (c - viii), (d - i), (e - iii), (f - xi), (g - x), (h - iv), (i - v), (j - ii)]

- (6) Match the following:

Group 'A'	Group 'B'
(a) General Organisation	(i) Important Decisions
(b) Organised Functions	(ii) Achieve High Performance

(c) Big Banks	(iii) Communication Gap
(d) Full-fledged Organisation	(iv) Old Concept
(e) Central Office	(v) Regulatory Function
(f) Decentralised Organisation	(vi) Small Banks
(g) Motivated Regional Managers	(vii) Technology Friendly
(h) Centralised Organisation	(viii) Self-development
(i) Motivated Managers	(ix) Training to Younger Managers
(j) IRDA	(x) Irrelevant Activities Removed
	(xi) Zonal Offices

[Ans.: (a – vi), (b – x), (c – xi), (d – vii), (e – i), (f – ix), (g – ii), (h – iv), (i – iii), (j – v)]

## Question Bank for Self-Practice

- (1) Explain the organisation structure of insurance companies. (Oct. 18)
- (2) Describe the organisation structure in Banking companies (any four). (Nov. 16)
- (3) Discuss the types of organisation structure followed by banks. (Nov. 17)
- (4) Briefly discuss the organisation structure of banking companies. (March 19)
- (5) How does functional organisation work in banking? Explain with the help of a chart.
- (6) How organisation structure of insurance companies are composed? (March 17)
- (7) Explain decentralised organisation. What are its advantages & limitations?
- (8) What is meant by regional organisation? State its advantages and limitations.
- (9) Distinguish between centralised and decentralised organisation in insurance companies.
- (10) Draw a diagram of decentralised organisation in a large insurance company and explain its operations.
- (11) **Write short notes on:**
  - (a) Functional Organisation. (b) Advantages of Centralised Organisation.
  - (c) Regional Organisation. (d) Full-fledged Organisation. (e) Advantages of Decentralisation of Authority. (Nov. 16) (f) Organization structure of insurance companies. (March 18)

## Chapter 7

# Business Leaders

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*In the world of business, the people who are most successful are those who are doing what they love.*

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— Warren Buffett

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*Introduction to and Classification of Business Leaders – Leaders in Indian Industry: (1) J. R. D. Tata, (2) Ratan Tata, (3) Aditya Birla, (4) Kumar Mangalam Birla, (5) Dhirubhai Ambani and Sons, (6) Kiran Mazumdar Shaw, (7) Verghese Kurien, (8) Chanda Kochhar, (9) Naina Lal Kidwai, (10) Azim Premji – Objective Questions with Answers – Question Bank for Self-practice.*

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### INTRODUCTION TO BUSINESS LEADERS:

In every country, there are different types of leaders such as political leaders, social leaders (reformers) and business leaders. Business leaders function in the business field which relates to manufacturing, marketing, banking, insurance and so on. Business leaders include **eminent industrialists** such as J. R. D. Tata, S. L. Kirloskar, Dhirubhai Ambani, Kumar Mangalam Birla and **service providers** like Azim Premji and Narayan Murthy. Leading industrialists not only build up their own industrial houses/industrial empires but also make positive contribution in the field of industrial growth, generation of employment opportunities, education, public health and social welfare. In this sense, they are the **creators of wealth and participants in the social welfare programmes and nation building activities**. Such industrialists are the leaders of the business world and are respected by all sections of the society for their positive role in the business growth as well as in the growth of national income, employment, exports and also in the promotion of social services like education, health and poverty eradication. Leadership is

about setting personal examples. It is inspiring people to achieve greater accomplishments. The practices and ideologies of successful leaders serve as examples to those who wish to assume their role.

Successful industrialists function in all countries. For example, Ford is a known family of industrialists in the USA. The position is similar in other countries including India. We have Tata family, Birla family and other families of industrialists. These families have made positive contribution in the growth of Indian industry and have brought forward new leaders of Indian industry. In India, we have stalwarts of India's corporate leadership.

In India, there are many industrial houses/business groups. In many cases, one leading personality establishes the industrial house and it develops into an industrial empire in due course by the next generations. The successful growth of such industrial houses is mainly due to the vision, leadership qualities, hard work and initiatives taken by the pioneering builders of the groups. Some industrial groups like Tata Group are functioning in India for nearly 140 years and have made excellent contribution in the economic/industrial development of the country. Tata, Birla, Kirloskar, Goenka, Walchand, Modis, Godrej, Bajaj and Ambani are the examples of some leading industrial groups/houses operating in India since long. Many business groups are started during the pre-independence period and made rapid progress during the planning period and more particularly after liberalisation, privatisation and globalisation. The present generation of Indian industrialists is highly educated, capable and ambitious. Many of them are specialised in engineering, information technology, software and services. Their contribution in diversifying industrial growth and in making Indian corporate sector globally competitive is extremely promising. Indian business leaders are taking full benefits of economic reforms and globalisation for their expansion as well as for making India strong, stable and emerging world global power. Indian business leaders are emerging from diversified sectors such as steel and infrastructure, finance and banking, housing, automobile, consumer goods, information technology, tourism and so on.



Industrialists normally, constitute the richest section of the society. This is the position in the USA, Japan and India. Some successful industrialists in India have secured positions among 100 richest individuals in the world. Within India, industrialists occupy high rankings among the richest people.

Many Indian industrialists are socially conscious. They accept and honour responsibilities towards different social groups. They spend a part of their profits for education, health and environment protection. Many companies have their own programmes for raising social welfare. They contribute liberally for such activities out of their annual gross profits. Under Indian companies Act, 2013 such expenditure on socially useful activities is made obligatory in the case of large and profitable companies.

Some socially conscious industrialists have established their trusts/foundations for the promotion of education, public health, social welfare, scientific and industrial research and so on. Tatas, as an industrial house, has taken lead in this regard.

In Western countries, many business leaders/industrialists have written their autobiographies. In addition, biographies of industrialists are published for the guidance of younger generations interested in business careers. In India, biographies of leading business leaders such as J. R. D. Tata and S. L. Kirloskar are available. In this chapter, brief life history of some eminent business leaders/industrialists is given for the information and guidance of students.

### **CLASSIFICATION OF BUSINESS LEADERS:**

Business leaders can be conveniently classified into the following three categories:

#### **(A) Leaders in Indian Industry:**

This category includes leaders/industrialists engaged in manufacturing and marketing industrial/consumer goods and services. Ratan Tata, Kumar Mangalam Birla and others are regarded as leaders in the Indian industry. Similarly, Mr. Azim Premji and Mr. Narayan Murthy are the leaders in the service sector as they provide IT services at the global level.

#### **(B) Leaders in Banking and Insurance Industry:**

This category of leaders are concerned with the promotion and expansion of banking and insurance services to individuals and

institutions. Uday Kotak, Deepak Parekh, Chanda Kochhar, K. V. Kamath and others are the leaders in the banking and insurance industry because of their special contribution in the field of banking and insurance.

### (C) International Leaders:

This category of leaders functions at the international/global level and provide the benefit of their services to many countries connected with concerned institutions. Such international leaders include President of World Bank, International Monetary Fund, Asian Development Bank and the Chairman of Federal Reserve System of USA. International financial institutions like IMF and World Bank provide financial assistance to developing and poor countries for meeting their urgent financial needs and also for financing development projects. India has received liberal financial assistance from IMF and World Bank. India has also made repayment of loans taken as per terms agreed.

### LEADERS IN INDIAN INDUSTRY:

#### (1) J. R. D. TATA

JRD Tata is known throughout the world as a leading Indian industrialist and a business leader of reputation. He belongs to Tata family which has made substantial contribution to India's industrial and economic development during the last 140 years.

At present, Tata group is concerned with production and marketing of steel, trucks, buses, heavy equipment, power generation and transmission, chemicals, soaps, detergents, cosmetics, tea, engineering goods, IT services, hotel management and consultancy services.

For a very long period, J. R. D. Tata was the leader of the Tata Group (Tata industrial empire) and the group made rapid progress under his able guidance, leadership and style of functioning and management. JRD was chairman of Tata Sons Ltd. for a long period (since 1938) with headquarters at Bombay House, 24, Homi Modi Street, Fort, Mumbai. He gave excellent and value based leadership to the entire group for 60 years.

Shri J. R. D. Tata (Jehangir Ratanji Dadabhoy Tata) was born on 29th July, 1904 at Paris.in France. His father Ratanji Dadabhoy

Tata was operating a trading company in France and had connections in East and West. JRD grew up in France and Mumbai.

JRD started his business career as an apprenticeship at TISCO in 1924. He was given suitable training as he was obviously being groomed to take over the management of entire Tata Group in the course of time. At the age of 34, JRD was voted chairman by the directors of Tata Sons. His first major decision after becoming chairman was to make the Tata Companies more autonomous, giving the senior Tata executives more authority to run their companies. This step was useful for democratic working of the whole group. He believed in organisational decentralisation.

His governance model was seen as a more decentralized one, giving considerable space to individual chairman of group companies to manage operations and implement their vision. He had appointed Russi Modi and Sumant Mulgaokar as chairman of two flagship companies – Tata Steel and Tata Motors.

JRD devoted all his time and energy for the Tata group after his appointment as the chairman of the group. Tata companies made rapid expansion and diversification under the leadership of JRD even when the overall business environment was not favourable for such growth. He was the first industrialist in India to set up a brain trust of talent to direct the operations and culture of the Tata Companies.

Many distinguish personalities such as Sir Ardeshir Dalal, Dr. John Metthai, Shri A. D. Shroff, Shri J. D. Choksi and Nani Palkhiwalla joined the Tata group and work on responsible positions for a long period because of the support and encouragement from J. R. D Tata. JRD gave special attention to human resource development and cordial labour-management relations in the Tata Group. Tata Steel, TCS, Tata Chemicals and Tata Tea are some of the well-managed companies of the Tata group and are stable, profitable and popular among the consumers and investors.

JRD Tata was at the centre of Tata Group for a very long period. JRD stepped down from the last chairmanship of a company - Tata Sons in March, 1991. When he took over as a

chairman of Tata Sons, the group had only fourteen companies. When he completed his half-a-century at the helm of Tatas on 26th July, 1988, there were ninety five enterprises which Tatas had either started or had a controlling interest in. JRD's passion for planes had given India an airline India could be proud of. He started **Tata Airlines in India** and later developed into Indian Airlines and Air India International. In 1953, Air India was nationalised and for the next four decades it remained the prized possession for India. Air India was loss-making organisation since 2007 with a burden of a huge debt. Finally the government sold the loss making company in January 2022. India's **Tata Group** took control of state-run carrier Air India on 27<sup>th</sup> January, 2022 regaining the ownership of the airline after nearly 70 years. It is a victory for Prime Minister Modi's privatisation push and also a victory for Tata Group of JRD Tata. It is important to note the progress of Tata Group under the leadership of JRD Tata. In fact, JRD had to function in an economic environment which was not favourable to business growth and expansion of private sector. Economic reforms, privatization etc., were not given any attention. He worked under controlled economy and not the free market economy as exists to-day. The business environment changed completely after 1991 and full benefit of such change was taken by Mr. Ratan Tata who took over the leadership of Tata Group from the hands of JRD. This proves that **JRD was an entrepreneur of rare virtue.**

**JRD Tata was a strong advocate of social responsibility concept. Social audit, business ethics, fair trade practices are some more concepts which he supported and also introduced in the Tata group of companies and made them popular in Indian business.**

**JRD Tata's contribution in the field of scientific research is extremely significant. He started the Indian Institute of Science at Bangalore and the Tata Institute of Fundamental Research in Mumbai. JRD was a lover of nature. Every institute of the "Tata" group is surrounded with beautiful gardens and trees. He valued art and culture and took initiative in starting a National Centre for Performing Art in Mumbai. In short, JRD was the humane industrialist. He was an institution builder also. The employees**

of Tata group are given various incentives and extensive welfare facilities. The credit of initiating all such progressive and employee-friendly activities in Tata group goes to J. R. D. Tata.

JRD Tata was honoured with country's top civilian award "*Bharat Ratna*" in 1992. It is an appreciation of unique qualities of Shri J. R. D. Tata which include **integrity, social responsibility and dedication to nation-building**. JRD Tata is the first and the only Indian industrialist and business leader who is awarded the highest civilian award by the Government of India so far. In 1992, JRD was also awarded **United Nations Population Award** for his contribution to the family planning movement in India much before it became an official government policy in India.

His contribution to Indian industry and business is appreciated at the national level through this award. JRD is one of the best-known Indians of our time. He is known as an industrialist, visionary as well as the philanthropist.

JRD had close personal friendship with many Indian national leaders including Rabindranath Tagore, Mahatma Gandhi, Motilal Nehru, Jawaharlal Nehru, Jayaprakash Narayan, C. Rajagopalachari, Sardar Patel and Indira Gandhi. JRD was extremely simple, decent and humane in his personal life.

JRD Tata passed away quietly in sleep in Geneva on 28th November, 1993 after brief illness. In his death, the country lost the greatest architect of Indian industry and one of the makers of modern India.

#### **CONTRIBUTION OF JRD TATA TO INDIAN INDUSTRY:**

JRD Tata remains as the undisputed doyen of Indian industry. He is widely respected for his contribution to the development of Indian industry as well as for the overall industrial and economic development of India. Apart from being a businessman per excellence, he was a **patron of modern science and technology**, research and modern industries like steel, automobile, aviation and communication. JRD managed his industrial empire efficiently over a long period. He also made Tata Group fully diversified and profitable and that too through fair means. He set good examples before others through his management practices and philosophy. He introduced many new concepts in the

industrial sector for the first time. Such concepts constitute his contribution to Indian industry.

The following points suggest JRD Tata's contribution to India/Indian Industry:

- (1) JRD was favourable to democratic working of an industrial unit/house. He was favourable to organisational decentralisation.
- (2) He gave encouragement to research and innovation at the industrial level for quality improvement, cost reduction and consumer satisfaction.
- (3) Encouragement for entry in new industrial areas as and when promising opportunities available through expansion and diversification. He brought Tata Group on the international map.
- (4) Special stress on managing human resource effectively and purposefully.
- (5) Quality improvement through research and innovation.
- (6) Collective leadership at company level and supportive work environment.
- (7) Stress in fair trade practices for consumer satisfaction, welfare and market goodwill.
- (8) Acceptance of social responsibility concept and using a part of total profit for social good or social welfare.
- (9) JRD Tata advocated corporate governance concept and social audit concept in Indian industry/business.
- (10) JRD Tata advocated human resource development through education, training, progressive personnel policies and liberal monetary and welfare facilities to employees.
- (11) JRD Tata took special interest in business and management education in India.

JRD Tata not only supported these concepts but also executed them in the companies/enterprises under his Tata Group. In addition, he made them successful in his group. As a result, he made them icons to other industrial units. This can be treated as his contribution to Indian industry. At present, large number of

companies have introduced these concepts in their normal functioning.

The following quotation suggests the business philosophy advocated and executed by JRD Tata in his companies of Tata Group.

*"No success or achievement in material terms is worthwhile unless it serves the needs or interests of the country and its people and is achieved by fair and honest means".*

## (2) RATAN TATA

The leadership of Tata Group was taken over by Mr. Ratan Tata from the hands of JRD Tata in 1991. He proved to be the best choice of JRD as Ratan Tata gave inspiring leadership to Tata group for a long period (1991-2012). JRD bequeathed on Ratan Tata 84 companies of Tata Group. The group claims to contribute 3% of the national GDP and annually pays out approximately 3.2% of total government revenues which comes from taxes.

Ratan Tata was born in Mumbai to **Soonoo and Naval Hormusji Tata** on December 28, 1937. He belongs to India's richest and most powerful business family. He has love and affection for his mother and grandmother and appreciates their positive role in his personal life.

Ratan Tata had his early education in Mumbai City. He graduated with a B.Sc. degree in architecture with structural engineering in 1962 from Cornell. He got formal invitation from JRD to join the Tatas and he accepted the invitation. His first assignment with Tatas was in 1962 at Jamshedpur. He returned to Mumbai after six years.

Ratan Tata was selected by JRD Tata to lead Tata Group after his retirement in 1991. His choice proved **most appropriate and beneficial to the rapid growth of the group after 1991.**

Ratan Tata was leading Tata Group from 1991-2012. During his tenure, he consolidated the Tata Group further and expanded rapidly. He took full benefits of economic reforms and privatization for the expansion and diversification of his group. Globalisation process proved favourable for the expansion of business of Tata Group abroad. Recently, the group made a string

acquisitions like Corus and Jaguar Land Rover under the leadership of Ratan Tata. He introduced an affordable family car (Nano) in India for the first time and made the project of Tata Motors popular in India. Tata Motors, now, launch a CNG version of the Nano in India and seek to enter foreign markets in South East Asia and the sub-continent with the small car. Nano has now entered in the foreign markets near India (Indonesia, Thailand, Myanmar and Bangladesh).

The Tata Group under Ratan Tata's leadership comprises over 100 operating companies in seven business sectors: Communication and information technology, engineering, materials, services, energy, consumer products and chemicals. In addition, Tata companies operate in financial services, watches, hotels, engineering goods, automobiles, air transport services and so on.

Tata Group has business operations in more than 80 countries across six continents and its companies export products and services to 85 countries. Tata companies employ over 4,25,000 people worldwide.

Tata companies are big players in their operational areas. Tata Steel (one company under Tata Group) is among the top ten steelmakers and Tata Motors is among the top five commercial vehicle manufactures in the world. Tata Consultancy Services (TCS) is the largest software company of Tata Group in India. Tata Global Beverages is the second largest player in tea in the world. Tata Chemicals is the world second largest manufacturer of soda ash and finally Tata Communications is one of the world's largest wholesale voice carriers. These are all leading companies under Tata Sons which is the holding company for the group's over 80 companies. Ratan Tata is currently the chairman of all flagship companies of Tata Group. Ratan Tata has introduced his own governance model which is different from the JRD model. Companies of Tata Group are showing exceptionally good performance under the able leadership of Ratan Tata. By showing good performance of companies under Tata Group, Ratan Tata is making positive contribution in the field of industrial growth, growth in exports, growth in national income





and in creating new employment opportunities in India. Mr. Ratan Tata managed the Tata Group efficiently because of his leadership qualities. His predecessor is JRD Tata and successor is Natarajan Chandrasherkar (2017-present).

Tata brand is gaining international recognition during Ratan Tata's tenure. Brand Finance, a UK-based consultancy firm, valued the Tata brand at \$15.75 billion in 2011 and ranked it 41st among the world's 100 most valuable brands.

In short, Mr. Ratan Tata has completely transformed the Tata Group in the last decade or so in the face of changing domestic and world economic scenario. He managed to draw stalwarts like Mr. R. Gopalkrishnan from Hindustan Lever, Mr. Kishor Chakaur from ICICI and Mr. Ravi Kant from Philips India. This is because of his vision, persuasiveness and dedication.

From the social responsibility angle, the role of Tata Council for Community Initiatives (TCCI) is important. TCCI undertakes projects in the fields of education, vocational training, community health and water management. On TCCI's contributions, Ratan Tata says "We are not doing this for propaganda or visibility. We are doing it for the satisfaction of knowing that we have really achieved and given something to the community in which we are working. We are doing it because we really wish to do it by choice. According to Ratan Tata, Tata industry must help the community in all possible ways. It is important to note that Tata Group utilises 4.5 per cent of net profits earned for philanthropic activities.

Tata Group collected many awards relating to Corporate Governance, Environmental pollution control, Productivity and Quality control.

**Important leadership achievements of Mr. Ratan Tata are:**

- (1) The novel idea of royalty payments by group companies to the Parent Company (Tata Sons) while using the brand name TATA was made possible under his leadership.
- (2) "INDICA" car is his brainchild and proves that we can match up to world standards and compete with the best brands. Mr. Ratan Tata has led other Indian Entrepreneurs to the gates of global fortunes.

**Ratan Tata** has now completed more than 75 years of his successful and extremely busy and active life. His contribution in the industrial sector as well as in other areas is well recognised in India and abroad. He is a successful business leader. At the age of 76, he has been actively encouraging Indian entrepreneurs. His leadership has capacity to guide future generations of Indian business community. In October, 2013 Shri Ratan Tata inducted into National Academy of Engineering (NAE) in the US for his outstanding contributions to industrial development in India.

Ratan Tata has decided to give up the chairmanship of Tata Group by December 2012. His position was taken by **Mr. Cyrus Mistry**.

Unfortunately, **Mr. Cyrus Mistry** was not successful in giving dynamic leadership to Tata Group. Recently, (2016) Mr. Mistry was removed from his position by the companies under Tata Group. There was a lot of public debate on the issue for some months. The whole issue is, now, solved peacefully by following suitable legal provisions. Mr. Ratan Tata now occupies the position of Chairman Emeritus, Tata Sons and Tata Group. **Mr. Natarajan Chandrasekharan** (of TCS) took over as Tata Sons Chairman in February, 2017. The group is, now, recovering from a bruising battle with ex-chairman Cyrus Mistry and also making rapid progress in its manufacturing and marketing activities.

Mr. N. Chandrasekharan completed five years as chairman of Tata Sons Ltd. in February, 2019, capping a period in which he stabilised the group after the messy ouster of former chairman Cyrus Mistry. Mr. Chandrasekharan has freedom to create a new architecture for the group. **He has to bring rapid expansion and growth of the group** through his well-planned, visionary and innovative approach, policies and programmes.

Mr. Ratan Tata has many honours and rewards to his credit. The following honours are worth noting:

- (1) Mr. Ratan Tata was awarded **Padma Bhushan** in the year 2000.
- (2) In 2006, he was awarded Maharashtra Bhushan by the Government of Maharashtra.
- (3) Mr. Ratan Tata was awarded Padma Vibhushan by the Government of India in 2008.

- (4) Assam State Government conferred the state's highest civilian award (Assam Baibhav) to eminent industrialist and Tata Trust's Chairman Mr. Ratan Tata. The award was conferred on Mr Tata for his exceptional contribution towards furthering cancer care in Assam.
- (5) in May of 2014, Mr. Ratan Tata also became the first Indian to be awarded the Knight Grand Cross of the Order of the British Empire (GBE) since India became a Republic in 1950.

Ratan Tata has not married. He prefers simple life style with walks on the beach to cocktails at the Taj. Without a family and children, what motivates him to work so hard in the business world? His answer is "I don't have a monetary ownership in the company in which I work and I am not given to propagating the position I am in. I ask myself why I am doing this and I think, it is perhaps the challenge. If I had an ideological choice, I would probably want to do something more for the uplift of the people of India. I have a strong desire not to make money but to see happiness created in a place where there isn't."

When he retired at the end of the year 2012, Tata Sons Chairman Ratan Tata would have two major regrets. First, not being able to make his salt-to-software conglomerate a flatter and more transparent organisation; and second, not being able to fully react to customer needs. He, however, hoped he would be able to pass on the legacy of successfully moving ahead without compromising on the value system and ethics.

After retiring from company's top post, Ratan Tata would spend time on philanthropic activities. "I am going to continue as chairman of the foundation. I will focus on rural development, conservation of water, and my most visible goal is to do something in the field of nutrition for children and pregnant mothers in India, because that would change the mental and physical health of our population in the years to come" he said.

(Exclusive interview given by Ratan Tata to *Bloomberg's* global TV network).

Reference: Business Standard 10th July, 2012.

#### Leadership Qualities of Ratan Tata:

- (1) Sharp, attractive and impressive physical features with high level of intelligence.

- (2) Deep thinker.
- (3) Decisive and dependable in any situation-favourable and unfavourable.
- (4) Risk taker but not gambler.
- (5) Rational decision-maker on critical issues and good business communicator.
- (6) Tremendous motivator.
- (7) Good human relations and believer in keeping promises.
- (8) High self-confidence and confidence builder.
- (9) Strong belief in high moral and ethical values – hallmark of Tata Group.

### (3) ADITYA VIKRAM BIRLA

Birla family is a famous family of businessmen doing growing business over years. This includes manufacturing and marketing. Rameshwar das Birla, Ghanshyam das Birla, Basant Kumar Birla, Aditya Birla are known business leaders in India. Birla family is in business since the pre-independence period. It is one of the largest business families in India.

Aditya Vikram Birla was born on 14th November, 1943 in Kolkata (West Bengal) to industrialist Basant Kumar and Sarla Birla. After college education in Kolkata, Aditya Birla secured a degree in chemical engineering at the well-known Massachusetts Institute of Technology. He returned India after his education in 1965 and started taking interest in the family business.

Aditya Birla introduced diversification of his Aditya Birla group into textiles, petrochemicals and telecommunications. He was one of the first Indian industrialists to expand abroad by setting up plants in South East Asia, Philippines and Egypt.

Aditya Birla was the chairman of the \$2.3 billion Birla Group. He was advocating the expansion of Indian business activity during the period when economic reforms, liberalisation and globalisation terms were not used in India. Initially, in 1965 he set right the group's sinking rayon and textile business back on track. Thereafter, he was placed in charge of the group expansion into the oil sector. However, the business environment in India was not favourable to the growth of private sector. As a result, he

decided to expand his business operations abroad. He was widely regarded as one of the India's most successful businessmen.

In 1969, Aditya Birla set up Indo-Thai Synthetics Company Ltd. the group's first overseas company. This was followed by similar ventures in Indonesia, Thailand, Philippines, and so on. All such ventures put the Birla group on world map. Between 1970 and 1980, Birla promoted ten companies in South East Asia with aggregate sales of \$ 100 million.

In 1983, Ghanshyam Das Birla (who was associated with Mahatma Gandhi) died and most of his companies were handed over to his grandson Aditya Birla. Thereafter, the Birla group made rapid progress and expansion under the chairmanship of Aditya Vikram Birla. He introduced expansion plan of Hindustan Gas and turned the sick Indo-Gulf Fertilisers and Chemicals which was facing a liquidity crisis into a blue-chip company.

Aditya Birla had a busy life and was giving all his attention to the functioning of companies under Birla group. In the Birla clan, Aditya Birla is considered to be most enlightened and progressive businessman.

Aditya Birla was married to Rajashri and had a daughter Vasavdatta and a son Kumar Mangalam who now heads the Aditya Birla Group.

In 1993, Aditya Birla was diagnosed with prostate cancer. He was admitted to the Johns Hopkins Hospital in Baltimore for treatment. After four months of struggle, he died in the hospital on 1 October, 1995. He died at the early age of 51. He was widely regarded as one of India's most successful businessmen. His untimely death at the age of 51 left his young son in charge of his group of companies. Fortunately, his son Kumar Mangalam Birla is managing his father's business in an efficient manner.

#### (4) KUMAR MANGALAM BIRLA

Kumar Mangalam Birla is the fourth generation representative of Birla family/business group. He took over as Chairman of Aditya Birla Group in 1995 (at the young age of 28 years) after sad and sudden death of his father and known industrialist Aditya Birla after whom the group is named. Mr. K. M. Birla has displayed tremendous courage and unassailable leadership

qualities after taking over the business of Aditya Birla at the young age. He gave able leadership to his group (since 1995) with varied interest in textiles, cement, copper, viscose staple fibre rayon, readymade garments, fertilizers, aluminium, and so on. Under the leadership of Kumar Mangalam Birla, the group has expanded into Telecom, BPO and Software and also consolidated its position in the existing business.

Born on 14th June, 1967, Mr. K. M. Birla spent his childhood in Kolkata and Mumbai. He took B.Com. degree from Mumbai University and has MBA degree from the London Business School. He has several honorary doctorate degrees. He also acts as the Chancellor of the Birla Institute of Technology and Science. Mr. K. M. Birla is a chartered accountant by profession. He is married to Neerja Birla and have three children.

Mr. Kumar Mangalam Birla is the **Chairman of the Aditya Birla Group**, one of the largest conglomerate corporations in India. It is the third largest business group in India. The turnover of the group was only \$2 billion in 1995 when he took the Chairmanship of the group in 1995. At present, the turnover of the group is \$33 billion. The overseas operations of the group in Egypt, Thailand and Indonesia were accounted for a very small portion of the overall business of the group. Under KM Birla's leadership, the group expanded overseas operations to more than 40 countries including Dubai, Australia, North America, Canada, Brazil, Germany, Italy, China and so on. 60% of the group's turnover/revenues, now, come from abroad. The group has provided employment to 1,30,000 people (from India and abroad) for the conduct of business operations. He has also started **institute of management learning** in New Mumbai for training and development activities of the group. The group has many **milestone achievements** to its credit during the chairmanship of K. M. Birla. The achievements relate to growth in business, profits, customers base, return on investment (ROI), global expansion and so on. The group has seen impressive growth through both organic and inorganic routes. Mr. K. M. Birla has successfully created a world-class organisation.

His important achievement is in adopting a far-reaching retirement policy in the year 1990. He could successfully retire

325 senior executives between the ages of 60 and 65 and replaced them by 190 managers who were in the age bracket of 45-50. He took even bold steps to recruit some of the seniors from Indian as well as foreign Multinationals for transformation of the entire group. He also established **Birla Management Corporation (BMC)** which is the central strategic and decision-making body and acts as a central resource to the whole Birla Group.

Few details noted above speak about the leadership qualities of K. M. Birla and the progress of Aditya Birla Group under his chairmanship. He has shown tremendous courage and rare leadership qualities while leading the group. His business strategies proved beneficial to Aditya Birla Group. He introduced rare and visible change in Aditya Birla group after decades of conservatism. He is rightly regarded as a great visualiser of 21st Century challenges.

Mr. K. M. Birla was awarded "**Businessman of the year**" in The Economic Times Awards for Corporate Excellence 2003. He is also given **Rajiv Gandhi Award for Business Excellence**. Aditya Birla Group won the "**Corporate Citizen Award**" from The Economic Times Awards for Corporate Excellence - 2002.

Mr. K. M. Birla has many personal qualities useful in the case of every top executive. He is humble and polite. He has respect for the dignity of others. He is a caring person. He is highly ethical and a man of integrity and honesty. **There is considerable delegation and empowerment in his group.** The qualities noted above have given Mr. K. M. Birla credibility in the eyes of his employees and managers. He is rightly viewed as **role model** by them. Kumar Mangalam Birla accepts and supports the "**Trusteeship**" concept. His group provides educational and medical facilities to weaker sections of the society spread over hundreds of villages in India, Thailand, Indonesia, etc.

#### **(5) DHIRUBHAI HIRACHAND AMBANI & SONS**

**Shri Dhirubhai Ambani** is an industrialist of the post-independence period. He was the head of **Reliance Group of Industries** which made rapid progress after 1966.

The group conducts manufacturing activities in polyester filament yarn, synthetic textiles and petrochemicals. The group

has manufacturing units at Patalganga (Maharashtra), Naroda (Gujarat), Jamnagar (Gujarat) and in other parts of the country. The credit of rapid expansion of the group goes entirely to Dhirubhai Ambani with his vision, hard work and practical approach. His life has often been referred to as a true "rags to riches" story. He is rightly regarded as an outstanding industrialist of our country.

Born on 28th December, 1932 (at village Chorwad in Saurashtra, Gujarat State) Shri Dhirubhai is a son of a school teacher and took limited education (matriculation examination) due to family problem even when he wanted to study for a bachelor's degree.

At the age of sixteen, Ambani left India for a job in a French owned, Indian operated export-import firm in Aden. After learning the tricks of trading for eight years, he returned to India in 1958 with determination to start his own business in Mumbai area.

He set up his own trading firm (**Reliance Commercial Corporation**) which traded in profitable commodities such as nylon, rayon, cashews and pepper. After eight years of successful trading activities, Ambani decided to start manufacturing of synthetic fabrics himself. In February, 1966 he established a textile mill in Naroda, near Ahmedabad (Gujarat). He founded **Reliance Industries** in 1966. The company, now, is a large business organisation employing more than 85,000 people/employees and provides almost 5% of the Central Government's total tax revenue.

In 1977, Reliance Textile went public and thereafter there was rapid growth of the company under the leadership of Mr. Ambani. The healthy profit of the organisation was mainly due to Ambani's ability to move into a situation quickly, reap initial benefits and move on to greener fields before his competitors can call a board meeting. His basic philosophy was "Think big, think fast, and think ahead. Ideas are no one's monopoly". The expansion programmes of Reliance Textile at Naroda are extremely successful because of this practical approach.



In 1984, Ambani announced plans for expansion into chemicals and other high technology sectors. These plans were executed in a successful manner. The group took all available benefits of government policies for the expansion and diversification of the activities of the group. Shri Ambani developed his synthetic textile empire in less than two decades.

The success of Ambani group in the industrial field was due to certain special features of style of functioning of Mr. Dhirubhai Ambani. For example, he gave constant attention to Reliance's plant and equipment. He also gave special attention to modernise his men who operate the machines. For this, manpower development programmes were introduced.

Secondly, Dhirubhai introduced substantial delegation of authority to his managers. He also kept his managers alert, breathless, moving and always pressed for time.

Thirdly, employees were offered satisfying working conditions, attractive wages, liberal welfare facilities and other incentives. This liberal treatment to employees has made substantial contribution in the growth and prosperity of Ambani group.

Fourthly, Dhirubhai Ambani kept close watch on the marketing operations of Reliance.

Finally, the employees and managers of Reliance Group are also shareholders of the group. This has created cordial labour management relations and co-ownership in the group. It may be noted, here, that Dhirubhai started the equity cult in India. More than 58,000 investors from various parts of the country subscribed to Reliance's IPO (Initial Public Offer) in 1977. Reliance Industries was the first private sector Indian company whose AGMs were held in stadiums.

Reliance's motto is "Where growth is a way of life". This motto also suggests the basic business philosophy of Mr. Dhirubhai Ambani. He is using latest technological, marketing and financial tools in order to face internal and international competition effectively. Ambani's net worth was estimated at about 1 billion by early 1980s. Recently, the Reliance Petroleum Limited (RPL) is merged with the parent Reliance

Industries. With this merger, India's largest corporate entity is created. The aim is to create a global enterprise. Ambani is pursuing an agenda of growth is life.

Mr. Dhirubhai Ambani is the first Indian to receive the Dean's Medal from Wharton School. While conferring the medal on Mr. Ambani, Wharton School dean Thomas Gerrity said "Mr. Ambani has successfully brought four million shareholders into the Reliance Group and created wealth and value for them "in a way no other Indian businessman had ever done before". According to Mr. Ambani, "This medal is a recognition that an Indian can also do it. The Indians are not afraid of competition. That heavy odds do not deter them. It proclaims to the world that Indians are achievers." In 1985, after an heart attack, Dhirubhai Ambani handed over the Reliance Group/empire to his sons Mukesh and Anil. After his death in July 2002, the group was split into Reliance Industries Limited, headed by Mukesh Ambani and Reliance Anil Dhirubhai Ambani Group (Reliance ADAG), headed by Anil Ambani.

Mr. Dhirubhai Ambani secured "Lifetime Achievement Award" in the Economic Times Awards for Corporate Excellence-2001. While paying tributes to Dhirubhai Ambani, Ex-Prime Minister Mr. Atal Bihari Vajpayee had remarked "In Ambani's passing away, our country has lost an iconic proof of what an ordinary Indian fired by the spirit of enterprise and driven by determination, can achieve in his own lifetime".

#### **MUKESH DHIRUBHAI AMBANI:**

Mukesh Dhirubhai Ambani is an Indian business magnate who is at present the Chairman and Managing Director of the Indian conglomerate Reliance Industries Ltd. (RIL), the foremost company of the Indian energy and materials conglomerate Reliance Group.

Mukesh Ambani was born on 12th April, 1957 in a Colony of Aden, Yemen. He completed his graduation with a bachelor's degree in Chemical Engineering from the UDCT, Mumbai, (now Institute of Chemical Technology). He has been conferred the "Degree of Doctor of Science Honoris Causa" by M. S. University, Baroda, Gujarat.

Mukesh Ambani joined Reliance Industries in 1981. He initiated Reliance's backward integration journey from textiles into polyester fibres and further into petrochemicals, petroleum refining and oil and gas exploration and production. Ambani set up one of the largest information and communications technology initiatives in the world in the form of Reliance Infocomm Ltd. (now Reliance Communications Ltd.). Ambani directed and led the creation of the world's largest grassroots petroleum refinery at Jamnagar (Gujarat), with a current capacity of 6,60,000 barrels per day integrated with petrochemicals, power generation, port and related infrastructure.

Mukesh Ambani has many awards to his credit. He was awarded "Businessman of the year" in 2010 by Financial Chronicle. He was also awarded "Business Leader of the Year" in 2010 by NDTV India. He has Board Membership of many organisations. He is guiding and directing the activities of Reliance Industries Ltd. in his capacity as the Chairman and Managing Director of RIL.

Mukesh Ambani belongs to the richest business family in India. He is the second richest man in Asia and the 19th richest person in the world in 2012. He is also the richest sports owner in the world.

#### **ANIL DHIRUBHAI AMBANI:**

Anil Dhirubhai Ambani is an Indian business magnate. He is the Chairman of Anil Dhirubhai Ambani Group, one of the largest private conglomerates. The Ambani family is the richest family in India, their wealth inherited from Dhirubhai Ambani, founder of largest Indian conglomerate Reliance Group. There was a demerger of this large group in July, 2006.

Anil Ambani was born on 4th June, 1959. He is B.Sc. from Mumbai University and MBA from the Wharton School, University of Pennsylvania in 1983.

Anil Ambani joined Reliance Industries, the company founded by his late father Dhirubhai Ambani in 1983 as Co-Chief Executive Officer and is credited with having pioneered many financial innovations in the Indian capital markets. He along with his brother, Mukesh Ambani, has steered the Reliance Group to its

current status as India's leading textiles, petroleum, petrochemicals, power and telecom company.

At present, he looks after the business of his Anil Dhirubhai Ambani Group which is functioning in Indian business sector.

Anil Ambani is a member of the Board of Overseas at the Wharton School of the University of Pennsylvania. He is also the member of the Board of Governors of the Indian Institute of Technology, Kanpur and Indian Institute of Management, Ahmedabad.

Anil Ambani was voted **Businessman of the year 2006** by Times of India – TNS Poll.

Currently, **Anil Ambani is facing serious problems relating to his business group.** Recently, he proved guilty of contempt in Ericsson case and was saved from a jail term of three months because of substantial financial assistance from his brother Mukesh Ambani. Anil Ambani is fighting for the survival of his group but positive signals are not visible for the present.

In short, Anil Ambani is facing financial and other problems which need his urgent attention. The survival of his group is in danger and he has to use his skills and business contacts for his survival, stability and growth.

### (6) KIRAN MAZUMDAR SHAW

This is a story of **woman scientist and research scholar** and her entry in the business field for manufacturing and marketing/exporting enzymes. She was successful in promoting a **biotech company** inspite of financial and other problems. Kiran Mazumdar Shaw as a business leader is different from other business leaders that we are studying in this chapter. She is basically a **research scholar** and also manages her business of manufacturing and marketing enzymes.

Bangalore/Bengaluru based Kiran Mazumdar Shaw is the **Chairperson and MD of Biocon Ltd.**, a biotechnology company operating from Bangalore.

Kiran Mazumdar Shaw was born on March 23, 1953 in Bangalore. After completing her schooling, she took her B.Sc. Honours (Zoology) from Bangalore University in 1975. Thereafter,

she did her post-graduation from Melbourne University in 1975. Initially, she worked as trainee brewer in United Breweries and as technical consultant at Kolkata and as a technical manager at Baroda.

She started Biocon in 1978 as an industrial enzymes manufacturing company and developed it as a fully integrated bio-pharmaceutical company with a well balanced portfolio of products and a research focus on diabetes, oncology and auto-immune diseases. She also started two subsidiaries: Syngene (1994) and Clinigene (2000) to cater to clinical development services. Within a year of its inception, Biocon became the first Indian company to manufacture and export enzymes to USA and Europe. In 1989, Biocon became the first Indian biotech company to receive US funding for proprietary technologies. In 1990, she upgraded Biocon's in-house research programme.

In 2004, she decided to access the capital markets to develop Biocon's pipeline of research programmes. Biocon's IPO was oversubscribed 32 times. She entered into more than 2,200 high-value R&D licensing and other deals with the pharmaceuticals and bio-pharmaceuticals space between 2005 and 2010 and helped Biocon expand its global footprint to emerging and developed markets through acquisitions, partnerships and in-licensing. Her belief that healthcare needs can only be met with affordable innovation has been the driving philosophy that has helped Biocon to manufacture and market drugs cost effectively.

In 2007-08, a leading US trade publication, Med Ad News, ranked Biocon as the 20th leading biotechnology companies in the world and the 7th largest biotech employer in the world. Biocon received many awards in appreciation of the research activities. It has Asia's largest insulin and statin facilities. By developing Biocon as world's top twenty biotech companies, Kiran Mazumdar Shaw is proving to the world that high quality pharma products can be manufactured in India, in an organization headed by a woman. She developed her business after facing many problems and hostile business environment in India. She also brought successful business expansion since 1994 when she started two subsidiaries - (a) Syngene and (b) Clinigene.

In 2004, Kiran Mazumdar Shaw started the Biocon Foundation to conduct health, education, sanitary and environmental programmes for the benefit of the economically weaker sections of society. She helped in starting a 1,400 bed cancer care centre at the Narayana Health City campus. This suggests her interest in philanthropic activities along with research, manufacturing and marketing. By the end of 2017, her company secured **first-ever approval of biosimilar drug to treat breast cancer in the US.**

Kiran Mazumdar Shaw is the recipient of several prestigious academic and business awards for her services and contributions. She received an **honorary Doctorate of Science in 2004**, from her alma mater, Ballarat University, in recognition of her contributions to biotechnology. In addition, she was awarded the Economic Times "**Buinesswoman of the year**" (2004) and "**Technology Pioneer**" recognition by World Economic Forum. She was honoured with **Lifetime Achievement Award** by Indian Chamber of Commerce. She was also awarded "**Padma Shri**" in 1989 and "**Padma Bhushan**" in 2005. She is awarded honorary doctorates by many universities including the University of Glasgow (2008). She is a member of the Board of Governors of the prestigious **Indian School of Business** and **Indian Institute of Technology, Hyderabad.**

### (7) VERGHESE KURIEN

**Dr. Vergheese Kurien**, is the Founder Chairman of the National Dairy Development Board (NDDB) and also the Founder Chairman of Gujarat Co-operative Milk Marketing Federation, (GCMMF) popularly known as "**Amul**". He is a businessman par excellence but his achievements go far beyond the realm of business. He is an excellent businessman, a highly successful Chief Executive, an institution builder, a social reformer and a **socio-economic revolutionary.**

Vergheese Kurien was born on 26 November, 1921 in a Syrian Christian family at Kozhikode, Kerala. He graduated in Physics from Madras in 1940 and then did his B.E. (Mech). He went to USA and earn his Master of Science in Metallurgical Engineering from Michigan State University.

Starting out as the general manager of milk co-operative in remote Kaira district, (Gujarat) Verghese Kurien metamorphosed into being the father of India's "white revolution". Throughout, Kurien's mantra was simple: put power in the hands of people. He demonstrated it through promoting the cooperative concept, where small producers got together to process and market their products.

Kurien used the surplus from selling milk powder as aid to build a network of cooperatives in Gujarat and neighbouring Maharashtra. He was the architect of Operation Flood that took the milk revolution to thousands of villages and benefits more than 10 million rural families. It is the largest dairy development programme in the world.

If India is the world's largest producer of milk, and Amul a household name, Kurien deserves most of the credit. But his real contribution is in empowering the masses and initiating the constructive social change in rural areas.

AMUL made rapid and significant progress as well as diversification in the activities under the leadership of Dr. Kurien.

He is recognised as a man behind the success of Amul brand. Kurien set up GCMMF in 1973 to sell the products produced by the dairies. At present, GCMMF sells AMUL brand products not only in India but also overseas.

The sales of AMUL now exceed Rs. 3,000 crore. AMUL is, now, marketing milk as well as other dairy products. All such products are of standard quality and are extremely popular among the masses all over India. Dr. Kurien started exporting milk products abroad. Kurien and his team were pioneers in inventing the process of making milk powder and condensed milk from buffalo's milk instead of cow's milk. This was the reason Amul became so successful and competed well against NESTLE who only used cow milk to make powder and condensed milk. In India, buffalo milk was the main raw material unlike Europe where cow milk is abundant.

Dr. Kurien's life is in itself a book that one could learn from. He is not like other industrialists who have established their industrial empires. He gave new life and happiness to millions of

people from rural areas who were without jobs and incomes. He was instrumental for such revolutionary social change and this is his unique achievement. According to Dr. Kurien, *"the richness of life comes, not from a fat pay slip, but from placing one's talents at the service of those who genuinely need them"*.

Dr. Kurien's Amul is not purely a business enterprise producing and selling butter, cheese, milk powder, etc. It is, first and foremost, a co-operative movement. Dr. Kurien has given social importance to this movement. In this sense, he is a **businessman-philosopher**.

With an annual milk production of over 70 million tonnes, India has displaced the US to become the world's **number one milk producer**. The credit goes mainly to one person Dr. Kurien and his vision, skills, managerial abilities and many other qualities. He engineered the **White Revolution** in India and made India the largest milk producer in the world.

According to Dr. Raghunath Mashelker, Director General of the Council of Scientific and Industrial Research *"Amongst the management leaders in India, Kurien is not only an icon, he is a miracle"*.

It is very unfortunate that Mr. Kurien quit the post of GCMMF Chairman in 2006, because of disagreements with GCMMF management. He worked as the founder of Gujarat Co-operative Milk Marketing Federation (GCMMF). He made it successful in all respects through his maturity, skills, vision and hard work over years. Long back, India's first Prime Minister Jawaharlal Nehru visited Anand to inaugurate AMUL "factory". He embraced Kurien for his ground-breaking work. His life story is chronicled in his memoirs *"I too had a dream"*.

Dr. Kurien received **tremendous national and international recognition**. The government of India conferred on him the **Padma Vibhushan** honour in 1999. He is also the recipient of the **Krishi Ratna**, the **Raman Magsaysay** award in 1963 for community leadership and the **Lifetime Achievement Award** by CNN-IBN. He was given **Doctor of Science** by Michigan State University (USA) and also by many Indian Universities. He has many more awards to his credit. In addition to such awards, he



has been a celebrity in business and industry circles. His achievements in dairying alone are adequate to prove his personal and leadership qualities. His life is a study as to how business can start a social revolution. Mr Kurien was mentioned by the Ashoka Foundation as one of the eminent Present Day Social Entrepreneurs.

Founder promoter of Amul Dairy and the Father of India's white Revolution, Dr. Verghese Kurien expired on 9th September, 2012 at the age of 90. His biggest contribution is that he made India the biggest milk producer in the world. His contribution in the field of agriculture, rural development and co-operative movement is equally worth noting. At the demise of Dr. Kurien, Rahul Bajaj, Chairman, Bajaj Auto aptly observed "He was an exemplar. His success underlines the great management acumen he had. As a nation, we need to follow him and his ways and try to become the largest producer of other agri produce."

### (8) CHANDA KOCHHAR

Chanda Kochhar is a known name in the Indian banking and financial sector. Her contribution in the growth and expansion of ICICI Bank is well recognised. She is rightly treated as an influential personality in the private banking sector. She is widely recognised for her role in shaping retail banking in India. She is known for her leadership of the ICICI Group.

Chanda Kochhar is currently acting as the Managing Director (MD) of ICICI Bank and also its Chief Executive Officer (CEO). ICICI Bank is India's largest private sector bank and second largest bank in the country. She occupies influential positions in the policy making and decision-making process of the Bank. However, she had to step down from her position following allegations of corruption, etc. on 4th October, 2018. Finally, her services are terminated by the ICICI Bank in 2018.

Chanda Kochhar was born in Jodhpur (Rajasthan) on November 17, 1961. She acquired Bachelor of Arts degree from Mumbai University and then pursued Cost Accountancy (ICWAI). She also acquired the Master's Degree in Management Studies from Bajaj Institute of Management Studies, Mumbai. Her career in banking and finance started in 1984.

In 1984, Chanda Kochhar joined "The Industrial Credit and Investment Corporation of India Ltd." (ICICI Ltd.) as a Management Trainee. In the initial period, she handled project appraisal and monitoring of projects from various industries such as textile, paper, cement and petrochemicals. In 1993, she was sent to ICICI Bank as a part of a core team to set the bank. This was the beginning of her association with the ICICI Bank. She was promoted to Assistant General Manager in 1994 and then to Dy. General Manager in 1996. She also headed the newly formed Infrastructure Industry Group of ICICI. In 1998, she was promoted as the General Manager and headed ICICI's "Major Client Group" which handled relationships with ICICI's top 200 clients. In 1999, she also handled the Strategy and E-commerce divisions of ICICI Bank. Under her leadership, ICICI Bank started the Retail banking business in July 2000 and thereafter emerged as the largest retail finance in India. In April 2001, Kochhar took over as Executive Director, heading the ICICI Bank. Her contribution in the development of the Bank is very significant. The Bank made rapid progress in different directions thereafter.

Since May 2009, Kochhar was CEO and MD of ICICI Bank for a period of five years.

On 4th October, 2018 Chanda Kochhar stepped down from her position following allegations of corruption. Mr. Sandeep Bakshi was, appointed as chief operating officer of ICICI Bank in her place.

On January 25, 2019, the CBI booked Chanda Kochhar on charges of criminal conspiracy, cheating and abuse of official position for dishonestly sanctioning loans to **Videocon Group**. She is accused in the CBI FIR of allegedly receiving illegal gratification through her husband Deepak Kochhar from Videocon MD, V. N. Dhoot for sanctioning a term loan of Rs. 300 crores to Videocon International Electronics.

ED has also registered a criminal case against Chanda Kochhar.

An investigation led by retired Supreme Court Judge B. N. Srikrishna into alleged quid pro quo in ICICI Bank Ltd.'s loan to Videocon Group found that former M. D. and Chief Executive

Officer Chanda Kochhar violated the lender's code of conduct. These findings prompted the Bank to treat Kochhar's resignation as a termination. After the Bank issued a statement of her termination, she (Chanda Kochhar) said she was "utterly disappointed, hurt and shocked" by the decision.

In spite of long and successful banking career, she will have to fight a long legal battle to prove her innocence. This may prove to be too costly, too lengthy and too humiliating.

### (9) NAINA LAL KIDWAI

Like Chanda Kochhar, Naina Lal Kidwai is banker by occupation and has long career in the banking sector since 1982. She is scholar, professional and non-executive director of reputed organisations. She is an Indian banker and business executive.

At present Naina Kidwai is employed in HSBC as the Group General Manager and Country Head of HSBC India. Born in 1957, she had her early education in Delhi. She is a chartered accountant by profession. She also has MBA from Harvard Business School. She is the first Indian woman to graduate from Harvard Business School.

Initially i.e. from 1982-1994, she worked at ANZ Grindlay's, where her assignments included Head of the Investment Bank, Head of Global NRI Services and Head of the Western India, Retail Bank. Currently, she is the Group General Manager and Country Head of HSBC India. She has long experience of banking operations.

In addition to banking assignments, she occupies the position of non-executive director on the board of Nestle SA and Global Advisor, Harvard Business School. She is on the Governing Board of NCAER and on the National Executive Committee of CII and FICCI. She supports the world's largest youth driven organisation - AIESEC as a National Advisory Board Member to AIESEC India. She takes special interest in microfinance and livelihood creation for rural women.

Naina Kidwai has repeatedly ranked in the Fortune Global List of Top Women in Business. In December 2012, Naina Lal Kidwai becomes the first woman president of FICCI.

**(10) AZIM PREMJI**

Many distinguished personalities are associated with India's information technology industry and the leading name in this sector is that of **Azim Premji, Chairman of Wipro**. He was born in an industrialist's family on 24th July, 1945 and inherited Wipro from his father. He had to take over his father's business at the early age when he was barely 20 years old and studying electrical engineering at Stanford University in the USA. This was because of untimely death of his father at his age of 51 (in 1966).

When Azim Premji took over the **Western India Vegetable Products Limited** in 1966 (later the name changed to Wipro) it was a small company with Rs. 4 crore in sales. To-day, Wipro is a large and leading company in the field of information technology.

As a chairman of Wipro Limited, Azim Premji is guiding the company through four decades of diversification and growth to emerge as one of the Indian leader in the software industry. Premji owns 79 per cent of Wipro and also owns a private equity fund, Premji Invest, which manages his \$1 billion personal portfolio. Under Premji's leadership, Wipro embarked on an ambitious phase of expansion and diversification. In 1980s, Wipro entered in the IT sector, taking advantage of exit of IBM from Indian market in 1975.

Wipro started manufacturing computer hardware, software development and related items. As a result, the company grew within few decades to over \$6 billion. The company's IT division became the world's first to win the latest in quality standards. A major proportion of company's revenue are generated by the IT division. Wipro works with leading Fortune 500 companies. Wipro has a joint venture in medical systems with General Electric Company.

In short, Mr. Azim Premji transformed a vegetable oil and soap manufacturing company into a **powerhouse of software and hardware development**. As a known service provider, Mr. Azim Premji has made positive contribution to Indian IT sector. He is rightly known as the **Czar of the Indian IT Industry**. WIPRO has more than 1,60,000 highly skilled employees and 1,200 clients in industries ranging from aerospace to retail.

According to **Forbes**, Premji is currently the third wealthiest Indian and the 41st richest in the world with a personal wealth of \$15.9 billion in 2012. However, his personal life is extremely simple with perfect discipline and respect for middle-class values. There is an air of informality in the Wipro offices where every person is equally important. Wipro believes in the dignity of labour. Wipro places enormous faith in "efficiency" and "Value for money". He is for making his company globally competitive which is a must in the present world. He thoroughly understood and practised "customer focus" much before it became the popular jargon in management seminars.

**Azim Premji supports the concept of social responsibility.** He is a known philanthropist. One of his recent initiatives has been the **Azim Premji Foundation** that he established with the overall objective of achieving universalisation of elementary education in India. He launched a joint project with the Karnataka government – **Azim Premji Foundation Programme** recently to bring back to school two lakh students who had dropped out, by June 2003. He has helped several educational institutions in India for their developmental activities.

In December 2010, Premji pleaded to donate \$2 billion for improving school education in India. This donation is the largest of its kind in India. The **Azim Premji University** was established under the Act of the Karnataka Legislative Assembly to run programmes to develop education and development of professionals. All this indicates that Azim Premji is extremely liberal in providing funds for education and other social activities.

In March, 2019, Azim Premji, India's second richest man, gave away 34% of his shares in Wipro Ltd. to charitable causes, confirming his status as the most philanthropic Indian.

The share given away by Premji – a man known for his frugal ways – are valued at about \$7.5 billion (₹52,750 crore).

With the latest contribution, the total value of funds committed by the billionaire to Azim Premji Foundation's philanthropic activities stands at ₹1.45 lakh crore (\$21 billion).

One of the world's richest men, Premji still flies economy class, and avoids expensive cars and ostentatious displays of wealth.

The Premji Foundation works to improve access to primary education in India, including most disadvantaged parts. Premji's philanthropic initiatives also help in improving the lives of street children and the disabled. The foundation has a vision to contribute to developing a just, equitable, humane and sustainable society in India. The foundation works closely with various state governments such as Karnataka, Uttarakhand, Rajasthan, Chhattisgarh, Pondicherry, Telangana, Madhya Pradesh and northeast region. Azim Premji strongly feels that "A fully educated child is a strong national asset as a citizen." This contribution of Azim Premji to philanthropy is unique and has no parallel in India.

Azim Premji has established the Wipro Equity Reward Trust to allow Wipro employees to acquire stake in Wipro's success and growth.

Azim Premji has many honours and awards to his credit. The following honours are worth noting:

- (1) In 2006, he was awarded **Lakshya Business Visionary** by National Institute of Industrial Engineering, Mumbai.
- (2) In 2008, he was awarded D.Litt., an honorary degree, from the Aligarh Muslim University.
- (3) In 2011, he has been awarded **Padma Vibhushan** award by the Government of India. Previously, in 2005, the Government of India honoured him with "Padma Bhusan" for his outstanding work in trade and commerce.
- (4) Mr. Premji has twice been listed among the 100 most influential people by TIME Magazine, once in 2004 and more recently in 2011.

### Objective Questions with Answers

- (1) Fill in the blanks by selecting the correct option:
  - (a) The credit of initiating progressive and employee-friendly activities in Tata Group goes to \_\_\_\_\_.  
(i) Ratan Tata (ii) JRD Tata (iii) Russi Modi (iv) Cyrus Mistry
  - (b) Mr. Kumar Mangalam Birla is a \_\_\_\_\_ by profession. (March 17)  
(i) Cost Accountant (ii) doctor (iii) Chartered Accountant (iv) Professor
  - (c) "Where growth is a way of life" is a motto of \_\_\_\_\_.  
(i) Tata Group (ii) Birla Group (iii) Reliance Group (iv) Godrej Group.

- (d) Kiran Mazumdar Shaw is the chairman and MD of \_\_\_\_\_. (March 18)  
 (i) ICICI bank (ii) Reliance Industries (iii) Biocon Ltd.
- (e) The Father of India's "White Revolution" is \_\_\_\_\_. (March 17)  
 (i) Verghese Kurien (ii) Mr. Aditya Birla (iii) Mr. Ratan Tata (iv) Dhirubhai Ambani
- (f) \_\_\_\_\_ is rightly treated as an influential personality in the private banking sector.  
 (i) Chanda Kochhar (ii) Raghuram Rajan (iii) Naina Lal Kidwai (iv) K. V. Kamath
- (g) \_\_\_\_\_ has made positive contribution to Indian IT sector. (Nov. 16)  
 (i) Azim Premji (ii) Verghese Kurien (iii) Aditya Birla
- (h) \_\_\_\_\_ has made positive contribution to Indian IT sector. (March 17)  
 (i) Dr. C. K. Prahalad (ii) M. Raghuram Rajan (iii) Mr. Azim Premji (iv) Mr. Anil Ambani
- (i) Expenditure on socially useful activities in made \_\_\_\_\_ under Companies Act, 2013.  
 (i) compulsory (ii) optional (iii) voluntary (iv) none of the above
- (j) Mr. Ratan Tata took leadership of Tata Group from \_\_\_\_\_.  
 (i) JRD Tata (ii) P. K. Birla (iii) Naval Tata (iv) Homi Bhabha
- (k) Kiran Mazumdar Shaw is basically \_\_\_\_\_. (March 19)  
 (i) research scholar (ii) chartered accountant (iii) doctor

[Ans.: (a - ii), (b - iii), (c - iii), (d - i), (e - i), (f - i), (g - i), (h - iii), (i - i), (j - i), (k - i)]

(2) State whether the following statements are TRUE or FALSE:

- (a) Azim Premji is away from free-spending and expensive five-star life style.  
 (b) Business leaders are creators of wealth and participants in the nation-building activities.  
 (c) JRD Tata was a strong advocate of social responsibility concept and fair trade practices. (March 17)  
 (d) Successful industrialists exist only in rich and developed countries.  
 (e) Industrialists constitute the poorest section of the society. (Nov. 16)  
 (f) Tata Consultancy Services (TCS) is the second largest software company in India.  
 (g) Shri. Dhirubhai Ambani is a son of a school teacher.  
 (h) Dr. Verghese Kurien made India an exporter of software services.  
 (i) Dr. Vijay Govindarajan made India an exporter of Software services. (Nov. 16)  
 (j) Azim Premji is India's richest man.  
 (k) Azim Premji is the most philanthropic Indian.  
 (l) Anil Ambani led business group is in financial difficulties at present.  
 (m) The leadership of Tata Group was taken over by JRD Tata from the hands of Ratan Tata. (March 19)

[Ans.: (a) True, (b) True, (c) True, (d) False, (e) False, (f) False, (g) True, (h) False, (i) False; (j) False; (k) True; (l) True, (m) False]

(3) Match the following:

Group 'A'	Group 'B'
(a) K. V. Kamath	(i) Born at Paris in France
(b) JRD Tata	(ii) First Indian company to export enzymes to USA and Europe
(c) Mr. Cyrus Mistry	(iii) Best Retail Bank in India
(d) Biocon Company	(iv) Leader in Banking Sector
(e) Verghese Kurien	(v) Businessman-philosopher
(f) ICICI	(vi) Awarded Padma Vibhushan in 2011
(g) Azim Premji	(vii) Took the position of Ratan Tata in Tata Group
(h) Bharat Ratna	(viii) JRD Tata

[Ans.: (a - iv), (b - i), (c - vii), (d - ii), (e - v), (f - iii), (g - vi), (h - viii)]

## Question Bank for Self-Practice

- (1) What do you mean by business leaders? Explain their contribution in business growth.
- (2) "JRD Tata is the greatest architect of Indian industry and one of the makers of modern India". Explain the statement.
- (3) Discuss the progress and achievements of Tata Group under the leadership of JRD Tata and Ratan Tata.
- (4) Explain the contributions of JRD Tata in Indian Industries. *(Nov. 17)*
- (5) Explain the leadership qualities of Shri. Ratan Tata.
- (6) Aditya Birla is regarded as one of the India's most successful businessman.
- (7) Explain the contribution of the Kumar Mangalam Birla to Aditya Birla Group.
- (8) Explain Dhirubhai Ambani as an outstanding industrialist of our country.
- (9) Explain Kiran Mazumdar Shaw as a leading woman business leader in India.
- (10) Explain the role of Verghese Kurien in white revolution. *(March 18, 19)*
- (11) Explain the contribution of Azim Premji as a known service provider.
- (12) Profile of one of the leaders of Indian Industry.
- (13) Write briefly on Azim Premji and Narayana Murthy as leaders in Indian Information Technology Sector.
- (14) Explain the role of Smt. Naina Lal Kidwai in the success of HSBC. *(March 18)*
- (15) Who, according to you, is a business leader? Write a note on any business of your choice.
- (16) Explain the contribution of Ms. Chanda Kochhar in the success of ICICI Bank. *(March 17)*
- (17) Discuss the contribution of JRD Tata for our country. *(Oct. 18)*
- (18) What qualities made J. R. D. Tata a business leader in India?
- (19) **Write a comprehensive note on any one of the following:**
  - (a) Contribution of JRD Tata to the Indian industry.
  - (b) Contribution of Kumar Mangalam Birla.
  - (c) Role of Verghese Kurien in white revolution.
  - (d) Leadership of Azim Premji.
  - (e) Inspiring lessons from Dhirubhai Ambani.
  - (f) Azim Premji and Narayana Murthy as leaders in Indian IT sector.
- (20) **Write short-notes on the following:**
  - (a) J. R. D. Tata.
  - (b) Dhirubhai Ambani.
  - (c) Dr. Verghese Kurien.
  - (d) Ratan Tata.
  - (e) Chanda Kochhar. *(Nov. 17)*
  - (f) Mukesh Ambani.
  - (g) Business leaders.
  - (h) Tata Group.
  - (i) Business Leaders in Banking Sector.



## Chapter 8

# Indian Leaders

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*If you want to walk fast, walk alone. But if you want to walk far, walk together.*

— Ratan Tata

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(1) Narayana Murthy, (2) Anand Mahindra, (3) Godrej Group, (4) Deepak Parekh, (5) K. V. Kamath, (6) Uday Kotak, (7) Sudhakar Shanbhag, (8) Hinduja Group, (9) Present Governor of RBI – Objective Questions with Answers – Question Bank for Self-practice.

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### (1) NARAYANA MURTHY

Narayana Murthy's name is closely associated with Indian software industry. He is known in the world as the supplier of quality software services.

Narayana Murthy (commonly referred to as Naray) is well known as an Indian software entrepreneur who co-founded Infosys Technologies Ltd. the first Indian software company to be listed on an American Stock Exchange. After more than 20 years of leadership of Infosys, he stepped down from the Board of Infosys in 2011 and become *Chairman Emeritus*.

Narayana Murthy was born on 20th August, 1946 in Mysore (Karnataka State). He took a bachelor's degree in electrical engineering from Mysore University in 1967. He also took master's degree in technology from IIT, Kanpur in 1969.

In the initial period of his career (1970s), he worked in Paris on a cargo handling project. He helped in designing an operating system for handling air cargo at Charles de Gaulle Airport. On returning from Paris, he accepted an assignment with a computer systems company in Pune and later on decided to launch his own

software company. He co-founded Infosys with six fellow computer professionals in 1981. He borrowed from his wife Sudha Murthy Rs. 10,000 for launching new company. This is the turning point of his life and career. This decision and follow-up action made Mr. Murthy an entrepreneur as well as wealthy and successful business leader/service provider.

Infosys Technologies Ltd. grew slowly till early 1990s because of strict government laws and regulations. However, situation (economic environment) changed considerably along with economic reforms and move towards privatisation. Economic liberalisation and deregulation contributed substantially for speedy growth in the country's high technology and computer sectors. This situation gave ample opportunities to Mr. Murthy to grow and to expand his service activities. He aggressively expanded his company's services and client base. He started negotiating deals with overseas businesses for providing them consultancy services, systems integration, software development and product engineering services. By 1999, the business of Infosys expanded and it joined NASDAQ and became the first Indian company to be listed on an American Stock Exchange. This was an unique achievement before the year 2000.

At Infosys, he designed and implemented the **Global Delivery Model** which has become the foundation for the huge success in IT services outsourcing from India. He brought many unique achievements in the activities of his company which stood first in many IT operations. He brought success, stability and prosperity to Infosys after 2000 and shared company's prosperity with employees and other sections of the society. Under his leadership, the company won almost every award relevant to the Indian business segment. Infosys is announced as the **Best Managed Company, Corporate Governance, Best Annual Report, Best Company Web Site, Best Investor Relations** and so on. Infosys won "The Social Responsiveness Award 2001" from the FICCI.

Mr. Narayana Murthy is an Indian billionaire businessman with full faith on ethical behaviour and corporate governance. Mr. Murthy served as the CEO of Infosys for a long period of 21 years and was succeeded by co-founder Mr. Nandan Nilekani in 2002. He held the executive position of Chairman of the Board

from 2002 to 2006. Thereafter he became the "non-executive" chairman of the Board and Chief Mentor. Finally, he retired completely from the company in August 2011, taking the position of **Chairman Emeritus**. He has set a new example by promoting a new company i.e. Infosys Technologies Ltd, made it a stable, successful and prosperous organisation and finally left the organisation at an appropriate time for providing opportunities to others associated with the company since long (co-founders). At present, Infosys occupies second position (next to Tata Consultancy Services) among the first five largest IT companies in India. At present, Mr. Salil Parekh acts as CEO and Managing Director of Infosys.

Mr. Narayana Murthy has many achievements and awards to his credit. The following few are worth mentioning.

- (1) Mr. Murthy was awarded "Padma Shri" in the year 2000 and "Padma Vibhusan" by the Government of India in 2008.
- (2) Global Leadership Award and Free Enterprise Award by University of South Florida (in 2012).
- (3) Fortune's 12 Greatest Entrepreneurs of Our Time by Fortune Magazine in 2012.
- (4) CNBC - Lifetime Achievement Award - 2011.
- (5) Woodrow Wilson Award for Corporate Citizenship 2009 by Woodrow Wilson International Centre for Scholars.
- (6) Officer of the Legion of Honour-Highest civilian honour of France-Government of France - 2008.
- (7) Infosys is the first company to be awarded "National Award for Excellence in Corporate Governance" from Government of India. The credit goes to Narayana Murthy.

Mr. N. R. Narayana Murthy is extremely simple and decent in his personal life. His wife, Sudha Murthy is known for her philanthropic work through the Infosys Foundation. Mr. Murthy is considered a pioneer of introducing the concept of profit warning in the Indian business scenario. He also acts as a Trustee of the Infosys Science Foundation.

Infosys is doing excellent work towards education and health in Karnataka, Tami Nadu, Andhra Pradesh, Maharashtra, Orissa and Punjab as a part of Corporate Social Responsibility.

The Infosys "Leadership Institute" in Mysore is the foundation of the leadership initiative where Mr. Narayana Murthy with other directors conducts workshops. Infosys receives job applications in lakhs, out of which only the finest are chosen.

The details noted above suggest the leadership qualities of Mr. Murthy. Infosys is not only doing good business but also participates in other socially useful activities. It acts as a role model to corporate sector in India.

Mr. N. R. Narayana Murthy has imparted a valuable lesson in leadership to world business community i.e. leadership based on values and ethics. He believes in creating wealth legally and ethically. He is considered the messiah of the new-generation entrepreneurs. One can definitely conclude that he is above Bill Gates as far as the Indian business scenario is concerned. He has shown how a person from a small village can conquer the uncharted area of global business. Mr. Murthy is active in his academic, professional and social activities at the age of 75.

## (2) ANAND MAHINDRA

Anand Mahindra belongs to well-known business family from Punjab. The family is closely connected with automobile sector. Mahindra & Mahindra Limited (M&M) operates mainly from Mumbai. However, Anand Mahindra's grandfather KV Mahindra co-founded the company from his hometown Ludhiana, Punjab. Mr. Keshub Mahindra, a legend in the automobile sector, is the uncle of Anand Mahindra. At present Mr. Anand Mahindra is the Chairman and Managing Director of Mahindra and Mahindra Limited which is one of India's largest manufacturing enterprise.

Anand Mahindra was born on 1 May, 1955 at Mumbai (Maharashtra). He graduated from Harvard College, Cambridge, Massachusetts in 1977 and completed his MBA from Harvard Business School, Boston, Massachusetts in 1981.

After returning India, he joined the Mahindra UGINE Steel Company (MUSCO) as Executive Assistant to the Finance Director in 1981. He became President and Dy. Managing Director

of the company in 1989. During this period, he spearheaded the Mahindra Group's diversification into the new business areas such as real estate development and hospitality. He was appointed as Dy. Managing Director of Mahindra & Mahindra Ltd. in 1991. Later on, he became the Managing Director of M&M Ltd. in 1997 and also took charge from his uncle Keshub Mahindra. Mr. Anand Mahindra was given the additional responsibility of Vice Chairman of the Company in 2003.

Under Anand Mahindra's leadership, the Mahindra Group has set global ambitions and benchmarks for success. The Company has grown rapidly through both acquisitions and Greenfield business development with several high-profile mergers in the past few years. For example, the acquisition of Satyam Computer Services took place in 2009, Reva Electric Vehicles in 2010 and SsangYong Motor Company in 2010. Two IT companies from Mahindra Group (Mahindra Satyam and Tech Mahindra) have now merged leading to the formation of Tech Mahindra as the fifth largest IT Company in India. As a result the old Satyam computer has gone out of existence and Tech Mahindra is growing as leading IT Company in India. In 2002, the company launched an indigenously developed SUV, the Scorpio, which has now gone global. This is how rapid expansion of Mahindra & Mahindra took place in recent years. The company is doing good business in India and abroad. In spite of acute market competition, Mr. Anand Mahindra has introduced new ways of furthering business growth. The financial performance of his company is also satisfactory.

Anand Mahindra was a co-promoter of Kotak Mahindra Finance Ltd. which was converted into Bank in 2003. Kotak Mahindra Bank is now, one of the foremost private sector banks in India.

In addition to management of business of Mahindra and Mahindra Ltd, Mr. Anand Mahindra takes interest in many other economic activities. He is the co-founder of the Harvard Business School Association of India which is dedicated to the promotion of professional management in India. Mr. Anand Mahindra is the co-chair at the World Economic Forum at Davos.

Mr. Mahindra is a Director of the National Stock Exchange of India Ltd under the "Public Representatives" category. He is also the Past President (2003-04) of the Confederation of Indian Industry.

Mr. Mahindra is a Trustee of the K. C. Mahindra Education Trust which provides scholarships to students. He takes special interest in education related activities.

Mr. Mahindra is the Chairman of National Safety Council of India and Co-chairman of the International Council of the Asia Society, New York.

Mr. Anand Mahindra is honoured with many awards. The following awards are worth mentioning.

- (1) Knight of the Order of Merit by the President of the French Republic.
- (2) Rajiv Gandhi Award 2004 for outstanding contribution in the business field.
- (3) 2005 Leadership Award from the American India Foundation for his, and the Mahindra Group's commitment to corporate social responsibility.
- (4) CNBC Asian Business Leader Award for the year 2006.
- (5) The Most Inspiring Corporate Leader of the year 2007 from NDTV Profit.

Anand Mahindra has given effective leadership to his organisation i.e. Mahindra & Mahindra Ltd. He is equally active in sports and social activities. He also participates in academic activities. For example, he is connected with the Nehru Centre, Mumbai, National Council of Applied Economic Research and National Institute of Bank Management, Pune.

### **(3) GODREJ GROUP**

Godrej Business Group is operating in India since long i.e. since 1899. It was founded in 1897 by Ardeshir Burjorji Godrej and Pirojsha Godrej. This group is one of the largest Indian conglomerates based in Vikhroli (Mumbai). The group is involved in various industries such as home appliances, precision equipment, machine tools, furniture, healthcare, office equipment, food processing, security, materials handling

solutions, construction and information technology. Popular products of Godrej group include locks, safes, refrigerators, security systems, furniture, cosmetics and detergents, edible oils, car perfumes, sweeping machines and so on. The other products manufactured by Godrej group includes rocket launchers, word processors, outsourcing services, machine tools, medical diagnostics and aerospace equipment. Consumer products of Godrej are used extensively in lower and middle income group families, offices and so on. Godrej is household name and at least two or three Godrej products (lock, mixer, cupboard, etc.) are used practically in every household.

At present, the Godrej Group is headed by Adi Godrej and Jamshyd Godrej. Adi Godrej is the current chairman of Godrej Group and Godrej and Boyce Mfg. Co. Ltd. is headed by Jamshyd Godrej. The Godrej group can be divided into two major holding companies, working independently. These are: (1) Godrej Industries Ltd. and (2) Godrej and Boyce Mfg. Co. Ltd.

There are many companies, subsidiaries and affiliates of Godrej Group. It has presence in seven major companies with interests in real estate, FMCG, industrial engineering, furniture, security and agricare. Important companies under Godrej group include Godrej Consumer Products, Godrej Hershey Foods and Beverages Limited, Godrej SCA Hygiene Ltd., Goldmohur Foods and Feeds, Godrej Global Solutions and Godrej Aadhaar. The revenue of the Group was approximately US\$ 1.7 billion in the financial year 2006-07. It rose to US\$ 3.3 billion in 2011. Yearly turnover of the Group crosses 3.3 billion dollars. Godrej group provides employment to 9,700 people (2011). The subsidiaries of Godrej group include: GCPL, Godrej Infotech Ltd., Godrej Industries Ltd., Godrej Properties and Godrej Agro vet.

Traditionally, Vikhroli has been Godrej's manufacturing base. However, the group has moved significant production facilities away from Mumbai. The group also owns vast land in Vikhroli (3500 acres). That makes Godrej group the biggest private land owner in Mumbai. The group can develop this land for housing purpose or for any other profitable or socially useful purpose.

### Achievements of Godrej Group:

- (1) 1897: Godrej introduced the first lock with lever technology in India.
- (2) 1902: Godrej made the first Indian safe.
- (3) 1920: Godrej made soap using vegetable oil, which was a huge hit with the vegetarian community in India.
- (4) 1955: Godrej produced India's first indigenous typewriter.  
(Godrej and Boyce shut down its typewriter manufacturing plant in 2011, the last in the world).

Godrej group collected many awards in the recent years. Important among them are:

- (1) The Corporate Citizen of the Year Award given by Economic Times.
- (2) Flagship brands of the group - GoodKnight, Cinthol and Ezee selected superbrands by the superbrands council.
- (3) Godrej Consumer Products was awarded the "Best Managed Workforce" award given by Hewitt Associates and CNBC TV18.
- (4) Lifetime Achievement Award for Godrej Industries from CHEMEXCIL, the Basic Chemical Pharmaceuticals and Cosmetics Export Promotion Council.
- (5) GSPL ranked 15th in Great Pieces to Work 2006 survey.

Godrej group respects the concept of social responsibility. The group provides liberal welfare facilities to its employees. It spends funds for research and development activities and brings new products in the market from time to time for the benefit and convenience of consumers. Godrej is a consumer friendly business group. In addition, Godrej group is a true innovator. The consumer products of the group are popular particularly with the middle class consumers from urban and rural areas. Godrej showrooms are opened in all cities and towns in India where consumer gets quality products of Godrej at fair prices plus discount, etc. In India, Godrej is a household name. Majority of Indian families have a Godrej lock, Godrej cupboard and a Godrej safe or mixer.



Godrej has a philanthropic arm that has built schools, dispensaries and residential complex for their employees. Trusts started by Godrej continue to invest in education, healthcare and upliftment of the underprivileged. Godrej group is a major supporter of the World Wildlife Fund in India.

#### (4) DEEPAK PAREKH

Deepak Parekh is a known personality in the field of housing finance. He has introduced many innovative ideas in the field of housing finance. The development of the housing sector in India is attributed to him. Mr. Deepak Parekh is considered the messiah of the Indian middle class. He carries with him the blessings of hundreds of satisfied middle class families. He is not a businessman but a service provider in housing finance with many achievements to his credit. He is also connected with many private sector companies as he is on the Board of such companies.

Mr. Deepak Parekh is the chairman of **Housing Development Finance Corporation**, India's leading housing finance company. He is also non-executive chairman of the HDFC group.

Deepak Parekh was born on October 18, 1944. He passed B.Com. examination of Mumbai University (Sydenham College) and is also a Chartered Accountant.

Deepak Parekh started his career with Ernst and Young Management Consultancy Services in New York. After returning to India, he worked with Grindlay's Bank and Chase Manhattan Bank as its assistant representative for South Asia. Deepak Parekh joined HDFC in 1978. He was promoted to the post of Managing Director in 1985 and finally appointed as Chairman of HDFC in 1993. His career started in a meaningful manner thereafter.

Deepak Parekh was instrumental in making the HDFC one of India's premier housing finance institutions. A pioneer in mortgage finance, he has enabled hundreds of Indian middle class people to own their houses or apartments through affordable loans. He made HDFC popular among borrowers through prompt and decent service and treatment.

Mr. Parekh initiated the "HDFC School" to impart and enhance the knowledge of frontline staff working in the areas of lending operations, recoveries and deposits. HDFC has also

established "The Centre for Housing Finance" for imparting training to its employees and also for meeting the needs of clients like Bajaj Electrical, Crompton Greaves, HSBC Bank, Otis, Philips and so on.

The performance of HDFC is quite satisfactory in recent years even when it has to face severe competition from other players in the banking sector. Customer service is given top priority in HDFC. This acts as the base of its progress and prosperity. His contribution to Indian banking and financial sector is well accepted at the national level.

In addition to chairmanship of HDFC, Deepak Parekh has many other responsible assignments in the business field. In 1997, he became the Non-Executive Chairman of Infrastructure Development Finance Company (IDFC), a Government of India enterprise for infrastructure projects. He is also the Non-executive Chairman of GlaxoSmithKline India Ltd. and Burroughs-Wellcome (India) Ltd. In addition, he is also on the Board of Castrol India Limited, Hindustan Unilever, Siemens Ltd., Mahindra & Mahindra, and Indian Hotels Company. These assignments indicate his close association with the Indian business world.

Deepak Parekh has been a member of various committees set up by the Government of India. He was appointed Chairman of the high level expert committee formed to recommend measures for strengthening the Unit Scheme in 1964. The RBI appointed him Chairman of the Advisory Group for Securities Market Regulation. He was also Chairman of the Expert Committee constituted by Ministry of Power to look into the reform efforts in the power sector.

Deepak Parekh has won several awards during the course of his career. He is Padma Bhushan Awardee (2006). He was Businessman of the Year 1996 from Business India and the JRD Tata Corporate Leadership Award by All India Management Association (AIMA). Mr. Parekh won "Lifetime Achievement Award" in the Economic Times Awards for Corporate Excellence 2003. This was due to his dedication and commitment. His services to HDFC and also to the Nation are praiseworthy. He was

the first recipient of the Qimpro Platinum Award for Quality for his contributions to the services sector. In 2010, he was the first international recipient of the Institute of Chartered Accountants in England and Wales' Outstanding Achievement Award for his contribution over many years to the finance and accountancy profession. Mr. Parekh is extremely supportive to youth leadership and is a proactive advisory board member of the world's largest student driven organisation AIESEC India.

### (5) K. V. KAMATH

In the history of Indian banking industry, K. V. Kamath's name will be written in golden letters because under his leadership (as MD & CEO) from 1996 to 2009 that ICICI Bank emerged as the second largest bank in the country next only to SBI.

Mr. K. V. Kamath took charge as the chairman of Infosys Ltd. from August 21, 2011. Infosys Ltd. is the second largest IT services company in India. Before this, Mr. Kamath served as Managing Director and ECO of ICICI Bank from May 1, 1996 until his retirement from executive responsibilities on April 30, 2009. On 2nd May, 2011, he is appointed as non-executive chairman of the second largest exporter of services, Infosys Ltd. (earlier Infosys Technologies Ltd.)

Mr. Kamath was born on December 2, 1947 in Mangalore, Karnataka where he spent most of his early years. After completing higher secondary education, he joined the Karnataka Regional Engineering College in Surathkal for a Bachelor's Degree in Mechanical Engineering. After securing engineering degree, he joined IIM, Ahmedabad for a Degree in Business Administration and completed graduation from IIM-A in 1971.

After completing his management education, he started his career with ICICI in the project finance division. He moved to different departments to gather experience about setting up of new business, venture capital and handling general management positions. He initiated and implemented ICICI's computerization programme. He expanded ICICI's business to evolve it into a technology-enabled financial organisation catering to the financial needs of corporate and retail customers.

In 1988, Mr. Kamath joined Asian Development Bank (ADB), Manila in the Private Sector Department. While in ADB, he had work experience in various projects in China, India, Indonesia, Philippines and Bangladesh. He also worked as ADB representative on the Boards of several companies.

In 1996, Mr. Kamath return to ICICI as its Managing Director and CEO. He was instrumental in expanding the Group's services to the retail customers. He also initiated a process of a series of acquisitions of non-banking finance companies in 1996-98. This led to the formation of ICICI Bank.

Mr. K. V. Kamath's biggest achievement is the development of ICICI Bank as a truly global Indian bank and also as an institution which permanently impacted on the way of working of the banking industry. He introduced aggressive customer related marketing policies in the Indian financial sector. He pioneered the concept of ATM banking culture for middle-class families. ICICI Bank holds the distinction for being the first bank to start more than 1,000 ATMs. Mr. Kamath also gets the credit for setting up the country's first ATM exclusively for blind persons who can operate ATM through Braille-enabled keys in June 2002.

Mr. Kamath introduced the concept of "Universal Banking" by merging ICICI Ltd. with ICICI Bank Ltd. w.e.f. 30th March, 2002. Mr. K. V. Kamath drastically changed the salary structures of employees and instituted ESOS to develop the new concept of ownership. More than 30% of employees in ICICI group are women. Under his leadership, ICICI became the first Indian bank/financial institution from Non-Japan Asia to be listed on the New York Stock Exchange. The ICICI Bank secured many awards mainly because of leadership of Mr. Kamath. All this speaks about dynamic leadership of Mr. K. V. Kamath and his contribution in the growth of ICICI Bank.

In addition to his association with ICICI group and Infosys Ltd., Mr. Kamath is closely connected with many academic institutions. He is a member of the Governing Board of various educational institutions including IIM, Ahmedabad, Indian School of Business, National Institute of Bank Management, Pandit Deendayal Petroleum University and Gandhinagar Manipal

Academy of Higher Education. Mr. Kamath is also a member of CII. He was elected on the Board of Directors of Infosys Ltd. in May 2009 and April 2011.

BRICS (Brazil, Russia, India, China and South Africa) countries created a new bank called "The New Development Bank (NDB)" in 2015. It is for mobilization of resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries. India's nominee, Shri K. V. Kamath has been elected as the first President of the Bank. It is a great honour to India and also to Mr. K. V. Kamath. It is a great reward to India and also to Mr. K. V. Kamath. It is a global reward to the experience, maturity and dynamic approach of Mr. K. V. Kamath.

Mr. Kamath has many awards to his credit. The following few are worth noting.

- (1) He was given Padma Bhushan award from the Indian Government in 2008.
- (2) Business Leader Award of the Year – The Economic Times 2007.
- (3) Outstanding Business Leader of the Year – CNBC-TV18, 2006.
- (4) Best CEO for innovative HR Practices – World HRD Congress.
- (5) Asian Business Leader of the Year – Asian Business Leader Award 2001.

Mr. K. V. Kamath was the Chairman, New Development Bank of BRICS Nations from 11-05-2015 to 27-05-2020 and left the position after completing his term of five years. He was replaced by Marcos Prado Troyjo (Brazil) on 7<sup>th</sup> July, 2020. Prime Minister Narendra Modi has called on him to play the role of a banker and diplomat. BRICS reflects Kamath's structure.

## (6) UDAY KOTAK

Mr. Uday Kotak is Mumbai based Indian businessman closely connected with the banking sector. He is executive vice-chairman and managing director of Kotak Mahindra Bank with 50% stake in the Bank which he founded and runs.

Mr. Uday Kotak was born in Mumbai on 15th March, 1959. He received his bachelor's and master's degrees from Sydenham College and Bajaj Institute of Management Studies. Forbes estimated his wealth to be \$4.1 billion in 2012 and increased to \$10.6 billion in 2018. He has the distinction of being the original innovator of the Indian financial services.

Mr. Uday Kotak co-founded Kotak Capital Management Finance with the help of his father's company in 1985. In 1986, the firm was joined by late Mr. Harish Mahindra and Mr. Anand Mahindra and was renamed as "Kotak Mahindra Finance Limited (KMFL)".

The KMFL started as a provider of a single financial product and gradually diversified into an array of financial services and emerged as a noteworthy Non-Banking Financial Corporation under Uday Kotak's leadership. The company expanded activities abroad and covered Mauritius, New York, London and Dubai. It also entered into partnerships with Goldman Sachs for investment, brokering and Ford credit for auto finance.

The turning point in the KMFL's life arrived when RBI took decision to grant a banking license to KMFL in 2003. This decision provided much needed common interface for the various Kotak subsidiaries and enabled Mr. Uday Kotak to operate at least six different businesses from a single platform. Uday Kotak used this business opportunity fully for lucrative profits from booming telecom industry as well as by tying up with Hutchison Max.

Over the past 23 years, Mr. Uday Kotak has built a team of professionals who have been given independent charge of various businesses under Kotak Mahindra group. He was finally successful in building a fully financial services group.

Mr. Uday Kotak takes interest in academic activities. He is a member on the Board of Governors of the Indian Council for Research on International Economic Relations (ICRIER). He is also

the Governing Member of the Mahindra United World College of India and Member of the Executive Board of Indian School of Business. In 2018, he is awarded "BEST CEOs IN THE WORLD" by the CEOWORLD magazine.

### (7) SUDHAKAR SHANBHAG

Mr. Sudhakar Shanbhag's name is associated with the financial services industry including life insurance business for over two decades.

Mr. Sudhakar Shanbhag was born in Mumbai on December 12, 1969. He is a qualified Chartered Accountant and is currently associated with Kotak Mahindra Old Mutual Life Insurance Ltd. He is the **Chief Investment Officer** at Kotak Mahindra Old Mutual Life Insurance Ltd. In his capacity, he is responsible for managing the company's investments within the overall framework laid down by the investment committee and the Insurance Regulatory and Development Authority (IRDA) and developing and managing investment structures, processes and practices to enable customers reap benefits in accordance with their investment objectives and risk appetite.

Kotak Mahindra Old Mutual Life Insurance Ltd. is a joint venture between Kotak Mahindra Bank Ltd. and Old Mutual Plc. Mr. Shanbhag has been part of the Kotak Mahindra Group in varying capacities for nearly a decade and half. Prior to Kotak Life Insurance, Mr. Shanbhag was a part of the Treasury team at Kotak Mahindra Bank. He has also been an integral part of the Kotak Mahindra Prime team for 11 years, serving first as the Chief Financial Officer and then taking over as Chief Operating Officer.

Mr. Shanbhag, is a widely quoted knowledge leader in the investment domain.

### (8) HINDUJA GROUP

The Hinduja Group is a global conglomerate company headquartered in London, UK. It was founded in 1914 by Parmanand Deepchand Hinduja. The business initially operated in Mumbai. The Group established its first overseas business in Iran in 1919. The Group shifted its headquarters to Iran where it remained until 1979 when Shah of Iran was thrown out of office

and the business was shifted to Europe. Srichand Hinduja and his brother Gopichand moved to London in 1979 to develop their father's export business. Its present chairman is S. P. Hinduja. The Group specialises in the business of automotive, financial services, media, telecom, ITeS, oil and gas. In 2011 its revenue was recorded at US\$ 25 billion. It maintains a workforce of more than 40,000 employees and operates a number of subsidiaries. The Hinduja Group consists of:

- (1) Ashok Leyland.
- (2) Hinduja Bank, Switzerland.
- (3) IndusInd Bank.
- (4) Hinduja TMT.
- (5) Hinduja Ventures.
- (6) Hinduja Global Solutions.
- (7) Hinduja Foundries.
- (8) P. D. Hinduja Hospital.
- (9) Gulf Oil.
- (10) IndusInd Media and Communication Ltd.
- (11) Defiance Technologies Ltd.

#### Glimpse of Hinduja Group:

- (1) **Ashok Leyland:** In 1987 Hinduja Group bought Ashok Leyland which is India's second largest HCV manufacturer. It has large export market both in Sri Lanka and Dubai. During 2003-05, the company executed an order of 3322 trucks to Iran under the UN oil and food programme; the largest ever in the Indian commercial vehicle industry. The company is also a pioneer in manufacturing CNG (Compressed Natural Gas) buses. Presently the company produces 84,000 vehicles per annum. Ashok Leyland is the largest supplier of logistics vehicles to the Indian Army.
- (2) **Ashok Leyland Defence:** The Hinduja Group has established an independent company to look after its defence business. Ashok Leyland, the flagship company of Hinduja Group holds 26 percent in the newly formed Ashok Leyland Defence Systems which designs and develops defence logistics and tactical vehicles, defence communication and other systems.



- (3) **Gulf Oil Corporation Ltd.:** In January 2002 Gulf Oil India Ltd. and IDL Industries Ltd. were merged. The merger helped the Hinduja Group to strengthen its position in the Indian chemical segment. As of now, the company maintains four main operating divisions:
- Commercial Explosives.
  - Lubricants.
  - Mining and Infrastructure.
  - Speciality Chemicals.
- (4) **Gulf Oil International:** This is one of the largest petroleum companies and petroleum product traders in the world. It operates from London. It operates in more than 83 countries through a network of own companies, joint ventures, licensees and distributors. More than 3000 people are employed directly worldwide and almost 30,000 given indirect employment. It maintains filling stations in Europe, South America and Indonesia. It also markets car batteries, car care products, lubrication machinery, vehicle air filters and speciality chemicals. The company operates its exclusive Gulf Express chain of car services centres in Saudi Arabia. Gulf Oil International enjoys global reputation as one of the biggest petroleum product traders in the world. It maintains plants in China, East Africa, Middle East and the Asia Specific Region.
- (5) **Hinduja Bank, Switzerland Ltd.:** This bank was founded by the Hinduja Group as a finance company in 1978. It became a Swiss regulated bank in 1994. It has its headquarters in Geneva. It has a well-knit network in Switzerland with offices in Zurich, Lucrene, Basie and St. Margrethen. Its overseas branches are located in New York, Paris, Dubai, London, Mauritius and Chennai. Of late, it has expanded business into wealth management, trade finance services, corporate finance services and global investment solutions.
- (6) **IndusInd Bank Ltd.:** This is a private sector bank founded by the Hinduja Group. It is the only bank established by NRIs. It started functioning in 1994 with a capital of Rs. 1 billion. It mainly focuses on corporate and SME lending along with

retail banking. It has a customer base in excess of 1.5 million with branches spread over 141 geographical locations in India. Its overseas offices are located in London and Dubai. It maintains correspondent banking relationship with 335 banks all over the world. In order to enlarge its NRI business, the bank has entered into alliances with Union National Bank in the UAE and Doha Bank in Qatar. The bank has an associate firm IndusInd Marketing and Financial Services through which its loan products are arranged.

- (7) **P. D. Hinduja National Hospital and Medical Research Centre:** The Hinduja Group has made its presence felt in the healthcare business also. This hospital is a multi-speciality care centre. It is established in collaboration with Massachusetts General Hospital, Boston. The hospital has an inpatient capacity of over 350 beds. It offers services covering investigations and diagnosis to therapy, surgery, and post-operative care. It has been awarded the ISO-9002 certification from KEMA, Netherlands for Quality Management Systems. In 2006, it was awarded the prestigious **Golden Peacock Global Award** for philanthropy in developing countries. Its laboratory facilities are accredited by the College of American Pathologists.
- (8) **Hinduja Foundries Ltd.:** This company is operating in India for the last five decades. It is a professionally managed company catering to the casting needs of the developing automobile manufacturers in India. It runs three manufacturing plants in South India. Almost 30% of the vehicles rolled out in India viz., cars, tractors and commercial vehicles have major castings supplied by the company. In 2007 it established a modern new green field foundry in Sriperumbudur near Chennai with well-equipped R&D facilities.
- (9) **Hinduja Global Solutions Ltd.:** This company started its IT operations in 1993. It offers outsourcing solutions including back office processing, contact centre and customised IT services to a global clientele comprising several Fortune 500 companies. The business was established in partnership with IBM. Its overseas offices are located in London and North

America. In India it operates 19 delivery centres. This is recognised as one of the top BPO (Business Process Outsourcing) company in India. Its Mauritius centre supports the French-speaking population and its Texas centre provides support in Spanish. The Hinduja Group has also entered into media and communication and has established InCableNet.

### (9) GOVERNOR OF RBI

**Reserve Bank of India (RBI)** is the Central Bank of our country and performs all those functions which are entrusted to any central bank elsewhere in the world. The preamble to the RBI Act, 1934 mentions the following as the functions....*"To regulate the issue of Bank notes and keeping of reserve with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage"*. From this, it is possible to note the following **basic functions or general central banking functions of RBI:**

- (1) Issue of Currency Notes i.e. currency authority (Issue Bank).
- (2) A Banker to Government.
- (3) Banker's Bank and Lender of Last Resort.
- (4) Credit Control Authority/Controller of Credit.
- (5) Foreign Exchange Management and Control/Custodian of Foreign Exchange Reserves.
- (6) Special functions in relation to rural/agricultural finance, industrial finance and finance to priority sectors.
- (7) Collection and publication of data of varied nature (economic, financial, industrial and so on).

Along with the above noted general central banking functions, the RBI is given addition **Development and Promotional Functions since 1951**. Such functions assigned to RBI are:

- (a) Mobilisation of savings and extending banking facilities to unbanked areas.
- (b) Providing security to depositors.
- (c) Development of agricultural credit institutions.

- (d) Promotion of specialised institutions for industrial finance such as IFC, SFCs, IDBI, etc.
- (e) Adviser to the Government on economic, financial and other matters.

The RBI keeps close and cordial relations with the government. However, it is given **adequate powers and autonomy**. It decides the **monetary policy** and brings changes in the policy from time-to-time as per the need of the economic situation. RBI announces quarterly review of its monetary policy and makes suitable modifications in its policy. Banks and financial institutions make corresponding changes in their policies as per the policies of RBI.

RBI has leadership position in Indian banking and financial system. The RBI issues guidelines to other banks as regards interest rates and other banking activities. RBI is efficiently managed financial/monetary organisation. It is a **progressive and dynamic public sector organisation** which aims at **economic stability and economic growth**. The Bank undertakes many developmental and promotional functions for the benefit of Indian economy. **RBI is one of the best, efficient and progressive central banks in the world**. The RBI (on 20<sup>th</sup> May, 2022) approved a dividend of Rs. 30,307 crore to the Centre for the fiscal year ended, March 2022. The RBI pays dividend to the Centre from the surplus from market operations, investments and printing of currency. It is a good source of yearly receipt to the central government and reduces fiscal deficit of the government.

The Governor is the RBI's **chief executive**. He supervises and directs the affairs and business of the Reserve Bank of India. The management team of RBI also includes Dy. Governors and Executive Directors.

The Governor of the RBI is appointed for a maximum period of **five years**. Dr. C. Rangarajan, Dr. Bimal Jalan and Dr. Y. V. Reddy are three past governors who completed their five years term. Since 1935 in all 23 eminent individuals have worked as Governor of RBI. Dr. Urjit R. Patel was acting as 24th Governor of RBI since September 14, 2016. **Sir Osborne Smith** was the 1st Governor of the Bank. He was on the post from 1 April, 1935 to 30th June, 1937. **Dr. Manmohan Singh** was the Governor of RBI from

16 September, 1982 to 14 January, 1985. After the resignation of Dr. Urjit R. Patel, newly appointed RBI governor Shri. Shaktikanta Das took charge as Governor of RBI on 12 Dec., 2018. He is the 25th Governor of the Reserve Bank of India.

The Governor of RBI is normally highly qualified with sound background of economics, finance and banking. He is given substantial internal autonomy. However, he has to adjust the policies of the RBI as per the overall economic policies of the Central Government. Cordial relations between the RBI Governor and the Union Finance Minister/Ministry are essential and beneficial to both the parties and the national economy. The Governor of the Bank has to accept overall superiority of the Central government. Normally, there is continuous communication and dialogue between the Governor and the finance ministry officials. The differences are solved through mutual negotiations and understanding. The differences between the two are not made public. For this, adequate care is taken by both the parties. The advisory functions of RBI are useful to the government in different ways. Here, the role of RBI governor is significant. Even the Central Government asks for RBI's advice on financial matters and other economic issues. Here, the role of Governor is important.

#### **Present Governor of Reserve Bank of India:**

Newly appointed governor Shri Shaktikanta Das took charge of RBI on Dec. 12, 2018 after the government selected him to replace Urjit Patel as a head of India's monetary authority. He has taken the charge as 25th Governor of the RBI. His appointment is for a period of three years.

Shaktikanta Das is a retired 1980 batch Indian Administrative Service (IAS) officer of Tamil Nadu Cadre. Currently serving as the 25th Governor of the RBI, he was earlier a member of the Fifteenth Finance Commission and India's Sherpa to the G-20.

Dr. Urjit Patel abruptly resigned as the head of India's central bank citing personal reasons amid tensions between the government and the RBI over issues relating to governance and autonomy of the central bank.

Shaktikanta Das (present governor) is a former finance secretary. He is a former bureaucrat with qualities of a seasoned bureaucrat. Having worked with ease and patience under three different finance ministers P. Chidambaram, Pranab Mukherjee and Arun Jaitley, Das is described as a person who prefers to take non-confrontational approach to problem-solving.

Shri. Shaktikanta Das was born on 26<sup>th</sup> Feb., 1957 in Bhubaneswar (Orissa). He obtained B.A. and M.A. degrees in History from University of Delhi.

Shaktikanta Das has a long experience of Government Service of nearly 38 years. He worked at high level positions in different administrative organs of the government (Central and State). His experience relates to areas of finance, taxation, industries, infrastructure, budgeting, banking and so on. He also worked as Union Revenue Secretary, Union Economic Affairs Secretary and Joint Secretary in the Department of Expenditure and so on. He has represented India in international forums such as IMF, G20, BRICS, SAARC, etc. He also acted as India's Alternate Governor in World Bank and Asian Development Bank. In brief, his long and varied experience makes him capable to work as a dynamic, capable and professionally qualified Governor of the RBI. In fact, his experience and maturity is clearly visible in the policy decisions taken by him in the course of last three years.

Mr. Das is the first bureaucrat to head the RBI in almost five years. As economic affairs secretary from 2015-2017, Das has worked closely with the central bank. At present, he is also the government representative at the Group 20 summits.

India's Reserve Bank of India has a tradition of having reputed economists like C. Rangarajan, Raghuram Rajan and Urjit Patel to head the Bank. Das is an exception to this rule. Das took charge as the union revenue secretary in June, 2014. He is the first high level bureaucrat in the Finance Ministry after the Narendra Modi led government took over.

As an economic affairs secretary, Das was a key man behind the planning and execution of demonetisation drive. He steered the entire note ban exercise meticulously. According to Ex-Finance Minister Arun Jaitley, "He (Shri Das) has the right

credentials to be appointed as RBI Governor". He is regarded as an upright government officer.

(Das has taken charge at the time when tensions had peaked between RBI and Central Government on the issue of autonomy of the central bank. However, new RBI Governor Mr. Das signals better ties with the government. According to him, all issues, however, contentious could be resolved through discussions. He also hinted reconciliation between Bank and the Government. According to him, there has to be free, fair, objective and frank discussions between the government and RBI.

There are many problems and challenges before RBI which present governor Shaktikanta Das has to deal with. Such problems are:

- (1) Liquidity crisis in NBFC's.
- (2) Sustainability of country's banking system.
- (3) Non-performing assets of public sector banks.
- (4) Cyber threats.
- (5) RBI's autonomy and cordial relations between RBI and the government.
- (6) The extent of capital requirement of a central bank.
- (7) The after effects of Covid-19 on the Indian economy and to bring the economy back to the path of stability, growth and development.
- (8) The current high inflation rate and how to reduce the inflating rate to the normal level.
- (9) Effective adjustment between fiscal policy of the government and the monetary policy of the RBI.
- (10) How to counter the economic effect of Russia-Ukraine War.

The problems (noted above) constitute a challenge and an opportunity before Shaktikanta Das. He has to use his knowledge skills and long administrative experience for dealing with these challenges. He needs to control inflation and also promote economic stability and growth. Indian economy is fastest growing economy in the world. Mr. Das has to co-operate with the government for high GDP growth rate. At the same time, he has to safeguard the independence and autonomy of the Bank.

Monetary policy is a forceful as well as flexible regulatory instrument which he has to use effectively.

The RBI under the leadership of RBI's monetary policy committee (MPC) has introduced cut in key interest rates (second reduction in two months) in order to boost sluggish economy. Reduction in repo rate will lead to economic growth, investment, consumer spending and lowering borrowing costs. This move of the RBI "demonstrates its renewed focus on strengthening the growth metrics at a time of benign inflation footprint and growth concerns" Shri Shaktikanta Das is expected to take similar sound and practical decisions on monetary policy for combining economic stability and economic growth. Das has rightly pointed out that RBI needs to be watchful on inflation but maintaining the growth trajectory of the economy was also important and essential. The Government runs the economy and the country and manages major policy decisions. RBI has to give careful consideration to government views while framing its monetary policy. After taking charge as governor, he rightly said "RBI is a great institution. It has got a rich legacy and I will do everything possible to uphold its professionalism, values, credibility and autonomy". He also added that every institution must adhere to the principle of accountability.

In the first media interaction after taking new charge, Shri Shaktikanta Das made clear that the RBI would soon name a panel that will look into the economic capital framework for the central bank, which in turn, would determine the extent of capital required by it. The appropriate level of reserves for RBI was one of the major flashpoints between the Urjit Patel led RBI and the Centre. This issue is now, sorted out with the satisfaction of Government and the RBI. In short, the initial approach of new RBI governor is positive and constructive. He supports conciliation and cordial relations between RBI and the government.

Present RBI Governor Shri Das is a good communicator. He keeps close and cordial relations with business community, press and government agencies. He has vast experience in finance, banking and international financial organisations such as IMF World Bank, ADB and so on. His present central banking policies



and monetary policies are favourable to business growth in the post-COVID 19 pandemic. He is favourable to quick recovery of India economy after COVID-19. He is likely to play a very positive and dynamic role in the recovery process of Indian economy. He is supportive to industrial sector in the process of industrial growth.

The Central Government has re-appointed Shri Shanktikanta Das as Governor, Reserve Bank of India for a further period of three years beyond the 10<sup>th</sup> day of December 2021, or until further orders, whichever is earlier. [29-Oct-2021]

The present Governor of RBI has maintained close and cordial relations with the Central Government. He is supportive to the Government in the recovery process after COVID -19 crisis and also for reducing pressure of the current inflation rate. He is supporting the fiscal measures of the Government through appropriate monetary measures. According to Governor Shaktikanta Das, "The Reserve Bank of India (RBI) would continue to raise interest rates in coordinated moves with the government's fiscal measures to tame inflation". [Hindustan Times dated May-24-2022]

RBI, however, will not allow a runaway depreciation of the rupee. In short, the role of present RBI Governor is supportive to fiscal measures of the government. The Bank is offering support to the government in bringing economic stability and growth. The conflicts on different issues are avoided. This is certainly a balanced policy for the speedy recovery of Indian economy from adverse effects of COVID-19 crisis, current Russian-Ukraine War and growing inflation in the country. The credit for introducing their supportive policy goes to present governor Shaktikanta Das.

RBI Governor Shaktikanta Das has been named as the "Central Banker of the year 2020" Asia-Pacific by financial intelligence magazine "The Banker".

### Objective Questions with Answers

- (1) Select the correct alternative and rewrite the statements:
- (a) Godrej is a \_\_\_\_\_ business group.  
(i) profit-oriented (ii) consumer-friendly (iii) monopoly-oriented (iv) expansion-oriented

- (b) RBI started functioning from \_\_\_\_\_.  
(i) April 1, 1935 (ii) March 6, 1934 (iii) January 1, 1949 (iv) April 1, 1936
- (c) Godrej provided India's first \_\_\_\_\_.  
(i) indigenous computer (ii) indigenous typewriter (iii) indigenous telephone  
(iv) indigenous laptop
- (d) Mr. Narayana Murthy is acting as \_\_\_\_\_ of Infosys.  
(i) *Chairman Emeritus* (ii) Executive Chairman (iii) Managing Director  
(iv) employee
- (e) Narayan Murthy co-founded \_\_\_\_\_. (*March 18*)  
(i) Godrej group (ii) Hinduja group (iii) Infosys Ltd.
- (f) Uday Kotak founded \_\_\_\_\_ Bank.  
(i) ICICI (ii) HDFC (iii) IDBI (iv) Kotak Mahindra
- (g) The Hinduja Group is a global conglomerate company headquartered in \_\_\_\_\_. (*Nov. 16*)  
(i) Mumbai (ii) London (iii) Tokyo
- (h) HDFC is popular among borrowers due to \_\_\_\_\_ and \_\_\_\_\_ service.  
(i) easy and low interest (ii) prompt and decent (iii) quick and dirty (iv) limited formalities and costly
- (i) \_\_\_\_\_ started his career serving the ICICI bank in the finance division project. (*Nov. 17*)  
(i) Dr. C. K. Prahalad (ii) Mr. K. V. Kamath (iii) Mr. Azim Premji (iv) Anil Ambani
- (j) Present governor of RBI is \_\_\_\_\_.  
(i) Dr. Manmohan Singh (ii) Urjit Patel (iii) V. Y. Reddy  
(iv) Shaktikanta Das
- (k) RBI is \_\_\_\_\_ to government.  
(i) superior (ii) inferior (iii) on par (iv) none of the above

[Ans.: (a - ii), (b - i), (c - ii), (d - i), (e - iv), (f - ii), (g - ii), (h - ii), (i - ii), (j - iv), (k - iv)]

(2) State whether the following statements are TRUE or FALSE:

- (a) Godrej properties is one subsidiary of Godrej Group.
- (b) "Narayana Murthy believes in creating wealth legally and ethically." (*Nov. 16*)
- (c) Customer Service is given low priority in HDFC.
- (d) Mr. Uday Kotak is Punjab based businessman closely connected with banking sector.
- (e) RBI governor is superior to finance minister of the Central Government due to his position and powers.
- (f) Infosys occupies first position among the first five largest IT companies in India.
- (g) Godrej is one of the largest Indian conglomerates based in Vikhroli (Mumbai).
- (h) Mr. Deepak Parekh is a known personality in the field of housing finance. (*Nov. 17*)
- (i) Godrej is a consumer friendly group. (*Nov. 17*)
- (j) Ashok Leyland is a largest supplier of vehicles. (*March 18*)
- (k) Anand Mahindra is the chairman of Mahindra and Mahindra Company. (*March 18*)
- (l) The present governor of RBI is Urjit Patel.
- (m) Deepak Parekh is known personality in retail banking.
- (n) K. V. Kamath introduced the concept of Universal Banking. (*March 19*)

[Ans.: (a) True, (b) True, (c) False, (d) False, (e) False, (f) False, (g) True, (h) True, (i) True, (j) False, (k) True, (l) False, (m) False, (n) True]

(3) Match the following:

Group 'A'	Group 'B'
(a) Infosys	(i) Introduced the concept of Universal Banking
(b) Godrej	(ii) Economic stability and economic growth
(c) Deepak Parekh	(iii) Subsidiary of Hinduja Group
(d) Mr. K. V. Kamath	(iv) Started functioning in 1981
(e) Objective of RBI	(v) Chairman of Housing Development Finance Corporation
(f) Ashok Leyland	(vi) Present Governor of RBI
(g) Urjit Patel	(vii) Household name in India
(h) Godrej manufacturing base	(viii) Vikhori (Mumbai)

[Ans.: (a - iv), (b - vii), (c - v), (d - i), (e - ii), (f - iii), (g - vi), (h - viii)]

## Question Bank for Self-Practice

- (1) Explain the contribution of Mr. Narayana Murthy in the growth of Infosys. (Nov. 16)
- (2) Write about leadership qualities of Mr. Narayana Murthy.
- (3) Explain the growth of Godrej Group after 1990.
- (4) Write a note on K. V. Kamath and describe the contribution of K. V. Kamath in the progress of ICICI Bank. (Nov. 16)
- (5) Write a note on RBI and its present Governor.
- (6) Explain briefly the progress of Hinduja Group.
- (7) Discuss the features of leadership of Anand Mahindra.
- (8) Explain the role of Deepak Parekh in the progress of HDFC Group.
- (9) Describe the contribution of Mr. Deepak Parekh to the financial sector. (March 18)
- (10) "Narayana Murthy believes in creating wealth legally and ethically" Explain.
- (11) Write briefly the contribution of Uday Kotak and Sudhakar Shanbhag.
- (12) "Governors of RBI in India are highly qualified and competent with sound background of economics, finance and banking". Justify the statement.
- (13) Discuss the contribution of RBI in Indian economy.
- (14) Explain briefly the challenges before RBI Governor Dr. Urjit Patel.
- (15) Explain the contribution of Mr. Narayana Murthy.
- (16) Write a comprehensive note on any one of the following:
  - (a) Adi Godrej.
  - (b) K. V. Kamath.
  - (c) Anand Mahindra.
  - (d) Deepak Parekh. (March 17)
  - (e) Governor, RBI. (Oct. 18)
  - (f) "Godrej as Consumer Friendly Group."
  - (g) Narayana Murthy.
  - (h) Uday Kotak.

## Chapter 9

# International Leaders

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*Business leaders must find ways to infuse mundane business activities with deeper, soul stirring ideals, such as honour, truth, love, justice and beauty.*

*— Gary Hamel*

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*Introduction to International Leaders – Details of International Leaders: (1) President of World Bank, (2) President of Asian Development Bank (ADB), (3) Chairman / President of Federal Reserve System / Bank, (4) Managing Director of International Monetary Fund (IMF) – Objective Questions with Answers – Question Bank for Self-practice.*

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### INTRODUCTION TO INTERNATIONAL LEADERS:

In addition to business leaders functioning in different countries, there are international leaders functioning at the international/global level. Such leaders include President of World Bank, President of Asian Development Bank and so on. Such leaders lead international banking and financial institutions which operate at the global level. They make positive contribution in the economic/industrial development of poor/less developed countries through financial assistance. Such leaders function at global level through their organisations. And also make positive contribution to economic/industrial growth of poor and developing countries. In this chapter, we propose to study such international leaders and the banking/financial organisations which they lead.

### DETAILS OF INTERNATIONAL LEADERS:

#### (1) PRESIDENT OF WORLD BANK

The International Bank for Reconstruction and Development (IBRD), popularly known as World Bank was established in 1945

under the Bretton Woods Agreement of 1944. It is a sister institution of IMF. The initial purpose of World Bank was to assist member countries (affected by the Second World War) in bringing about a smooth transition from a war-time to peace-time economy. This objective is an old one and is already achieved. At present, the World Bank helps developing countries in their efforts to bring industrial/economic development and thereby providing better life and welfare to their people. The bank is also interested in removing extreme poverty by 2030.

India is one of the founder members of World Bank. It occupies a permanent seat on the Board of Executive Directors. India has been the largest receiver of World Bank assistance since 1949. India received \$859 million as loans from World Bank upto Nov. 2018. India was the major borrower of World Bank in the early period of economic planning. World bank assistance has been extended to sectors which are commercial in nature like railways, power, transport and communication and so on. India received financial assistance from the World Bank for the development of ports, oil exploration, railway modernisation and so on. The Bank also helped India to solve amicably its river water dispute with Pakistan. India is a member of all World Bank sister institutions. India is a major beneficiary of World Bank loans.

India has maintained cordial relations with the World Bank since long. Economic policy initiatives (economic reforms, liberal policy on FDI, Skill India, Make in India, etc.) of the present government are appreciated by the Bank. The ambitious Skill India initiative will be funded by \$1 bn (Rs. 6,600 crore) of World Bank money. The Bank has appreciated our economic initiatives in its annual and other reports.

The World Bank has four affiliates. These are:

- (1) The International Development Association (IDA) established in 1960.
- (2) The International Finance Corporation (IFC) established in 1956.
- (3) The Multilateral Investment Guarantee Agency (MIGA) established in 1988.

(4) **International Centre for the Settlement of Investment Disputes (ICSID).**

The common objective of these institutions is to help raise standards of living in developing countries by channelling financial resources from developed countries to developing countries. For this, long term funds will be supplied to developing countries and assistance will be given for developing basic infrastructure in such countries.

The World Bank is owned by the governments of 188 countries. The Bank finances its lending operations from its own borrowings from the world capital markets. Retained earnings and the flow of repayments on the loans also contribute to bank's resources. Bank loans are repayable over 20 years or less. However, the bank loans have a grace period of initial five years. Interest is charged on the loans granted. The loans are directed towards developing countries at more advanced stages of economic and social growth. The membership of World Bank was 184 countries by 2012. At present, it is 188.

Like the IMF, the IBRD has a three-tier organisation structure, with a President, Executive Directors and Board of Governors.

The President of the World Bank Group is elected by the Bank's Executive Directors whose number is 21. The President of the World Bank presides over the meetings of the Board of Executive Directors arranged regularly once in a month. The President has a staff of more than 6,000 persons who look after the working of the bank. The President is assisted by a number of Senior Vice-Presidents and Directors of various departments and regions.

The World Bank President is appointed by the Board of Executive Directors for a period of five years, renewable term. Some World Bank Presidents have worked for a longer period while some others worked for a shorter period. For example, Robert McNamara (US Defence Secretary and business executive with Ford Motor Company) was the President of World Bank from 1968 to 1981 (14 years) while Barber Conable (U.S. New York State Senator and US Congressman) was the President of World Bank for 1986-91. All Presidents of World Bank (from 1946

to present) are people with US nationality. This suggests American domination on this world financial institution which is essentially for the benefit of poor and developing countries.

Mr. Robert Zoellick was the President of World Bank from 2007 to 2012. His position was taken by Jim Yong Kim on July 1, 2012. He abruptly resigned and left his post and position on 1<sup>st</sup> Feb., 2019. Thereafter, David Malpass took the position of World Bank President on 9<sup>th</sup> April, 2019.

#### **PRESENT PRESIDENT OF WORLD BANK:**

After the resignation of Dr. Kim, Kristalina Georgieva was appointed as Interim President of the World Bank for a short period i.e. upto April 8, 2019. Finally, David Malpass took the position of World Bank President on April 9, 2019. His appointment is for a period of five years. He is the 13<sup>th</sup> President of the World Bank Group. The Executive Directors of the World Bank on April 5, 2019 unanimously selected David R. Malpass as President of the World Bank Group for a five year term beginning on April 9, 2019.

The Executive Directors followed the selection process agreed in 2011 for the selection of Mr. David Malpass.

David Robert Malpass (age 64) was born on 8 March, 1956, Petoskey, Michigan, United States. His nationality is American and is related to Republican Party.

David Malpass secured B.A. degree from Colorado College and his MBA from the University of Denver. He is also a Certified Public Accountant (CPA) and completed advanced graduate work in international economics at the School of Foreign Service at Georgetown University. He has also studied Russian, Spanish and French and has written numerous articles on economic development.

David Malpass is an American economic analyst and former government official serving as President of the World Bank Group since 2019.

Mr. Malpass previously served as Under Secretary of the Treasury for International Affairs for the United States. As Under Secretary, Mr. Malpass represented the United States in international settings, including the G-7 and G-20 Deputy Finance

Ministerial, World Bank-IMF Spring and Annual Meetings, and meetings of the Financial Stability Board, the Organization for Economic Co-operation and Development, and the Overseas Private Investment Corporation.

As Under Secretary, Mr. Malpass played a crucial role in several major World Bank Group reforms and initiatives, including the recent capital increase for IBRD and IFC. He was also instrumental in advancing the Debt Transparency Initiative, adopted by the World Bank and IMF, to increase public disclosure of debt and thereby reduce the frequency and severity of debt crises.

Prior to becoming Under Secretary, Mr. Malpass was an international economist and founder of a macroeconomics research firm based in New York City. Earlier in his career, Mr. Malpass served as the U. S. Deputy Assistant Secretary of the Treasury for Developing Nations and Deputy Assistant Secretary of State for Latin American Economic Affairs. In these roles, he focused on an array of economic, budget and foreign policy issues, such as the United States' involvement in multilateral institutions, including the World Bank.

Mr. Malpass has served on the boards of the Council of the Americas, Economic Club of New York, and the National Committee on US-China Relations.

The World Bank President is Chair of the Boards of Directors of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The President is also ex-officio Chair of the Boards of Directors of the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the Administrative Council of the International Centre for Settlement of Investment Disputes (ICSID).

The present World Bank President Mr. David Malpass has long experience of financial affairs. With long experience and maturity, he will lead the World Bank Group efficiently and effectively: As a result, the Bank will most likely achieve its goal of eliminating extreme poverty by 2030.



## (2) PRESIDENT OF ASIAN DEVELOPMENT BANK (ADB)

Asian Development Bank (ADB) was formed on 22 August, 1966. It is basically for fighting poverty in Asia and the Pacific. It is a regional organisation for financing development activities from countries of Asia and the Pacific. It is the outcome of treaty and its purpose is crediting. It serves the region of Asia - Pacific. 67 countries of the region (including India) are the members of ADB. The main decision-making organ of ADB is the Board of Directors. At present, membership of ADB is 68 (49 from Asia and Pacific and 19 outside).

The Asian Development Bank (ADB) is a regional development bank to facilitate economic development of countries in Asia. The bank admits the members of the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP, formerly known as the United Nations Economic Commission for Asia and Far East and non-regional developed countries. From 31 members at its establishment, ADB now has 67 members - of which 48 are from within Asia and the Pacific and 19 outside. The 68<sup>th</sup> member of ADB is Philippines (Joined on 11<sup>th</sup> March, 2019). It is the newest member of ADB. ADB was modelled on the World Bank and has similar weighted voting system where votes are distributed in proportion with member's capital subscriptions. At present, both the United States and Japan hold 552,210 shares, the largest proportion of shares at 12.756% each. China holds 228,000 shares (6.429%), India holds 224,010 shares (6.317%), the 2<sup>nd</sup> and 3<sup>rd</sup> largest proportion of shares respectively.

The Headquarters of ADB is at Mandaluyong, Philippines and it has its representative offices around the world. The ADB employs approximately 3,000 people coming from 55 out of its 67 member countries. More than half of the staff is Filipino.

ADB is committed achieving a prosperous, inclusive, resilient and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. It assists its members and partners by providing loan, technical assistance, grants and equity investment to promote social and economic development.

The ADB has provided financial assistance to many Asian countries for various developmental programmes. India is a founding member of ADB. ADB supports India's aim to accelerate economic transformation by building industrial competitiveness, creating jobs and accelerating growth process. India has also received loans from ADB for different infrastructure and other projects. Countries of Asia and the Pacific are getting funds from ADB, which operates as a regional financial institution.

**Aims of ADB:** The ADB defines itself as a social development organisation that is dedicated to reducing poverty in Asia and the Pacific through sustainable growth and regional integration.

80% of ADB's lendings are on five operational areas: Education, Environment, Finance Sector Development, Infrastructure, Regional co-operation and integration.

The highest policy-making body of the bank is the **Board of Governors** composed of one representative from each member state. The Board of Governors, in turn, elect among themselves the 12 members of the Board of Directors and their deputy. Eight of the 12 members come from regional (Asia-Pacific) members while the others come from non-regional members.

The Board of Governors also elect the bank's **President** who is the chairperson of the Board of Directors and manages ADB. The president has a term of office lasting five years, and may be re-elected. Traditionally, and also because Japan is one of the largest shareholders of the bank, the President has always been Japanese. The present President of ADB is also a Japanese named **Masatsugu Asakawa**. He is the 10<sup>th</sup> President of ADB. Even the 9<sup>th</sup> President of ADB was a Japanese named **Takehiko Alakao**.

Asian Development Bank (ADB) is an AAA-rated institution. Its sources of funds are:

- (1) ADB raises funds through bond issues on the world's capital markets,
- (2) ADB also relies on members' contributions,
- (3) ADB gets funds from earnings from lending operations, and

#### (4) Repayment of loans granted.

ADB's financial capacity is over \$20 billion by 2020. ADB is in a position to provide financial assistance to its developing members (Developing Asia).

#### PRESENT PRESIDENT OF ASIAN DEVELOPMENT BANK:

With effect from 17<sup>th</sup> January, 2020, Masatsugu Asakawa acts as the President of Asian Development Bank and also as a Chairperson of ADB's Board of Government.. He is unanimously elected President of ADB by its Board of Governors. Previously, Mr. Takehiko Nakao was acting as the Present of ADB from 28<sup>th</sup> April, 2013. He worked as Ninth President of ADB for seven years. Mr. Masatsugu Asakawa (his successor) is the 10<sup>th</sup> President of ADB. In August 2021, he was re-elected for the second term as the President of ADB. His appointment is for a five year term starting on 24<sup>th</sup> November 2021. ADB will get the benefit of his varied experience in international finance. Before joining ADB, Mr. Asakawa was working as special advisor to Japanese Prime Minister and Minister of Finance. He has long experience of working at high level positions in the government administration. Mr. Asakawa is 61 years of age and occupies top position in the ADB. He has a bright career as a Japanese civil servant before joining ADB.

Born in the Shizuoka Prefecture of Japan in 1958 Asakawa attended Faculty of Economics, University of Tokyo, graduating with a BA in 1981. He joined the Ministry of Finance in Japan in the same year. Later, he studied at the Woodrow Wilson School of Public and International Affairs at Princeton University in the United States, graduating with an MPA in 1985.

On 2 Dec., 2019, it was announced that Asakawa had been unanimously elected by the Board of Governors of ADB as the 10<sup>th</sup> president of the Bank. The former ADB President, Takehiko Nakao announced that he would retire as ADB president on 16<sup>th</sup> Jan., 2020 and Asakawa took up his position as ADB President on 17<sup>th</sup> Jan., 2020. Mr. Asakawa will finish the unexpired term of President Nakao, which ends on 23 November, 2021.

In a career spanning close to four decades, Mr. Asakawa has held a range of senior positions at the Ministry of Finance of

Japan, including Vice Minister of Finance for International Affairs, and gained diverse professional experience in development policy, foreign exchange markets, and international tax policy.

He served as Finance Deputy for the 2019. G20 Osaka Summit and the G20 Finance Ministers and Central Bank Governors meeting in Fukuoka, Japan. Furthermore, in the immediate aftermath of the Global Financial Crisis, he took part in the first G20 Leaders' Summit Meeting in his capacity as Executive Assistant to the then Prime Minister Taro Aso. Mr. Asakawa has had frequent engagement with the Organisation for Economic Co-operation and Development including as Chair of the Committee on Fiscal Affairs from 2011 to 2016.

Mr. Asakawa served as a Visiting Professor at the University of Tokyo from 2012 to 2015 and at Saitama University from 2006 to 2009. By career, Mr. Masatsugu Asakawa, is a Japanese civil servant with Japanese Nationality.

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. In 2018, it made commitments of new loans and grants amounting to \$21.6 billion. Established in 1966, it is owned by 68 members—49 from the region.

According to Deputy Prime Minister and Minister of Economy and Finance of the Republic of Korea "Mr. Asakawa's extensive and diverse experience in international finance and development will serve ADB well in pursuing its vision of a prosperous, inclusive, resilient, and sustainable Asia and the Pacific".

### (3) PRESIDENT OF FEDERAL RESERVE BANK

The Federal Reserve System (also called Federal Reserve or simply Fed) is the central banking system of the United States. It was founded by Congress in 1913 to provide the nation with a safer, more flexible, and more stable monetary and financial system. Over the years, its role in banking and the economy has expanded. It operates as the central banking system of the whole country.

The central banking system in the USA is altogether different as compared to central banking systems in other countries

including England and India. The central banking structure in the USA is federal and decentralised with Federal Reserve Banks for States. The Federal Reserve System conducts normal central banking functions but in a separate manner as compared to other central banks. The Federal Reserve System started operating from August 10, 1914. It started functioning 97 years ago and has proved to be an efficient central banking system of a vast and developed federal country i.e. USA. The chairman of F. R. system is appointed by the President of the United States of America. He is also the head of the Federal Reserve. In addition, there are Federal Reserve Banks which operate at the state level and conduct central banking functions at the state level. The F.R. System is important as it operates at the national level.

#### **Functions/Duties of Federal Reserve System:**

- (1) Conducting the nation's monetary policy by influencing the monetary and credit conditions in the economy in pursuit of maximum employment, stable prices and moderate long-term interest rates;
- (2) Supervising and regulating banking institutions to ensure the safety and soundness of the nation's banking and financial system and to protect the credit rights of consumers;
- (3) Maintaining stability of the financial system and containing systemic risk that may arise in financial markets;
- (4) Providing financial services to depository institutions, the US government and foreign official institutions, including playing a major role in operating the nation's payments system.

In short, the Federal Reserve has three primary functions:

**Monetary Policy, Banking Supervision and Financial Services.**

**CURRENT PRESIDENT / CHAIRMAN OF FEDERAL RESERVE SYSTEM / BANK:**

Janet L. Yellen took office as chair of the Board of Governors of the F. R. System on February 3, 2014, for a four year term ending in February, 2018. Janet Yellen was **first female chair** of the U. S. Federal Reserve Board of Governors. Her leadership of F. R.

System has been a great success. However, **President Trump** announced his intention to nominate **Mr. Powell** to succeed her as the Chairman of the Board of Governors on November 2, 2017 and the Senate confirmed him on January 23, 2018. Prior to his appointment as Chairman, Mr. Powell served as a member of the Board of Governors. Mr. Powell's term as Chairman is of four years. However, his term as a member of the Board ends in January 31, 2028.

**Jerome H. Powell** took the oath of office as Chairman of the Board of Governors of the F. R. System on Monday, the 5th February, 2018 succeeding **Janet. L. Yellen**. Mr. Powell is the 16th and the current Chairman of Federal Reserve. Mr. Powell also serves as Chairman of the Federal Open Market Committee, the System's principal monetary policymaking body. Mr. Powell has served as a member of the Board of Governors since taking office on Mar 25, 2012, to fill an unexpired term. He was reappointed to the Board and sworn in on June 16, 2014, for a term ending January 31, 2028.

Prior to his appointment to the Board, Mr. Powell was a visiting scholar at the Bipartisan Policy Centre in Washington, D. C., where he focused on federal and state fiscal issues. From 1997 through 2005, Mr. Powell was a partner at The Carlyle Group.

Mr. Powell served as an **Assistant Secretary** and as **Undersecretary of the Treasury** under President **George H. W. Bush**, with responsibility for policy on financial institutions, the Treasury debt market, and related areas. Prior to joining the Administration, he worked as a lawyer and investment banker in New York City. During 1990 and 1993, Mr. Powell worked in the United States Department of Treasury.

In addition to service on corporate boards, Mr. Powell has served on the boards of charitable and educational institutions, including the Bendheim Centre of Finance at Princeton University and The Nature Conservancy of Washington, D. C., and Maryland. Mr. Powell has also served on the boards of charitable and educational institutions. He is a **registered Republican**.

Mr. Powell was born on February 4, 1953 in Washington, D. C. He received B.A. in politics from Princeton University in 1975 and

earned a law degree from Georgetown University in 1979. While at Georgetown, he was editor-in-chief of the *Georgetown Law Journal*. He is the first non-economist Federal Reserve Chairman in the last 40 years.

Mr. Powell is married with three children.

Mr. Powell has now completed two year as the President of Federal Reserve System. American economy is now stable with increase industrial production and employment opportunities, His policy and decisions are favourable to the progress of American economy towards growth and prosperity.

#### (4) MANAGING DIRECTOR OF INTERNATIONAL MONETARY FUND (IMF)

##### ORIGIN OF IMF (WHAT IS IMF?):

The International Monetary Fund (IMF) (also called the Fund) is an international monetary institution established by 44 nations under the Bretton Woods Agreement of July 1944. The establishment of IMF was a landmark development in the international monetary field.

The basic purpose of IMF was to *promote economic and financial co-operation among its members in order to facilitate the expansion and balanced growth of world trade*. The IMF came into existence in December, 1945 and started functioning from March 1, 1947. Its original membership was of 29 countries. At present, 190 nations are members of the IMF. The IMF is the principal International Monetary Institution established to promote a co-operative and stable global monetary framework.

IMF may be defined as a *"bank which is intended to help its member countries by providing short-term loans to tide over their temporary difficulties in their balance of payments."*

##### OBJECTIVES OF IMF:

- (1) To promote international economic and monetary co-operation among its members through consultation and mutual collaboration to facilitate the expansion and balanced growth of world trade.

- (2) To promote exchange rate stability and maintain orderly exchange arrangements and avoid competitive exchange depreciation.
- (3) To help members with temporary balance of payments difficulties to tide over them without resort to exchange restrictions.
- (4) To promote growth of multilateralism in trade and payments and thus expand world trade and aid.
- (5) To help the balanced growth of the economies of developing countries.
- (6) To make its resources available to its members who are experiencing BOP problems.
- (7) To provide technical and managerial help to member countries and also to provide training facilities to member countries.
- (8) To facilitate the expansion and balanced growth of International trade.
- (9) To help achieve the balance of payments equilibrium, shorten the duration of disequilibrium and promote orderly international relations.
- (10) To facilitate the expansion of balanced growth of international trade by providing international liquidity.

The main object of IMF is to promote exchange stability and encourage multilateral trade and payments. To achieve this objective, the IMF grants loans of foreign currencies to member countries, to tide over their temporary disequilibrium in their balance of payments. The IMF is basically a short-term financial institution – a lender and a borrower and a central bank of central banks.

#### **FUNCTIONS AND SERVICES OF IMF:**

The Fund performs financial, supervisory and controlling (regulatory) functions as noted below:

- (1) The Fund provides short-term loans to its members so that they may correct their temporary balance of payments disequilibrium without resorting to restrictive measures. The Fund also helps members to co-ordinate their national



economic policies with that of the rest of the world so as to ensure a stable world financial system and sustainable economic growth.

- (2) The Fund has established a code of economic behaviour for its members. The member countries should co-operate with the Fund in making an orderly exchange arrangements and maintaining a stable system of exchange rates. Hence, the first regulatory function of the Fund is to act as a guardian of the code set up by its Articles.
- (3) The Fund is regarded as "*the guardian of good conduct*" in the sphere of balance of payments. It aims at reducing tariffs and other trade restrictions by the member countries.
- (4) The Fund renders technical advice to its members on monetary and fiscal policies.
- (5) The Fund conducts research studies and publishes them in IMF staff papers, finance and developments, etc. IMF conducts economic surveys and give publicity to them. For example, IMF updates World Economic Outlook Survey and publishes it for the benefit of member countries. IMF's global forecasts are useful to all member countries for deciding their economic and other policies.
- (6) The Fund renders technical experts to member countries having BoP difficulties and other problems.
- (7) The Fund conducts short training courses on fiscal, monetary and balance of payments for personnel from member nations through its Central Banking Service Department, the Fiscal Affairs Department, the Bureau of Statistics and the IMF Institute.

The organisation structure of the Fund consists of a Board of Governors, an Executive Board, a Managing Director, a Council and a staff with its headquarters in Washington, USA. There are ad hoc and standing committees appointed by the Board of Governors and the Executive Board.

The Executive Board is the most powerful organ of the Fund. It exercises vast powers conferred on it by the Articles of Agreement and delegated to it by the Board of Governors. Its powers are related to Fund activities (regulatory, financial and

supervisory). The Executive Board is in the continuous session and meets several times a week to decide on all matters pertaining to the role of the Fund. Any major change in the IMF procedure requires 85 per cent majority in the Executive Board. The Fund has its secretariat in Washington.

#### **PRESENT MANAGING DIRECTOR OF IMF:**

The Executive Board of the International Monetary Fund (IMF) selected Kristalina Georgieva to serve as IMF Managing Director and Chair of the Executive Board for a five-year term starting on October 1, 2019. Ms. Georgieva, who succeeds Christine Lagarde, is the first person from an emerging market economy to lead the IMF since its inception in 1944.

The selection of Ms. Georgieva by the 24-member Executive Board representing the IMF's 189 member countries brings to a conclusion the selection process initiated by the Executive Board on July 26, 2019. Following interviews with Ms. Georgieva, Executive Directors selected her for the position, effective October 1, 2019.

Kristalina Georgieva age 67, is a former Chief Executive Officer of the World Bank. She is a Bulgarian economist. Her nationality is Bulgaria.

Kristalina Georgieva born in Sofia, Bulgaria, on 13<sup>th</sup> August, 1953. She holds a Ph.D. in Economic Science and a M.A. in Political Economy and Sociology from the University of National and World Economy, Sofia, where she was an Associate Professor between 1977 and 1991. Her father was a civil engineer.

Georgieva started her career at the World Bank Group in 1993 as an environmental economist for Europe and Central Asia. Following this, she served in various positions in the Bank ultimately rising to become Director of the Environment Department in charge of World Bank's environmental strategy, policies and lending. Her final position at the World Bank was vice-president and corporate secretary. Since 2019, Georgieva has been co-chairing the World Economic Forum. High Level Group on Humanitarian Investing, alongside Borge Brende and Peter Maurer.

On 29<sup>th</sup> Sept., 2019, Georgieva was named the next managing director of the IMF, to succeed Christine Lagarde, who is leaving

to become head of the European Central Bank (ECB). Finally, she was selected to the post of Managing Director of International Monetary Fund.

Her term started on 1<sup>st</sup> October, 2019 and will last for five years. She is Managing Director and Chairman of the Executive Board of IMF.

The Managing Director is the chief of the IMF's operating staff and Chair of the Executive Board. The Managing Director is assisted by four Deputy Managing Directors in the operation of the Fund, which serves its membership through about 2,700 staff.

### India and IMF:

India is one of the founder members of IMF. India secured large scale financial assistance from IMF. India has drawn IMF credits under most of its schemes. Normally, member countries get 50 to 60 per cent of their SDR quotas in loans. However, India received more than 100 per cent of its quota and this speaks about the Fund's confidence in the Indian economy.

In addition to receiving loans to meet deficit in the balance of payments, Indian secured some other benefits from the membership of the Fund. India got membership of IBRD (World Bank) by virtue of being a member of the Fund. India received financial aid from the World Bank for many development projects. Secondly, India has been getting advisory help from the Fund under the Fund surveillance conditionality. Thirdly, the Fund has been providing short-term training courses to Indian personnel.

India received the following additional benefits from the membership of IMF: Independence of Indian rupee, availability of foreign currency, reputation in the international circle, guidance and advice, timely help and help during emergency. India's current quota of IMF is SDR 5821.5 million, making India the 13<sup>th</sup> largest quota holding country at IMF. IMF has played an important role in Indian economy. It has provided economic assistance to India from time to time. It has also provided consultancy services in determining various economic policies of the country. India plays a significant role in the formulation of fund policies.

IMF has given assistance to India in the early period i.e. upto the end of 1995. Our dependence of IMF has now reduced considerably. However, even at present, India takes financial assistance and consultancy services from IMF. India secures the benefits of World Bank Services because of our membership of IMF. India has good record of loans repayment. India's relations with IMF are close and cordial. This benefits both.

### Objective Questions with Answers

(1) Select the correct alternative and rewrite the statements:

- (a) The present president of World Bank is \_\_\_\_\_.  
 (i) Jim Yong Kim (ii) Robert Zoellick (iii) Takehiko Nakao (iv) Dr. Raghuram Rajan
- (b) The headquarters of ADB is at \_\_\_\_\_.  
 (i) Manila, Philippines (ii) Singapore (iii) New Delhi (iv) Seoul
- (c) Present president of Asian Development Bank is \_\_\_\_\_. (Nov. 16)  
 (i) Takehiko Nakao (ii) Jim Yong Kim (iii) Haruhiko Kuroda
- (d) IMF is operating as principal \_\_\_\_\_.  
 (i) International financial institution (ii) International monetary institution  
 (iii) International banking institution (iv) Global institution
- (e) Present Managing Director of IMF is \_\_\_\_\_. (Nov. 17)  
 (i) Jim Yong Kim (ii) Christine Lagarde (iii) Takehiko Nakao (iv) Janet L. Yellen
- (f) India is one of the \_\_\_\_\_ of IMF.  
 (i) founder member (ii) invited member (iii) associated member (iv) guest member
- (g) India is a \_\_\_\_\_ borrower of World Bank.  
 (i) minor (ii) major (iii) safe (iv) dangerous
- (h) The central banking system of the USA is called \_\_\_\_\_.  
 (i) Federal Reserve System (ii) Regional Reserve System (iii) Global Reserve System (iv) None of the above
- (i) \_\_\_\_\_ is the chairman of Federal Reserve System. (March 18)  
 (i) Christine Lagarde (ii) Janet Yellen (iii) Takehiko Nakao (iv) J. H. Powell
- (j) IMF provides \_\_\_\_\_ loans.  
 (i) long term (ii) medium term (iii) short term (iv) permanent

[Ans.: (a - i), (b - i), (c - i), (d - ii), (e - ii), (f - i), (g - ii), (h - i), (i - iv), (j - iii)]

(2) State whether the following statements are TRUE or FALSE:

- (a) World Bank provides more funds to developed countries and less to poor countries. (Nov. 17)
- (b) World Bank helps member countries in building up the basic infrastructure for economic growth.
- (c) Dr. Kim, present World Bank President is known more as physician and less as a global banker.
- (d) The Asian Development Bank is a global development bank. (March 19)
- (e) The president of ADB has always been American.
- (f) The Chairman of F. R. System is appointed by the president of the United States of America.
- (g) Present Chairman of Federal Reserve System is Janet L. Yellen.
- (h) To promote exchange rate stability is one objective of IMF. (Nov. 16; March 17)
- (i) IMF is dominated by poor and developing countries.

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