Uttarakhand Open University
Haldwani

Master of Tourism and Travel Management (MTTM-24)

Organisational Behaviour and Tourism Entrepreneurship

Department of Tourism

School of Tourism, Hospitality and Hotel Management
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(MTTM-204)

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Organizational Behaviour and Tourism Entrepreneurship (MTTM-204)

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Unit-1
Exploring the Dynamics of Organizational Behaviour

Structure:

1.1 INTRODUCTION:

The importance of organizations has attracted the attention of a wide assortment of intellectuals leading to the emergence of a wide, important, and distinctive field of organizational study and research, known as "Organizational Behavior". The science of OB has developed by using general concepts and then altering their application to a particular situation. In an organization there is a need for harmonious relationship among people and processes, which make it up. To attain organizational efficiency and effectiveness management must understand problems involving the elements of organization like people and structure and managers need to develop their interpersonal skill. Organization behavior (OB) is a field of study that investigates the impact that individuals, group and structure have on behavior within organization. OB offers both challenges and opportunities for managers.

1.2 OBJECTIVES

The unit will enable you to:
- Understand the meaning and definition of organization and its elements.
- Gain insights on the Organizational Structure.
- Acquire the complete knowledge of concept of organization behavior.
- Role of behavior science to study organizational behavior.
- Understand the challenges and opportunities for organization behavior.

1.3 CONCEPT OF ORGANISATION

Organizations have existed for as long as people have worked together. Organization is a group of people working together, cooperatively under "authority" towards achieving goals and objectives that mutually benefit the participants and the organization. Managers get things done through other people. They make decisions, allocate resources and direct the activities of others to attain goals. All managers perform the management functions like: Planning, Organizing, Directing / Leading, Controlling and Staffing. Managers do their working an organization.

Organizations have existed in some form or the other since the advent of human development. Organizations emerge and exist in the society. However for management purposes it is vital to have an understanding about organizations. Because organizational behavior and behavior of the people working in the organization are interrelated. Organizations are groups of people who work independently towards some purpose.

Organization consists of people who interact with each other to achieve a set of goals. Hence organization can be defined as human group deliberately and consciously created for the attainment of certain goals with rational co-ordination of closely relevant- activities. The characteristics of an organization are:

- Each organization has some objectives or set of objectives.
- It is a group of people who are interrelated.
- Relationship between organization and its members is contractual.
- In the organization there is a coordination of closely relevant acclivities of the members and all members contribute to commonly agreed goals.
- Each organization has a definite structure where in various individual are fitted.
- Every organization has some specified norms and standards of behavior.

These characteristic differentiate an organization from other social organization like family, clan, community etc. Such characteristics are important from the point of view of management. There are three kinds of work which must be performed whenever an organization comes into being viz. Division of Labour, Combination of Labour and Co-ordination.

Organization Process

The organization process is the forming of structural interpersonal relationship. In this process, the manager differentiates and integrates the activities of his organization.

Differentiation is the process of departmentalization or segmentation of activities on the basis of some homogeneity. Integration is the process of achieving unity of effort among various departments (segments or subsystems). The process of organization involves the following steps:

- Determination of organizational goals or objectives.
- Determination of task requirements to achieve the goal.
- Division of tasks in to different jobs to find out how many personnel will be needed to complete the task.
- Grouping of jobs in to departments to take advantage of specialization and efficiency.
- Selection of personnel to fill the jobs.
- Assignment of work positions to the individuals.
- Granting the authority to the people to carry out the duties of their jobs.
- Determination of superior subordinate relationship.

- Determining span of management.
- Setting up co-ordination mechanism.

9.4 ORGANIZATIONAL THEORY

To attain organizational efficiency and effectiveness management must understand problem involving the elements like people, structure and change. The theory is a systematic grouping of interrelated principles. Theory is the study of structure, functioning, and individuals within them. Organization theory contains philosophical assumptions and value orientations regarding the nature of human behavior. It provides the ground for management activities in a number of significant areas of organizations behavior. There are three types of organizational theory developed during the last hundred years.

Classical Theories

During the late 18th century certain concepts about *bureaucracy, administrative theory* and *scientific management* were developed. These concepts came to be known as the Classical Theories, which described an organization as "the structure of relationships, power, objectives, roles, activities, communications and other factors that exist when persons work together".

Classical Organization Theory presents two distinct steams: Scientific Management stream and Administrative Management stream. Scientific Management theory was primarily concerned with problems at operation level, not on managerial process, while Administrative theory viewed the organizational problems from the top level.

1) Bureaucracy: Max Weber, a German social scientist is regarded as the father of bureaucracy. The features of bureaucracy included:

- **Rules and Regulations**- These are formally fixed and specify the official duties in a given structure. The position of authority is formally distributed in order to give commands for discharging duties. Within the framework of rules, the behavior is subjected to controls.
- **Hierarchy**- A common feature among all bureaucracies, hierarchy is established by delegating power and authority. This starts from the top and goes down the ladder according to laid down procedures.
- **Recruitment**- Qualifications are prescribed for recruitment. Training is a mode for importing skills and job security is ensured in conformity with rules. The duties, responsibilities and reporting relationships are structured in a command hierarchy.

There are also opportunities for specialization and a certain amount of stability is provided through a bureaucratic organizational structure. There are certain drawbacks also in a bureaucratic structure:

- Rules and regulations are rigid. This inflexibility deters the pace of change or reacting to crisis situations.
- Functions are directed in mechanical way with no scope for human relations or emotions.
- Inordinate delays occur in decision making and implementation because of hierarchical functioning and rigid procedures.

2) Administrative Theory: Fayol was father of Administrative Management Theory. He has given fourteen principles of management.

- **Division of work**-To attain higher productivity, work must be entrusted to specialists in related fields.
- **Authority & Responsibility** -Formal authority is derived from manager's official position and responsibility is closely related to authority.
- **Unity of Command**- To reduce confusion and conflicts, each employee should receive instructions from only one superior.
- **Subordination** of individual interests to common interests is needed,
- **Remuneration –** Remuneration paid to the personnel should be fair.
- **Discipline**- It means obedience to authority, observance of the rules of services; respect for agreement, superiors; sincere efforts for completing given jobs etc.
- **Unity of Direction**-It implies one head and one plan for a group of activities having the same objectives.
- **Centralization**- It means reservation of authority at certain limited points. The management must decide the degree of centralization or decentralization of the authority on the basis of nature of circumstances.
- **Scalar chain**- It means the hierarchy of authority from the highest executive to the lowest one for the purpose of communication.
- **Order**- It is related to the arrangement of things and people.
- **Equity**- It means equality, of fair treatment and justice.
- **Stability of tenure of personnel**- Workers should be assured security of job by management
- **Initiative**- It means freedom to think out and execute a plan.

- **Esprit de corps**-It is the principle of "Unity is strength". Management should create team spirit among the employees.

3) Scientific Management: Whereas the earlier two classical theories focussed on macro structural aspects, the Scientific Management Theory emphasized upon the micro aspects.

Fredrick Winston Taylor described four principles of Scientific Management:
- Develop a science for each element of man's work which replaces the old rule-of-thumb method.
- Scientifically select and then train, teach and develop a workman.
- Management should cooperate with workers.
- Equal division of work and responsibility amongst the management and workers.

Neo-Classical Theory

The Neo-classical approach tried to improve upon the classical viewpoint by bringing in the human element. This provided a trust towards *participative management* and *democratization of organizational power structures.* It stood for more liberty for employees, a bigger role in decision making and openness in communication with managers and among themselves.

In fact this view point agreed for meeting the human requirements and raising satisfaction among the members of an organization, rather than being suspicious or doubting their capabilities. The aim here was to relax rigidity.

Neo Classical Theory offers modification in organization structure as flat structure, with decentralization of authority and existence of informal organization. The main propositions of neoclassical theory are as follows:

1. The organization in general is a social system.
2. The social environments on the job affect people and are also affected by them and not management alone.
3. In the formal organization, informal organization also exists and it affects and is affected by formal organization.
4. A conflict between organizational and individual goals often exists which increases the importance of integration between these two.
5. Man is interdependent and his behaviour can be predicted in terms of social and psychological factors.
6. Man is diversely motivated and wants to fulfill different types of needs.

7. Man's approach is not always rational. Often he behaves irrationally in terms of the rewards which he seeks from the work.

8. Communication is necessary as it carries information to the functioning of the organization and the feelings and sentiments of the people who work in it.

9. Team-work is essential for co-operation and sound organizational functioning. This work is not automatic but has to be achieved through behavioral approach.

The Systems Approach

Under this viewpoint, an organization is viewed as a system consisting of five parts:

- inputs
- process
- output
- feedback, and
- environment

The systems approach emphasizes upon the inter-dependence of every segment of the organization which through interaction form a unitary whole.

With new technological innovations and more managerial experiences, new perspectives keep emerging for a better understanding of organizations. One should remember that the process of understanding organizations and choosing the organizational structure is an ongoing process.

1.5 ORGANIZATION STRUCTURE

Organization structure refers to the division of labour as well as patterns of coordination, communication, work flow and formal power that direct organizational activities.

In brief organization structure can be viewed as the established pattern of relationship among various components or parts of organization. Generally formal organization structure refers to the followings.

- The pattern of formal relationships and duties;
- The activities and tasks assigned to different departments and people in the organization;
- Coordination of these activities or tasks;
- The hierarchical relationships within the organizations ,and

- The policies, procedures, standards, evaluation systems etc that guide the activities and relationships of people in the organization.

Following are the advantages of organization structure:

- It acquaints everybody with the make up of a company such as its size, basis of division of activities, co-ordination etc.
- It reveals whether not the span of management is wide or narrow.
- It reveals many of the deficiencies in the organization structures such as one man might be reporting to two persons.
- It reveals whether the organization is evenly balanced.

1.5.1 Elements of Organization

An organization structure defines how job task are formally divided, grouped and coordinated. There are six key elements that manager needs to address when they design their organization structure. These are: Span of Control, Work Specialization, Chain of Command, Centralization and Decentralization, Formalization and Departmentalization.

(i) Work Specialization: The work can be performed more efficiently if employees are allowed to specialize. Work Specialization or division of labour is the degree to which tasks in the organization are subdivided into separate jobs. The essence of it is that, rather than an entire job being done by an individual, it is broken down in to a number of steps and each step is being completed by a separate individual.

(ii) Chain of Command: The chain of command is an unbroken line of authority that extends from the top of the organization to the lowest echelon and explains who reports to whom. This element includes the understanding of concepts like: Authority, Unity of Command, Unity of Direction etc.

(iii) Span of Control: It refers to the number of people directly reporting to the next level in the organizational hierarchy. It tells the numbers of subordinates a manager can efficiently and effectively direct. In tall organizational structures there are narrow spans of management and with many levels between the top and lower level managers. There is a long chain of command and decision making process is slower. On the other hand flat organization structures have fewer management levels with wide span.

Fig 9.1.Flat Organisation Structure
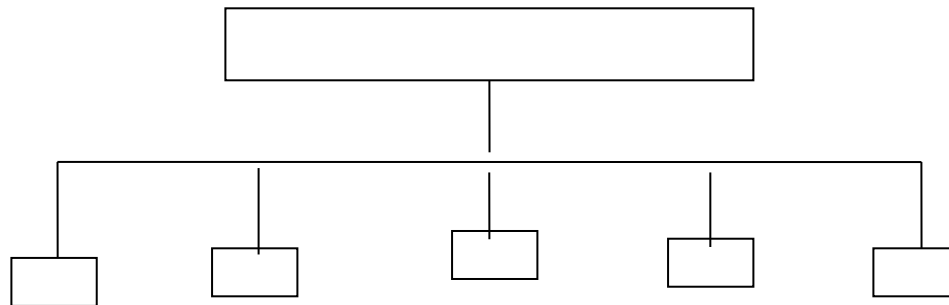
(iv) Centralization and Decentralization: The term centralization means that formal decision making authority is held by a small group of people, typically those at the top of the organizational hierarchy. In contrast decentralization means that the lower level personnel provide more input or are actually given the discretion to make decisions. Centralization is a characteristic of small organizations. Most organizations begin with centralized structures as the founder makes most of the decisions. But as organizations grow, they diversify and their environments become more complex. Consequently larger organizations tend to decentralize.

Fig 9.2. Tall Organisation Structure
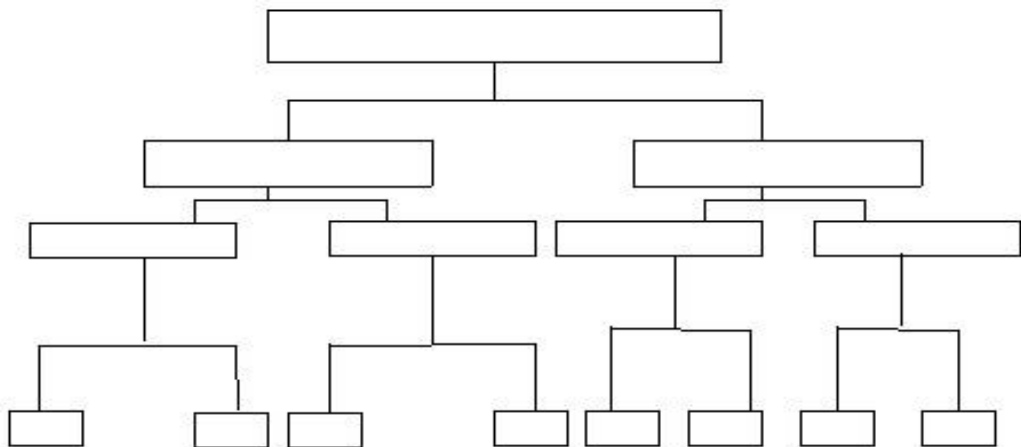
(v**) Formalization**: It is the degrees to which organizations standardize behavior through rules, procedures, formal training and related mechanism. Organization adopts several ways to formalize things. They prepare manuals, statutes, charts etc. Organization manuals and statures define relationship between various offices and describe the duties, rights and privileges of various position holders, formalization may increase efficiency, but it can also create problem as rules and procedures reduce flexibility.

(vi) Departmentalization: It is the process of dividing work of organization into various units or departments. The basis of departmentalization has general applicability and can be applied in different situations. The more commonly used basis is:

- **Functions** like Marketing, Finance, Personnel, Research & Development etc.
- **Products** like Inbound Operation, Outbound Operation, Conference & Conventions, Documentation section in a travel agency.
- **Territory** like the Regional divisions of Air India (North, South, East, West)
- **Customers**: caterings to different segments of customers like tour operator having separate departments for catering, business travelers, LTC travelers, Incentive travel.

Grouping of activities exclusively on one basis is, however, rarely possible. In modern organizations, at some stage or the other, more than one basis has to be used.

1.5.2. Common organizational structure:

We are now describing some of the more common organizational structure in use.

(i) Functional structure: It often develops in small organization. Units and subunits are created on the basis of function. A particular function and all activities connected with it are placed in same unit. Thus vertical and horizontal elaboration of every functional unit and ultimately of the whole of the structure takes place. These are organizations which have a structure based on functions like marketing, finance, production etc. Here all persons performing similar functions are placed under one functional head.

(ii) Product/Service based structures: In this category comes an organization which offers a variety of products or services and builds a structure where each service or product is a division of its own. In other words, the activities are structured according to their services or products. For example an organization in the hospitality industry may have one division of hotels, another of restaurants and another of airline catering. Each of these divisions resembles a separate business, focuses its own operations and is responsible for its own costs and profitability. Yet, each division is not a separate enterprise in the true sense because the ultimate authority and control rests with the central authority.

Fig.9.3 Product/service based structures
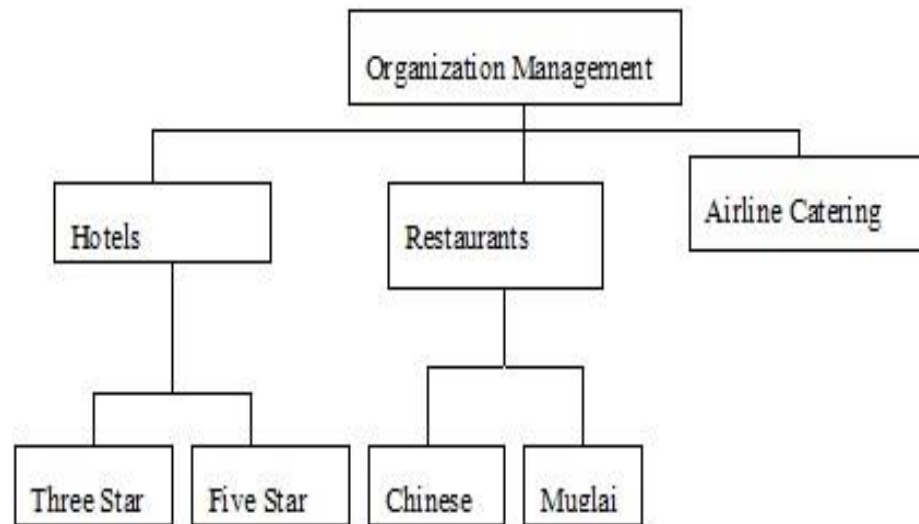
(iii) **Spatial based structures:** In the tourism industry some organizations go for division of their activities by structuring them on geographical lines, i.e. through a network of regional offices. The services are divisionalised according to customers or a regional basis.

(iv) **Conglomerate structures:** Some organizations grow through acquiring other businesses. In such conglomerate structures, the business or companies acquired are maintained as subsidiaries. However, the autonomy of the subsidiary is determined by deciding on the nature of control, authority and line of communication between the subsidiary and the parent company.

(v) **Matrix structures:** In mathematics, matrix means an array of vertical columns and horizontal rows. In a matrix organization structure, the employees work under a dual authority. One line of command is functional or divisional while the second depicts a project based approach in a specialized area. This means that a person is accountable to two heads at one time. One is the usual head under whom the person works and the other, the head of the project which may be for a limited duration. Often, the matrix structure is known as a multiple command system as it is combination of product and functional organization.

It must be noted here that there is no one structure that is perfect for any organization. The efficacy of any structure adopted is proved through an evaluation of the course of its operations. However, an appropriate structure could be one that:
- enables operational efficiency for achieving organizational goals, and
- Provides such a structure where individual jobs can be adjusted at case.

Fig1.4. Matrix Structure
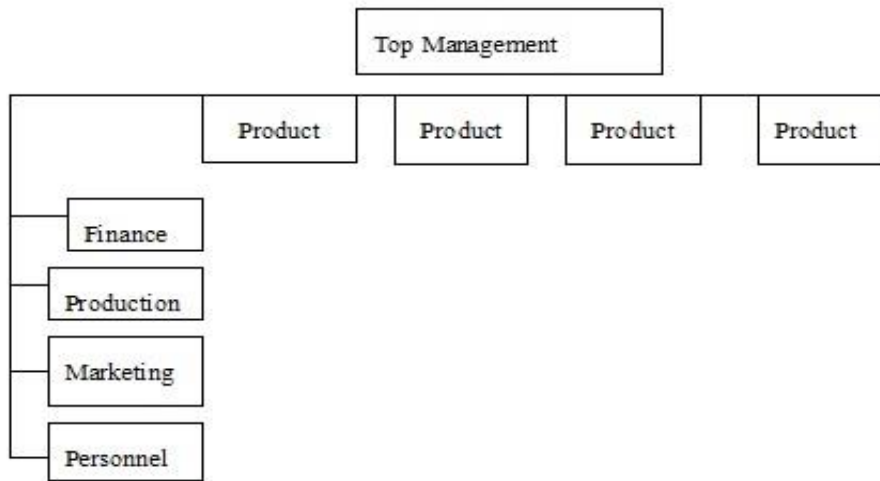
There are certain factors to be kept in mind while choosing a structure. These include:

1) Size of the organization
2) Objectives of the organization
3) The market and environment
4) Range, nature and scope of business
5) Technology to be adopted, etc.

1.6 CONCEPT OF ORGANIZATIONAL BEHAVIOR

Organizational Behavior (OB) is the study of what people think, feel and do in and around organization. OB is the systematic study of individual, team and structural characteristic that influence behavior within organization. It is a field of study and is a distinct area of expertise with a common body of knowledge. It studies three determinants of behavior: Individuals, Groups and Structure.

Further, OB applies the knowledge gained about individuals, groups and effect of structure on behavior in order to make organizations work more effectively. Organizational Behavior is concerned with the study of what people do in an organization and how that behavior affects the performance of the organization. And because OB is specifically concerned with employment related situations, it emphasizes behavior as related to Jobs, work absenteeism, employee turnover, productivity, human performance, and management.

Why study organizational behavior?

Study of OB is essential because every one in the work force needs to understand, predict and influence behavior (both our own and that of others) in organizational setting. Marketing students learn marketing concepts and computer science students learn about circuitry and software code. But everyone benefits from organizational behavior knowledge to address the people issues when trying to apply marketing, computer science and other ideas.

OB knowledge helps to influence the organizational events by understanding and applying concepts in, motivation, communication, conflict, team dynamic, group structure and processes, learning, work design, attitude development, work stress and other topics.

Behavior generally is predictable, if we know how the person perceived the situation and what is important to him or her. While people's behavior may not appear to be rational to an outsider, there is reason to believe. It usually is intended to be rational and it is seen as rational by them. An observer often sees behaviors as non rational because the observer does not have access to some information and does not perceive the environment in the same way. Certainly there are differences between individuals. Placed in similar situations, all people don't act exactly alike.

Fig 9.5.Reasons for Studying Organizational Behaviour
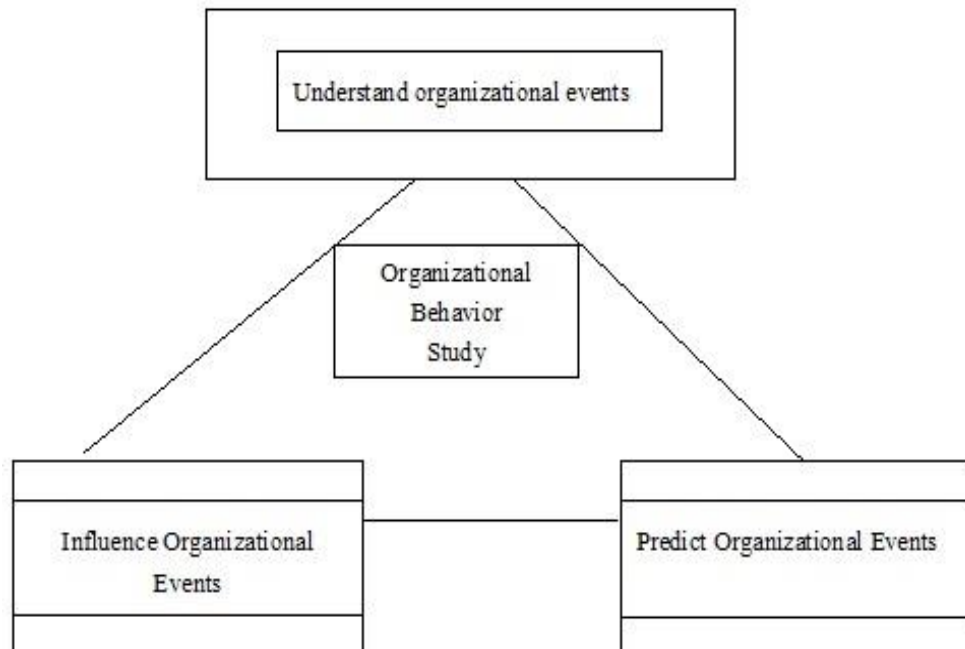
However, there are certain fundamental consistencies underlying the behavior of all individuals that can be identified and then modified to reflect individual differences. These fundamental consistencies are very important, because they allow predictability. Since behavior is predictable, the systematic study of behavior is needed. It means to make reasonably accurate predictions or looking at relationships; attributing to causes and effect. Based on scientific procedure, by collecting data under controlled conditions and interpreting these data, conclusion is drawn on behavior.

1.7 CONTRIBUTING DISCIPLINES TO THE STUDY OF ORGANIZATION BEHAVIOR

Organization, being composed of human beings, behavior related problems are encountered. These problems can be solved efficiently   by the application of behavior science. Behavior science is the scientific study of human behavior. It is a multidisciplinary study. The traditional predominant disciplines from which organizational behavior knowledge has developed are: Psychology, Sociology, Anthropology, Political science and Economics. Some other emerging fields like Communications, Information Systems, Marketing and Women's studies are identified from which organizational behavior knowledge is acquired. The disciplines and relevant OB topics are presented below:

Discipline	Area of study /Contribution	Unit of analysis	Out put.
Psychology	Learning, Motivation, Personality, Perception, Emotions, Training , Leadership effectiveness, Job Satisfaction, Individual Decision-making, Performance Appraisal, Attitude Measurement, Employee Selection, Work design, Work stress	Individual	Study of OB

Sociology	*Group dynamics, Work teams, Communication, Power, Conflict, Intergroup behavior *.Formal organization theory, Organizational technology, Organization change, Organizational culture	Group Organizati on system	Study of OB
Social Psychology	Behavioral change, Attitude change, Communication, Group processes, Group Decision making	Group	Study of OB
Anthropol ogy	*Comparative values, Comparative attitudes, Cross-cultural analyses *Organizational culture, Organizational environment.	Group Organizati on system	Study of OB
Political Science	Conflict, power, Intraorganizational policies	Organizati on system	Study of OB

The contributions of psychology have been mainly at the individual or micro level analysis of behavior while the other four core disciplines have contributed to macro concepts such as group processes and organization.

- **Psychology:** Psychology is a science of behavior. It studies processes of human behavior, such as learning, thinking, memory, sensation, perception, emotion, feeling, and personality. Its contributions to behavioral science, as applied to managerial practices, are in the field of learning, perception, motivation, individual and group decision-making, pattern of influence and change in organization, group process, vocational choice and satisfaction, communication, and personnel selection and training. In fact there is a

separate branch of industrial psychology which deals with the application of psychological facts and principles to the problems concerning human relations, in organizations.

- **Sociology:** It specifically studies social groups, social behavior, society, customs, institutions, social class status, social mobility and prestige. It has also developed subfields of Political Sociology, Industrial Sociology, Sociology of Law, Family Sociology, Educational Sociology and Sociology of Religion. To the managerial practice, its contribution is mainly in the field of bureaucracy, role structures, social system theory, group dynamics, effect of industrialization on the social behavior, etc.

- **Anthropology:** It particularly studies civilization, forms of cultures and their impact on individuals and groups, biological features of man and evolutionary pattern, speech and relationship among languages. Anthropology contributes in understanding the cultural effects on organizational behavior, effects of value systems, norms, sentiments, cohesion, and interaction.

- **Economics** contributes in understanding the decision process, methods of allocating scarce resources in the organizations, and the impact of economic policy on organizations.

- **Political science** provides clue to conflicts in organizations, power and authority structure, and overall administrative process.

- **Role of Behavioral science:** The behavioral science offers several ides to management as to how human factor should be properly emphasized to achieve organizational objectives. This becomes more important especially because of the changing dimensions of human behavior. Behavioral science provides this opportunity by analyzing human behavior for understanding and prescribing means for shaping human behavior to a particular direction.

(i) Understanding Human Behavior: Human behavior can be understood at the individual level, interpersonal level, group level and inter group level.

- **Individual Level:** It provides for analyzing why and how an individual behaves in a particular way. Human behavior is a complex phenomenon and is affected by a large number of factors-psychological, social, and cultural, and others. Behavioral science integrates these factors to provide simplicity in understanding human behavior.

- **Interpersonal Level:** Behavioral science provides means for understanding the interpersonal relationships (Superior-Subordinate and among Peers) in

the organization. Analysis of reciprocal relationship, role analysis, and transactional analysis are some of the common methods which provide such understanding.

- **Group Level:** Though people interpret any thing at their individual level, they are often modified by group pressures, which thus become a force in shaping human behavior. Hence individuals should be studied in groups. Managerial knowledge of understanding group behavior and group dynamics is very important for organizational morale and productivity.

- **Intergroup Level:** The organization is made up of many groups that develop a complex of relationships. Understanding the effect of group relationships is important for managers in today's organization. Behavioral science provides means to understand and achieve co-operative group relationships.

(ii) Controlling and Directing Behavior: After understanding the mechanism of human behavior, managers are required to control and direct the behavior so that it conforms to standards required for achieving organizational objectives. Thus managers are required to control and direct the behavior at all levels of individual interaction. For this purpose, behavioral science helps managers in many areas: use of power and sanction, leadership, communication and building organization climate conducive for better interaction.

(iii) Organizational Adaptation: In this age of environmental variability, the real job of a manager is to provide continuity in organizations because the organizations have to adapt themselves to the environmental

Changes by making suitable internal arrangements .Application of behavior Sciences helps in identifying need for change and then implementing the changes without adversely affecting the need satisfaction of organizational people.

1.8 CHALLENGES AND OPPORTUNITIES FOR OB

Responding to Globalization

Organizations are no longer constrained by national borders. Globalization means economic, social and cultural connectivity and interdependence with people in other parts of the world. Globalization influences several aspects of organizational behavior- some good, some not so good. Globalization is applauded for increasing organizational efficiency and providing a broader net to attract valuable knowledge and skills. It potentially opens up new career opportunities and provides a greater appreciation of diverse need and perspectives. But globalization also presents new

challenges. Firms also need to adjust their organizational structures and forms of communication to assist their global reach.

Globalization adds more diversity to the workforce, which affects the organizations culture and introduce new forms of values-based conflict among employees. Since organizational behavior is influenced by Globalization thus, people are paying more attention to cross-cultural differences.

Globalization has important implications for how we learn about organization behavior. Globalization affects a manager's people skills in at least two ways. First if you are a manager, you are increasingly likely to find yourself in a foreign assignment. Once there, you will have to manage a workforce that is likely to be very different in needs, aspirations, and attitudes from the ones you were used to back home. Second in your own country, you are going to find yourself working with bosses, peers, and other employees who were born and raised in different cultures.

Managing Work Force Diversity

On one side Globalization focuses on differences among people from different countries, workforce diversity addresses differences among people within given countries. Actually, workforce diversity means that organizations are becoming more heterogeneous in terms of genders, race and ethnicity. Diversity, if positively managed, can increase creativity and innovation in organizations as well as improve decision making by providing different perspectives on problems. When diversity is not managed properly, there is potential for higher turnover, more difficult communication and more inter personal conflicts.

Coping with Temporariness

Today, change is an ongoing activity for most managers. In the past, managing could be characterized by long periods of stability, interrupted occasionally by short periods of change. Managing today would be more accurately described as long periods of ongoing change, interrupted occasionally by short periods of stability. Today's managers and employees must learn to cope with temporariness. They have to learn to live to live with flexibility, spontaneity and unpredictability.

Information Technology and OB

The Internet and other forms of information technology are changing our lives. They are connecting people around the planet and allowing small businesses

in developing countries to compete in the global marketplace. Within organizations, information technology blurs the temporal and spatial boundaries between individuals and the organizations that employ them. It redesigns jobs, reshapes the dynamics of organizational power and politics, and creates new standards for competitive advantage through knowledge management.

The study of OB provide important insights into helping you better understand a work world of continual change, how to overcome resistance to change, and how best to evolve an organizational culture that thrives on change.

1.9   SUMMARY

In this units we introduce you to the field of organization behavior, outline the main reasons why you should know more about it, describe the fundamental perspectives behind the study of organization. It has given you a detailed idea about the concept of organization, its structure and elements. You have come to know about various contributing disciplines to study the OB and their role. Organizational behavior knowledge is not only for managers and leaders. It is relevant and useful to any one who works in and around organizations.

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1.11 REVIEW QUESTIONS

Q.1. Explain the concept of Organization. Write down its characteristics important steps in the process of organizing.

Q.2. Discuss the contribution of Fayol to the theory of organization.

Q.3. Write notes on:

(a) Administrative theory
(b) Bureaucracy
(c) Scientific management

Q.4.What is the various elements of Neoclassical Organization Theory?

Q.5.Explain the following:

   (i) Chain of Command

   (ii) Span of Control

   (iii) Centralization and Decentralization

   (iv) Departmentalization

Q.6. What is Behaviour Science? What are its contributing disciplines and their area of application?

Q.7. Discuss the role of Behaviour Sciences in Management.

Unit-2
Personality and Perception

Structure:

2.1 INTRODUCTION

People throughout the organization need to develop better ways to perceive the world around them and learn about the consequences of their actions. *Perception* is the process of receiving information about and making sense of the world around us. It involves deciding which information to notice, how to categorize this information, and how to interpret it within the framework of our existing knowledge. Perceptual process is the dynamics of selecting, organizing, and interpreting external stimuli.

2.2 OBJECTIVES

After reading this unit, you should be able to:

- Outline the perceptual process.
- Explain how we perceive others.
- Describe the Attribution Theory and Attribution Errors.
- Describe how shortcuts can assist in or distort our judgement of others.
- Understand process of motivation and its nature.
- Explain various theories of motivation.

2.3 PERCEPTUAL PROCESS

Perceptual process consists of several sub processes. These are –Stimulus, Registration & Selective Attention, Interpretation, Emotions and Behavior. Perceptual process begins when environmental stimuli are received through our senses.

- **Selective Attention:** Our five senses are constantly bombarded with stimuli. Some things are noticed, but most are screened out. This process of filtering information received by our senses is called selective attention.

One influence on selective attention is the size, intensity, motion, repetition, and novelty of the target (including people). Selective attention depends more on the object and context. It is also affected by characteristics of the perceiver. We tend to remember information that is consistent with our values and attitudes and ignore information that is inconsistent with them. Selective attention is also affected by our expectations. In organizational settings, expectations prevent decision makers from seeing opportunities and competitive threats.

- **Perceptual Organization and Interpretation:** After selecting stimuli, we usually simplify and "make sense" of them. This involves organizing the information into general categories and interpreting it. We rely on perceptual grouping principles to organize people and objects into recognizable and manageable patterns or categories.
- **Emotion and Behavior:** Final stage of the perception process is the resultant behavior. A response may be overt, such as, action etc or covert, such as, change in attitude etc.

2.4. FACTORS INFLUENCING PERCEPTION

Individuals may look at the same thing, yet perceive it differently. A number of factors operate to shape and sometimes distort perception. These factors can reside in the *perceiver*, in the object or *target* being perceived, or in the context of the *situation* in which the perception is made.

- **The Perceiver:** When an individual looks at a target and attempts to interpret what he or she sees, that interpretation is heavily influenced by personal characteristics of the individual perceiver. The focus of our attention appears to be influenced by our interests. Because our individual interests differ considerably, what one person notices in a situation can differ from what others perceive.

Objects or events that have never been experienced before are more noticeable than those that have been experienced in the past. Finally, expectations can distort your perceptions in that you will see what you expect to see. If you expect police officers to be authoritative, young people to be unambitious, you may perceive them as such regardless of their actual traits.

- **The Target:** Characteristics of the target that is being observed can affect what is perceived. Loud people are more likely to be noticed in a group than are quiet ones. So, too, are extremely attractive or unattractive individuals. Motion, sounds, size, and other attributes of a target shape the way we see it.

Objects that are close to each other will tend to be perceived together rather than separately. As a result of physical or time proximity, we often put together objects or events that are unrelated.

Persons, objects, or events that are similar to each other also tend to be grouped together. The greater is the similarity, the greater the probability that we will tend to perceive them as a common group.

- **The Situation:** The context in which we see objects or events is important. Elements in the surrounding environment influence our perceptions. You are more likely to notice your employees goofing off if your boss from the head office happens to be in town. Again, the situation affects your perception. The time at which an object or event is seen can influence attention, as can location, light, heat, or any number of situational factors.

2.5. PERSON PERCEPTION: MAKING JUDGMENTS ABOUT OTHERS

(a) Attribution Theory and Attribution Errors

When we observe people, we attempt to develop explanations of why they behave in certain ways. Our perception and judgment of a person's actions, therefore, will be significantly influenced by the assumptions we make about that person's internal state. Attribution theory has been proposed to develop explanations of the ways in which we judge people differently, depending on what meaning we attribute to a given behavior. Basically, the theory suggests that when we observe an individual's behavior, we attempt to determine whether it was internally or externally caused. That determination, however, depends largely on three factors: (1) distinctiveness, (2) consensus, and (3) consistency.

Internally caused behaviors are those that are believed to be under the personal control of the individual. *Externally* caused behavior is seen as resulting from outside causes; that is, the person is seen as having been forced into the behavior by the situation. If one of your employees is late for work, you might attribute his lateness to his partying into the wee hours of the morning and then oversleeping. This would be an internal attribution. But if you attribute his arriving late to a major automobile accident that tied up traffic on the road that this employee regularly uses, then you would be making an external attribution.

Distinctiveness refers to whether an individual displays different behaviors in different situations. Is the employee who arrives late today also the source of complaints by co-workers for being a "goof-off"? What we want to know is whether this behavior is unusual. If it is, the observer is likely to give the behavior an external attribution. If this action is not unusual, it will probably be judged as internal.

If everyone who is faced with a similar situation responds in the same way, we can say the behavior shows **consensus**. Our late employee's behavior would meet this criterion if all employees who took the same route to work were also late.

From an attribution perspective, if consensus is high, you would be expected to give an external attribution to the employee's tardiness, whereas if other employees who took the same route made it to work on time, your conclusion about the cause of being late would be internal.

Finally, an observer looks for consistency in a person's actions. Does the person respond the same way over time? Coming in 10 minutes late for work is not perceived in the same way for the employee for whom it is an unusual case (she hasn't been late for several months) as it is for the employee for whom it is part of a routine pattern (she is regularly late two or three times a week). The more consistent the behavior, the more the observer is inclined to attribute it to internal causes.

The findings of Attribution Theory explain that there are errors or biases that distort attributions. For instance, there is substantial evidence that when we make judgments about the behavior of other people, we have a tendency to underestimate the influence of external factors and overestimate the influence of internal or personal factors. This is called the **fundamental attribution error** and can explain why a sales manager is prone to attribute the poor performance of his/her sales agents to laziness rather than to the innovative product line introduced by a competitor. There is also a tendency for individuals to attribute their own successes to internal factors such as ability or effort while putting the blame for failure on external factors such as luck. This is called the **self-serving bias** and suggests that feedback provided to employees in performance reviews will be predictably distorted by recipients depending on whether it is positive or negative.

(b) Perceiving Others through Social Identity

The social identity process explains how we perceive ourselves and others. We party identity ourselves in terms of our membership in social groups and have an emotional attachment. For example, some one might have a social identity as an Indian, a graduate from IIM and an employee of IBM. Along with a social identity, people have personal identity-characteristics that make them unique and distinct from people in any particular group. This comparison process includes creating a homogeneous image of our own social groups and different homogeneous images of people in other groups. We also tend to assign more favourable features to our own groups and less favorable features to other groups. This perceptual process makes our social world easier to other groups. This perceptual process makes our

social world easier to understand. However, it also becomes the basis for stereotyping people in organizational settings.

Frequently used shortcuts in judging others

We use a number of shortcuts when we judge others. They allow us to make accurate perceptions rapidly and provide valid data for making predictions. However, they are not foolproof. They can and do get us into trouble. An understanding of these shortcuts can be helpful toward recognizing when they can result in significant distortions.

(a) Selective Perception

Since we cannot assimilate all that we observe, we take in bits and pieces. But those bits and pieces are not chosen randomly; rather, they are selectively chosen according to our interests, background, experience, and attitudes. Selective perception allows us to "speed-read" others, but not without the risk of drawing an inaccurate picture. Because we see what we want to see, we can draw unwarranted conclusions from an ambiguous situation. If there is a rumor going around the office that the company's sales are down and that large layoffs may be coming, a routine visit by a senior executive from headquarters might be interpreted as the first step in management's identification of people to be fired, when in reality such an action may be the furthest thing from the mind of the senior executive.

(b) Halo Error / Halo Effect

When we draw a general impression about an individual on the basis of one prominent characteristic, such as intelligence, sociability, or appearance, Halo Error / Halo Effect occurs. It we meet a client who speaks in a friendly manner, we tend to infer a host of other favorable qualities about that person. If a colleague doesn't complete tasks on time, we tend to view his or her other traits unfavorably. In each case, one trait important to the perceiver forms a general impression, and this impression becomes the basis for judgments about other traits.

Halo error is most likely to occur when concrete information about the perceived target is missing or we are not sufficiently motivated to search for it. Instead, we use our general impression of the person to fill in the missing information.

Halo error would cause the supervisor to rate the tardy employee lower on all performance dimensions because the tardiness created a negative general

impression of that employee. The punctual employee would tend to receive higher ratings on all performance dimensions even though his or her performance level is really the same as that of the tardy employee. Consequently, halo error distorts our judgments and can result in poor decision making.

(c) Stereotyping in Organizational settings

It is the process of assigning traits to people based on their membership in a social category. In other words, stereotypes define people by the demographic or other observable groups to which they belong. It is the shortcut way in which we judge someone on the basis of our perception of the group to which that person belongs.

Problems with stereotyping

One problem is that stereotypes do not accurately describe every person in that social category**.** For instance, research has found that people with physical disabilities are stereotyped as being quit, gentle-hearted, shy**,** insecure, dependent, and submissive. Although this may be true of some people, it is certainly not characteristic of everyone who has a physical disability.

In organizations, we frequently hear comments that represent stereotypes based on gender, age race, ethnicity, even weight: "Women won't relocate for a promotion"; "men aren't interested in child care"; "older workers can't learn new skills"; "Asian immigrants are hardworking and conscientious"; "overweight people lack discipline." From a perceptual standpoint, if people expect to see these stereotypes, that are what they will perceive, whether they are accurate or not.

(d) Self-Fulfilling Prophecy

Self-fulfilling prophecy occurs when our expectations about another person cause that person to act in a way that is consistent with those expectations. In other words, our perceptions can influence reality. The following four steps illustrate the self-fulfilling prophecy process using the example of a supervisor and subordinate.

- **Expectations formed**- The supervisor forms expectations about the employee's future behavior and performance. These expectations are sometimes inaccurate, because first impressions are usually formed from limited information.
- **Behavior toward the employee**- The supervisor's expectations influences his or her treatment of employees. Specifically, high-expectancy employees

(those expected to do well) receive more emotional support through nonverbal cues (e.g. more smiling and eye contact), more frequent and valuable feedback and reinforcement, more challenging goals, better training, and more opportunities to demonstrate their performance.

- **Effects on the employee**-The supervisor's behaviors have two effects on the employee. First, through better training and more practice opportunities, a high-expectancy employee learns more skills and knowledge than a low-expectancy employee. Second, the employee becomes more self-confident, which results in higher motivation and willingness to set more challenging goals.

- **Employee behavior and performance**- With higher motivation and better skills, high-expectancy employees are more likely to demonstrate desired behaviors and better performance. The supervisor notices this, which supports his or her original perception.

- **Employee Loyalty-** Assessment of an employee's loyalty or commitment is highly judgmental. What is perceived as loyalty by one decision maker may be seen as excessive conformity by another. An employee who questions a top-management decision may be seen as disloyal by some, yet caring and concerned by others. As a case in point, **whistleblowers** - Individuals who report unethical practices by their employer to outsiders-typically act out of loyalty to their organization but are perceived by management as troublemakers.

2.6. SPECIFIC APPLICATIONS IN ORGANISATION

Why is perception important in the study of OB? Simply because people's behavior is based on their perception of what reality is, not on reality itself? Person in organisation always judge each other. Manager appraise their employees' performances, attitude towards works etc. In many cases like Employment Interview, Performance Expectation, Performance Evaluation, Employee Effort, and Employee Loyalty the management's judgement have important consequences. The proper understanding of the concepts of Person Perception like stereotyping, whistleblowers, Halo Error / Halo Effect, Self-Fulfilling Prophecy help the individuals to improve their perception. A person understands and sensitivity to the feelings, thoughts, and situation of others helps in improving perception.

2.7 MOTIVATION: MEANING AND NATURE

Motivation is the process of channeling a person's inner drives so that he wants to accomplish the goals of the organization. Motivation is a behavioral concept by which we try to understand why people behave as they do. It concerns those dynamic processes which produce a goal-directed behaviour. A goal-directed behaviour always begins with the individual feeling certain needs (also referred to as drives or motives). These needs give an emerging thrust to the individual toward certain goals or incentives which he perceives (rightly or wrongly) as possible satisfier of his needs.   Thus one may perceive food, water and friends as the possible satisfiers of his hunger, thirst and affiliation needs and may be motivated to achieve these goals. So, what controls human behaviour and gives direction to it is not the goal or the incentive but the need. The goal which is external to the individual only provides him with the opportunity for satisfying his internal needs. We can show the motivation process by means of a diagram thus.

Needs ⟶ Interpretation ⟶ Goal-directed ⟶ Accomplishment (Motives)
of goals/incentives behaviour of goals and according to one's need-reduction
perception

Nature of Motivation

The following characteristics of motivation reveal the complexities in understanding motivation:

1. Motivation is an internal feeling. It is a psychological phenomenon which is created within an individual.
2. Person in totality not in part, is motivated. Each individual in the organization is a self-contained and inseparable unit and his needs are interrelated.
3. Individuals differ in their motivation.
4. Motivations of each individual change from time to time, even though he may continue to behave in the same way.
5. Motivations are expressed differently. The ways in which needs are eventually translated into actions also vary considerably between one individual and another. The reactions of individuals to successful or unsuccessful fulfillment of needs may also differ.

6. Motivation is a complex Phenomenon. It is difficult to explain and predict the behavior of workers. The introduction of an apparently favorable motivational device may not necessarily achieve the desired ends if it brings opposing motives into play. For example, in a factory, when blue-green lighting was introduced to reduce eye strain, the output of men workers increased but that of women workers decreased. On investigation it was found that the latter disliked the change in lighting because they felt that the new type of lighting had made them look "simply ghastly".

7. Motivation is the product of anticipated values from an action and the perceived probability that these values will be achieved by the action.

   Motivation = Valence (anticipated values) x Expectancy

DETERMINANTS OF MOTIVATION

Where as in the past, money was regarded as the only cause of human behavior, today in industry there is great concern with the multi-motivational determinants of behavior. The earlier monistic approach to motivation, under which man was supposed to act only to increase his monetary rewards, has now given place to a more complete pluralistic explanation which recognizes that a man works to fulfil a variety of needs. It is now recognized that motivation is the result of inter-play among three groups of factors: (a) influences operating within the individual; (b) influences operating within the organization: and (c) influences operating the external environment, i.e., exogenous variable.

- **The Individual**- To understand what motivates employees; we must know something of their aims, needs and values. Human needs are both numerous and complex. Some of these needs are hard to describe and identify because people hide their real needs beneath an overlay of socially acceptable behavior.

- **Organizational Climate**- The climate of an organization also plays an important part in determining worker's motivation. A worker may work poorly in one organization but much better in another because of the change in the organizational climate. Some important components of organizational climate are as follows:

  1. Individual autonomy, i .e. the degree of freedom from accountability to others.
  2. Position structure, i.e., the extent of direct supervision and formalization.

3. Reward orientation, i.e., the extent of incentives provided for higher effort and performance.

4. Consideration, i.e., the extent of socio-emotional support provided by others.

5. Conflict, i.e., the extent of expression of differences and blocking of each other.

6. Progressiveness and development, i.e., the scope of growth of self, other members and the organization as a whole.

7. Risk taking, i.e., the extent of freedom to experiment with new ideas.

8. Control, i.e., the degree of checks imposed on the members' behavior.

The climate of an organization is determined by a number of variables such as its leadership style, economic condition, structure, technology, characteristics of its people and so on.

- **Exogenous Variables**- A worker's life is divided into two watertight compartments, one inside the factory and the other outside of it. The two are closely bound together so that the trouble and joys of off-the-job life cannot be put aside when reporting for work in the morning, nor can factory mattes be dropped when returning home after work. Culture, customs and norms, images and attributes conferred by society on particular jobs, professions and occupations, and the worker's home life-all play a strong motivational role. An individual, for example, may find that his work has a substantial degree of respect and social acceptance accorded by society quite apart from holding a position in a particular organization.

2.8. MOTIVATION THEORIES

Since various people have been involved in finding out the answer of the questions related to what motivates people, their approaches have differed resulting into a numbered of theories concerning motivation. Though all these theories try to focus attention on the basic issue, they differ considerably. These theories concerning motivation try to provide explanations for the behavior-outcome relationship. The various theories are grouped in to three categories:

1. Theories associated with human needs- Theories given by Maslow, Herzberg,and McClelland;

2. Theories associated with basic nature of human beings- Theories given by McGregor,Urwick,and Argyris;

3. Theories associated with expectancy of individuals- Theories given by Vroom, Porter and Lawler.

Maslow's Hierarchy of Needs Theory

It's probably safe to say that the most well-known theory of motivation is Abraham Maslow's **hierarchy of needs**. He hypothesized that within every human being there exists a hierarchy of five needs. These needs are:

1. **Physiological needs**: It includes hunger, thirst, shelter, sex, and other bodily needs.
2. **Safety needs**: It includes security and protection from physical and emotional harm
3. **Social needs**: It includes affection, belongingness, acceptance, and friendship
4. **Esteem needs**: It includes internal esteem factors such as self-respect, autonomy, and achievement; and external esteem factors such as status, recognition and attention
5. **Self-actualization needs**: It is the drive to become what one is capable of becoming; includes growth, achieving one's potential, and self-fulfillment.
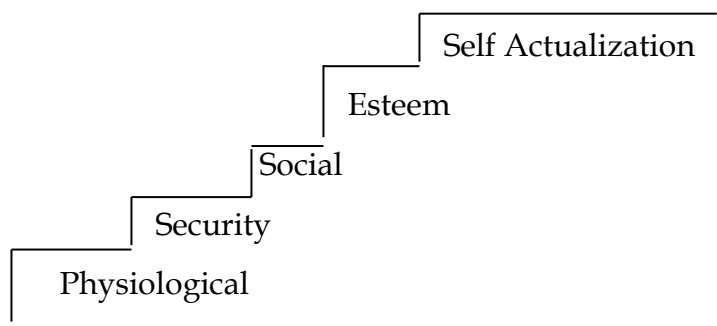
Fig. No.2.1.   Maslow's hierarchy of needs

As each of these needs becomes substantially satisfied, the next need becomes dominant. As seen in figure the individual moves up the steps of the hierarchy. From the standpoint of motivation, the theory would say that although no need is ever fully gratified, a substantially satisfied need no longer motivates. So if you want to motivate someone, according to Maslow, you need to understand what level of the hierarchy that person is currently on and focus on satisfying those needs at or above that level.

Maslow separated the five needs into higher and lower orders. Physiological and safety needs were described as **lower- order needs** and Social, Esteem, and Self-actualization needs as **higher- order needs.** The differentiation between the two orders was made on the premise that higher-order needs are satisfied internally

(within the person), whereas lower-order needs are predominantly satisfied externally (by such things as pay, union contracts and tenure). In fact, the natural conclusion to be drawn from Maslow's classification is that in times of economic plenty, almost all permanently employed workers have their lower-order needs substantially met.

Analysis of the Theory: Maslow's needs hierarchy is one of the best-known organizational behaviour theories and is still widely cited. However, scholars have mostly dismissed Maslow's theory because it is much too rigid to explain the dynamic and unstable characteristics of employee needs. Researchers have found that individual needs do not cluster neatly around the five categories described in the model. Moreover, gratification of one need level does not necessarily lead to increased motivation to satisfy the next higher need level.

Herzberg's Two-Factor Theory

The two-factor theory (sometimes also called motivation-hygiene theory) was proposed by psychologist Frederick Herzberg. In the belief that an individual's relation to work is basic and that one's attitude toward work can very well determine success or failure, Herzberg investigated the question, "What do people want from their jobs?" He asked people to describe in detail, situations in which they felt exceptionally good or bad about their jobs. According to Herzberg, the factors leading to job satisfaction are separate and distinct from those that lead to job dissatisfaction. Therefore, managers who seek to eliminate factors that can create job dissatisfaction may bring about peace but not necessarily motivation. According to Herzberg, the absence of certain job factors tends to make workers dissatisfied. However, the presence of these same factors in themselves does not produce high levels of motivation. They merely help avoid dissatisfaction and the problems it creates, such as absenteeism, turnover and grievances. Herzberg called these factors **maintenance or hygiene** factors since they are necessary to maintain a reasonable level of satisfaction. He concluded that there are **ten maintenance factors**, namely:

1. Fair company policies and administration
2. A supervisor who knows the work
3. A good relationship with one's supervisor
4. A good relationship with one's peers
5. A good relationship with one's subordinates
6. A fair salary
7. Job security

8. Personal life
9. Good working conditions
10. Status

To build high levels of motivation and job satisfaction, a different set of factors is necessary. However, if these factors are not present, they do not in themselves lead to strong dissatisfaction. Herzberg called these the **Motivators or Satisfiers**. These are *six* in number:

1. Opportunity to accomplish something significant
2. Recognition for significant accomplishments
3. Chance for advancement
4. Opportunity to grow and develop on the job
5. Chance for increased responsibility
6. The job itself.

As the lists indicate, the motivators are job-centered; they relate directly to the content of the job itself. In contrast, maintenance factors relate more to the conditions and environment in which the work is done.

Herzberg's theory and Maslow's theory compared

To a certain extent, Herzberg's theory also fits in with the earlier discussion of Maslow's needs hierarchy theory. As shown in figure, the maintenance factors mainly satisfy physiological security, social and some esteem needs. The motivators are directed at some part of esteem and self-fulfillment needs.

Herzberg's model has been applied in the industry and has given several new insights. One of these insights is job enrichment. This job enrichment applies to improvement of jobs in such a way that they have more motivators than before. This idea behind job enrichment is to keep maintenance factors constant or higher while increasing motivational factors. Job enrichment is different from job enlargement practiced earlier to make job more attractive. In job enlargement the basic idea is to change the job to become more implicated and varied so that monotony goes off, while job enrichment seeks to bring more motivators to the job by attaching more responsibility, more intrinsically satisfying work conditions and more power over the environment. Thus, Herzberg's model has solved the problems of managers who were wondering why their fancy personnel policies failed to motivate their employees adequately. However, Herzberg's model is not applied in all conditions.

Fig.No.2.2.Herzberg's theory and Maslow's theory compared

Analysis of the Herzberg's Theory

MCCLELLAND'S THEORY OF NEEDS

McClelland's theory of needs was developed by David McClelland and his associates. The theory focuses on three needs: achievement, power, and affiliation. They are defined as follows:

- **Need for Achievement**: The drive to excel, to achieve in relation to a set of standards, to strive to succeed.
- **Need for Power**: The need to make others behave in a way that they would not have behaved otherwise.
- **Need for Affiliation**: The desire for friendly and close interpersonal relationship.

Individuals with a high need to achieve prefer job situations with personal responsibility, feedback, and an intermediate degree of risk. When these characteristics are prevalent, high achievers will be strongly motivated. The evidence consistently demonstrates, for instance, the high achievers are successful in entrepreneurial activities such as running their won business and managing a self-contained unit within a large organization.

A high need to achieve does not necessarily lead to become a good manager, especially in large organizations. People with a high achievement need are interested in how well they do personally and not in influencing others to do well.

The needs for affiliation and power tend to be closely related to managerial success. The best managers are high in their need for power and low in their need for affiliation. In fact, a high power motive may be requirement for managerial effectiveness.

THEORIES ASSOCIATED WITH BASIC NATURE OF HUMAN BEINGS

McGregor's Theory X and Theory Y:

Douglas McGregor proposed two distinct views of human beings: one basically negative, labeled **Theory X**, and the other basically positive, labeled **Theory Y**. After viewing the way in which managers dealt with employees, McGregor concluded that a manager's view of the nature of human beings is based on a certain grouping of assumptions and that he or she tends to mold his or her behaviour toward employees according to these assumptions.

Under Theory X, the four assumptions held by managers are:
1. Employees inherently dislike work and, whenever possible, will attempt to avoid it.
2. Since employees dislike work, they must be coerced, controlled, or threatened with punishment to achieve goals.
3. Employees will avoid responsibilities and seek formal direction whenever possible.
4. Most workers place security above all other factors associated with work and will display little ambition.

In contrast to these negative views about the nature of human beings, McGregor listed the four positive assumptions that he called. Theory Y:
1. Employees can view work as being as natural as rest or play.
2. People will exercise self-direction and self-control if they are committed to the objectives.
3. The average person can learn to accept, even seek, responsibility.
4. The ability to make innovative decisions is widely dispersed throughout the population and is not necessarily the sole province of those in management positions.

The Assumptions of Theory Y suggest a new approach in management. It emphasizes on the co-operative endeavor of management and employees. The attempt is to get maximum output with minimum amount of control and direction. Generally, no conflict is visible between organizational goals and individual goals. Thus, the attempts of employees which are in their best interests are also in the interests of organization.

Vroom's Expectancy Theory:

Currently, one of the most widely accepted explanations of motivation is Victor Vroom's expectancy theory. Although it has its critics, most of the research evidence is supportive of the theory. Expectancy theory argues that the strength of a tendency to act in a certain way depends on the strength of an expectation that the act will be followed by a given outcome and on the attractiveness of that outcome to the individual.

In more practical terms, expectancy theory says that an employee will be motivated to exert a high level of effort when he or she believes that effort will lead to a good performance appraisal; that a good appraisal will lead to organizational rewards such as a bonus, a salary increase, or a promotion; and that the rewards will satisfy the employee's personal goals. The theory, therefore, focuses on three relationships.

1. *Effort-performance relationship*. The probability perceived by the individual that exerting a given amount of effort will lead of performance.

2. *Performance-reward relationship*. The degree to which the individual believes that performing at a particular level will lead to the attainment of a desired outcome.

3. *Rewards-personal goals relationship*. The degree to which, organizational rewards satisfy an individual's personal goals or needs and the attractiveness of those potential rewards for the individual.

Individual effort		Individual performance		Organizational rewards		Personal goals
	1		2		3	

1. Effort-performance relationship
2. Performance-reward relationship
3. Rewards-personal goals relationship

Expectancy theory helps explain why a lot of workers aren't motivated on their jobs and merely do the minimum necessary to get by. This is evident when we look at the theory's three relationships in a little more detail. The key to expectancy theory is the understanding of an individual's goals and the linkage between effort

and performance, between performance and rewards, and finally, between the rewards and individual goal satisfaction.

As a contingency model, expectancy theory recognizes that there is no universal principle for explaining everyone's motivations. Additionally, just because we understand what needs a person seeks to satisfy does not ensure that the individual perceives high performance as necessarily leading to the satisfaction of these needs.

2.9. SUMMARY

What individuals perceive from their work situation will influence their productivity. Whether or not a job is actually interesting or challenging is irrelevant. Moreover employee's needs are changing .Diverse workforce typically have diverse needs and values. These influence what organisations should and should not do to fulfill the needs. This chapter has introduced you to two fundamental activities in human behaviour in work place: perception and motivation.

In this chapter we look at the Perceptual process, Factors Influencing Perception, and Theories related to Perception and its use in making Judgments about others. In the next section we also review the key Motivation Theories to determine their relevance.

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2.11 REVIEW QUESTIONS

Q.1.Define Perception and Outline the perceptual process.

Q.2.What is Attribution Theory? Write down its implications in organizational behaviour.

Q.3. What is stereotyping? Explain with example how stereotyping can create perceptual distortion.

Q.4. Describe how shortcuts can assist in or distort our judgement of others.

Q.5. Outline the process of motivation and its nature.

Q.6.Compare and contrast Maslow's hierarchy of needs Theory with Herzberg's two-Factor Theory.

Q.7. Write down the implications of McGregor's Theory X and Theory Y for managers.

Unit-3
Learning and Attitude

Structure:

3.1   INTRODUCTION

Learning is an important part of knowledge management and influence ability, role perceptions, and motivation of individuals. All complex behaviour is learned. If we want to explain and predict behavior, we have to understand how people learn. Because learning is a process that leads to relatively permanent change in behavior.

3.2. OBJECTIVES

After reading this unit, you should be able to:
- Understand Learning and its components.
- Explain the theories of learning.
- Distinguish between the schedules of reinforcement
- Explain the methods of shaping behavior.
- Understand the application of learning in OB.

3.3. CONCEPTUAL MEANING OF LEARNING

Learning is another important psychological process of determining human behaviour. According to the Dictionary of Psychology, learning means 'the process of acquiring the ability to respond adequately to a situation which may or may not have been previously encountered, and the favourable modification of response tendencies consequent upon previous experience. We shall never see someone "learning". We can see changes taking place but not the learning itself.

Learning is a relatively permanent change in behavior (or behavior tendency) that occurs as a result of a person's interaction with the environment. Learning occurs when the learner behaves differently. For example, we can see that you have "learned" computer skills when you operate the keyboard and windows more quickly than before. Learning occurs when interaction with the environment leads to behavior change. This means that we learn through our senses, such as through study, observation, and experience. Learning is essential for open systems thinking and knowledge management because the organization's survival and success depend on employees learning about the external environment. Learning also influences individual behaviour and performance.

First, people acquire skills and knowledge through learning opportunities, which gives them the competencies to perform tasks more effectively. Second, learning clarifies role perceptions. Employees develop a better understanding of

their tasks and relative importance of work activities. Third, learning motivates employees. Employees are more motivated to perform certain tasks because they learn that their effort will result in desired performance.

Learning Explicit and Tacit Knowledge

When employees learn, they acquire both explicit and tacit knowledge. Explicit knowledge is organized and can be communicated from one person to another. The information you receive in a lecture is mainly explicit knowledge because the instructor packages and consciously transfers it to you. Explicit knowledge can be written down and given to others. Tacit knowledge is not documented; rather it is action-oriented and known below the level of consciousness. Tacit knowledge is acquired through observation and direct experience. For example, airline pilots learn to operate commercial jets more by watching experts and practicing on flight simulators than through lectures. They acquire tacit knowledge by directly experiencing the complex interaction of behavior with the machine's response. The concept / definition of learning has four important points:

1. Learning involves a change in behavior. This change may be good or bad from organizational point of view. Learning generally leads to improved behavior, but people can learn unfavorable behaviors like holding prejudices, restricting their outputs.

2. The change in behavior must be relatively permanent. Temporary changes fail to represent learning. For example behavioral changes due to fatigue or temporary adaptations are not a part of learning.

3. Learning takes place when there is a change in actions. A change in an individual's thought process or attitudes, if accompanied by no change in behavior, would not be learning.

4. The practice or experience must be reinforced in order for learning to occur. If reinforcement does not accompany the practice or experience, the practice or experiences will disappear.

3.4. COMPONENTS OF LEARNING PROCESS

Various components of learning are Drive, Cue Stimuli, Response, Reinforcement, and Retention.

- **Drive:** It is any strong stimulus that impels action. Without drive learning does not take place because drive arouses an individual and keeps him ready to respond. Drives are basically of two types - primary or physiological drives and secondary or psychological drives. These two categories of drives often interact. Individuals operate under many drives at the same time. To predict behaviour, it is necessary to establish which drives are stimulating the most.
- **Cue Stimuli:** Cue stimuli are any objects existing in the environment as perceived by the individual. The idea here is to discover the conditions under which a stimulus will increase the probability of eliciting a specific response. There may be two types of stimuli so far as their results in terms of response are concerned: *generalization* and *discrimination*.

Generalization occurs when a response is elicited by a similar but new stimulus. If two stimuli are exactly alike, they will have the same probability of evolving a specified response, but the more dissimilar the stimuli become, the lower will be the probability of evoking the same response. The principle of generalization has important implication for human learning. It makes possible stability in man's actions across the time. The individual can borrow from past learning experiences to adjust more smoothly to new learning situations. However, there are certain negative implications of generalization for learning. A person may make false conclusion because of generalization. For example, stereotyping or halo effect in perception occurs because of generalization.

Discrimination is opposite of generalization. This is a process whereby an organism learns to emit a response to a stimulus but avoid making the same response to a similar but somewhat different stimulus. For example a supervisor can discriminate between two quality high producing workers one with low quality and other with high quality.

- **Response:** The stimulus results in responses. Responses may be in the physical form or may be in terms of attitudes, perception and other phenomena. Usually learning psychologists attempt measurement of learning in behavioral terms, that is, responses must be operationally defined and preferably physically observable.
- **Reinforcement:** Reinforcement is a fundamental condition of learning. Without reinforcement, no measurable modification of behaviour takes place. Reinforcement may be defied as environmental events affecting the probability of occurrence of responses with which they are associated.
- **Retention:** The stability of learned behaviour over time is defined as retention and the converse is forgetting. Some of the learning is retained over a period of time while other may be forgotten. Extinction is a specific form of forgetting.

3.5. THEORIES OF LEARNING

Three theories have been identified to explain the process by which we acquire patterns of behavior. These are otherwise also known as Theories of Learning. These theories are:

(a) Classical conditioning
(b) Operant Conditioning
(c) Social Learning

(a) Classical conditioning: It is a type of conditioning in which an individual responds to some stimulus that would not ordinarily produce such a response. Essentially, learning a conditioned response involves building up an association between a conditioned stimulus and an unconditioned stimulus. Unconditioned stimulus invariably caused the individual /organism to react in a specific way. The artificial stimulus or conditioned stimulus is originally neutral. But when it is applied in combination with an unconditioned stimulus, it eventually produces a response. For example, at one manufacturing plant, every time the top executives from the head office were scheduled to make a visit, the plant management would clean up the administrative offices and wash the windows. This went on for years. Eventually, employees would turn on their best behavior and look prim and proper when-ever the windows were cleaned-even in those occasional instances when the cleaning was not paired with the visit form the top brass. People had learned to associate the cleaning of the windows with a visit from the head office.

Classical conditioning is passive. Something happens and we react in a specific way. It is elicited in response to a specific, identifiable event. As such, it can explain simple reflexive behaviors. But most behavior-particularly the complex behavior of individual in organizations- is emitted rather then elicited. It is voluntary rather than reflexive. For example, employees choose to arrive at work on time, ask their boss for help with problems, or "goof off" When no one is watching.

(b) Operant Conditioning: Operant Conditioning is a type of conditioning in which desired voluntary behavior leads to a reward or prevents a punishment. Operant Conditioning argues that behavior is a function of its consequences. People learn to behave to get something they want or to avoid something they don't want. Operant behavior means voluntary learned behavior in contrast to reflexive or unlearned behavior. The tendency to repeat such behavior is influenced by the reinforcement or lack of reinforcement brought about by the consequences of the behavior. Reinforcement therefore strengthens a behavior and increases the likelihood that it will be repeated.

A commissioned salesperson wanting to earn a sizable income finds that doing so is contingent on generating high sales in his/her territory. Of course, the linkage can also work to teach the individual to engage in behaviors that work against the best interests of the organization. Assume that your boss tells you that if you will work overtime during the next three-week busy season, you will be compensated for it at the next performance appraisal. However, when performance appraisal time comes, you find that you are given no positive reinforcement for your overtime work. The next time your boss asks you to work overtime, what will you do? You'll probably decline! Your behavior can be explained by operant conditioning: If a behavior fails to be positively reinforced, the probability that the behavior will be repeated declines.

(c) Social Learning: Individuals can also learn by observing what happens to other people and just by being told about something, as well by direct experiences. So, for example, much of what we have learned comes from watching models-parents, teachers, peers, motion picture and television performers, bosses, and so forth. This view that individuals can learn through both observation and direct experience has been called Social-Learning Theory. Three main elements of social learning theory are: *Behavioral Modeling; Learning Behavior Consequences; and Self-Reinforcement*

(i) Behavioral Modeling: People learn by observing the behaviors of a role model on the critical task, remembering the important elements of the observed

behaviors, and then practicing those behaviors. Behavioral modeling works best when the model is respected and the model's actions are followed by favorable consequences. For instance, recently hired college graduates should learn by watching a previously hired college graduate who successfully performs the task. Behavioral modeling is a valuable form of learning because tacit knowledge and skills are mainly acquired from others in this way. It is difficult to document or verbally explain how a master baker kneads dough better than someone less qualified. Instead, we must observe these subtle actions to develop a more precise mental model of the required behaviors and the expected responses. Behavioral modeling also guides role perceptions. Leaders model the behavior that they expect from others, for example.

Behavioral Modeling and Self-Efficacy - Behavioral modeling increases self efficacy because people gain more self-confidence after seeing someone else do it than if they are simply told what to do. This is particularly true when observers identify with the model, such as someone who is similar in age, experience, gender, and related features. You might experience this when working in a student support group. You form a "can-do" attitude when another student similar to you describes how he or she was able to perform well in a course that you are now taking. You learn not only what has to be done, but that others like you have been successful at this challenge.

(ii) Learning Behavior Consequences: A second element of social learning theory says that we learn the consequences of behavior in ways other than through direct experience. In particular, we learn by logically thinking through the consequences of our actions and by observing the consequences that other people experience following their behavior. On the first point, we often anticipate desirable or adverse consequences through logic. We expect either positive reinforcement or negative reinforcement after completing an assigned task and either punishment or extinction after performing the job poorly because it is a logical conclusion based on ethical values. We also learn to anticipate consequences by observing the experiences of other people. Consider the employee who observes a co-worker receiving a stern warning for working in an unsafe manner. This event would reduce the observer's likelihood of engaging in unsafe behaviors because he or she has learned to anticipate a similar reprimand following those behaviors.

(iii) Self-Reinforcement: The final element of social learning theory is self-reinforcement. Self-reinforcement occurs whenever an employee has control over a

reinforcer but doesn't "take" the reinforcer until completing a self-set goal. For example, you might be thinking about taking a break while reading after finishing the rest of the chapter and not before. You could take a break right now, but you don't use this privilege until you have achieved your goal of reading complete chapter. The work break is a form of positive reinforcement that is self-induced. You use the work break to reinforce completion of a task. Self-reinforcement has become increasingly important because employees are given more control over their working lives and are less dependent on supervisors to dole out positive reinforcement and punishment.

3.6. METHODS OF SHAPING BEHAVIOR: LEARNING THROUGH REINFORCEMENT

Learning takes place on the job as well as prior to it. Hence managers are usually concerned with how they can teach employees to behave in ways that give the most benefit to the organisation. This shaping of behavior can be done by systematically reinforcing each successive step that moves an individual closer to the desired response. There are four ways in which we can shape behavior or do behavior modification. These are through *positive reinforcement, negative reinforcement, punishment, and extinction*.

- *Positive reinforcement*- Positive reinforcement occurs when the introduction of a consequence increases or maintains the frequency or future probability of a behavior. Receiving a bonus after successfully completing an important project usually creates positive reinforcement because it typically increases the probability that you use those behaviors in the future.
- *Negative reinforcement*- Negative reinforcement occurs when the removal or avoidance of a consequence increases or maintains the frequency or future probability of a behavior. Supervisors apply negative reinforcement when they stop criticizing employees whose substandard performance has improved. When the criticism is withheld, employees are more likely to repeat behaviors that improved their performance. Negative reinforcement is sometimes called avoidance learning because employees engage in the desired behaviors to avoid unpleasant consequences (such as being criticized by your supervisor or being fired from your job.)
- *Punishment*- Punishment occurs when a consequence decreases the frequency or future probability or a behavior. It may occur by the supervisor's

introducing an unpleasant consequence or removing a pleasant consequence. An example of the former would be where an employee is threatened with a demotion or discharge after treating a client badly. The latter form of punishment would occur when a salesperson must give up a cherished parking spot to another employee who has higher sales performance for the month.

- *Extinction*- Extinction occurs when the target behavior decreases because no consequence follows it. For example, if an employee makes practical jokes that are potentially dangerous or costly, this behavior might be extinguished by discouraging others from praising the employee when he or she engages in these panks. Behaviour that is no longer reinforced tends to disappear; it becomes extinct. In this respect, extinction is a do-nothing strategy.

In most situations, positive reinforcement should follow desired behaviors and extinction (do nothing) should follow undesirable behaviors. This is because there are fewer adverse consequences when applying these contingencies compared with punishment and negative reinforcement. However some form of punishment (dismissal, suspension, demotion, etc.) may be necessary for extreme behaviors, such as deliberately hurting a co-worker or stealing inventory. Indeed, research suggests that, under certain conditions, punishment maintains a sense of equity. However, punishment and negative reinforcement should be applied cautiously because they generate negative emotions and attitudes toward the punisher (e.g., supervisor) and organization.

Administering Reinforcement

As it has been established that reinforcement is necessary for learning, a manager must administer it in such a say that it has its maximum effects. If reinforcement is administered properly, it will increase the strength of desired organizational behaviour and the probability of its being repeated. Following aspects must be taken into account in administering the reinforcement.

1. Selection of Reinforcement
2. Contingent Designing of Reinforcement
3. Reinforcement Scheduling

Schedules of Reinforcement

Along with the types of consequences, behavior modification identifies the schedule that should be followed to maximize the reinforcement effect. In fact, there is some evidence that scheduling the reinforcement affects learning more than the size of the reinforcement. The two major types of reinforcement schedules are **continuous** and **intermittent**. A **continuous** reinforcement schedule reinforces the desired behavior each and every time it is demonstrated. For example, let us take the case of someone who has historically had trouble arriving at work in time. Every time he is not tardy his manager might compliment him on his desirable behavior.

In an **intermittent** schedule, on the other hand, not every instance of the desirable behavior is reinforced, but reinforcement is given often enough to make the behavior worth repeating. An intermittent reinforcement can be of a **ratio** or **interval** type. Reinforcement can also be classified as **fixed** or **variable**. Intermittent techniques for administering rewards can, therefore, be placed into **four categories**.

When rewards are spaced at uniform time intervals, the reinforcement schedule is of the **fixed-interval** type. The critical variable is time, and it is held constant. This is the predominant schedule for most salaried workers in North America, when you get your paycheck on a weekly, semimonthly, monthly, or other predetermined time basis, you are rewarded on a fixed-interval reinforcement schedule.

If rewards are distributed in time so that reinforcements are unpredictable, the schedule is of the **variable-interval** type. A series of randomly timed unannounced visits to a company office by the corporate audit staff is an example of a variable-interval schedule.

In a **fixed-ratio** schedule, after a fixed or constant number of responses are given, a reward is initiated. For example, a piece-rate incentive plan is a fixed-ratio schedule; the employee receives a reward based on the number of work pieces generated. When the reward varies relative to the behavior of the individual, he or she is said to be reinforced on a **variable-ratio** schedule. Salespeople on commission are examples of individuals on such a reinforcement schedule. The reward then is variable in relation to the number of calls the salesperson makes.

Reinforcement Schedules and Behavior- Continuous reinforcement schedules can lead to early satiation, and under this schedule behavior tends to weaken rapidly when reinforcers are withheld. However, continuous reinforcers are appropriate for

newly emitted, unstable, or low-frequency responses. In contrast, intermittent reinforcers preclude early satiation because they don't follow every response. They are appropriate for stable or high-frequency responses.

In general, variable schedules tend to lead to higher performance than fixed schedules. For example, most employees in organizations are paid on fixed-interval schedules. But such a schedule does not clearly link performance and rewards. The reward is given for time spent on the job rather than for a specific response (performance).

In contrast, variable-interval schedules generate high rates of response and more stable and consistent behavior because of a high correlation between performance and reward and because of the uncertainty involved-the employee tends to be more alert since there is a surprise factor.

3.7 SOME SPECIFIC ORGANIZATIONAL APPLICATION

- **Using Lotteries to Reduce Absenteeism-** Management can use learning theory to design programs to reduce absenteeism. For example, an organization has used a lottery to reward its employees for attendance. But only employees who have not missed a day of work during the previous six months are eligible. This lottery follows a variable-ratio schedule. A good attendance record increases an employee's probability of winning. Yet having perfect attendance is no assurance that an employee will be rewarded. Consistent with the research on reinforcement schedules, management credits the lottery with significantly reducing the company's absence rate.
  - **Well Pay vs. Sick Pay-** Most organizations provide their salaried employees with paid sick leave as part of the employee's fringe benefit program. The reality is that sick leave programs reinforce the wrong behavior-absence from work. Organizations should reward attendance, not absence. It should reward an employee who has stayed healthy and have not file medical claims by paying them.
  - **Employee Discipline-** Disciplining employees for undesirable behaviors only tells them what not to do. It doesn't tell them what alternative behaviors are preferred. Managers are reinforced for using discipline because it produces an immediate change in the employee's behavior.
  - **Developing Training Programs-** Most organizations have some type of systematic training program. Knowledge of learning helps to   improve the

effectiveness of their training programs. Social-learning theory offers such a guide. It tells us that training should offer a model to grab the trainee's attention; provide motivational properties; help the trainee to file away what he or she has learned for later use; provide opportunities to practice new behaviors; offer positive rewards for accomplishments; and, if the training has taken place off the job, allow the trainee some opportunity to transfer what he or she has learned to the job.

- **Creating Mentoring Programs-** A successful mentoring program can be built on modeling concepts from social learning theory. Mentors are role models. Top managers who are concerned with developing employees who will fit into the organization and with preparing young managerial talent for grater responsibilities should give careful attention to who takes on mentoring roles. The creating of formal mentoring programs-in which Individuals are officially assigned a mentor-allows senior executives to manage the process and increases the likelihood that protégés will be molded the way top management desires.

- **Self Management-** Organizational applications of learning concepts are not restricted to managing the behavior of others. These concepts can also be used to allow individuals to manage their won behavior and in so doing, reduce the need for managerial control. This is called self-management.

3.8. SUMMARY

This chapter has looked at the individual variable-Learning. Learning is mainly cognitive (thinking) process, but is influenced by and has an influence on human behavior. In this chapter we define learning, explain learning process, present three popular learning theories, and describe how managers can facilitate employee learning through reinforcement and influence behaviour by reinforcement schedules.

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3.10. REVIEW QUESTIONS

Q.1. Define Learning and write down the component of Learning Process.

Q.2. Explain the following:
   (a) Classical conditioning
   (b) Operant Conditioning

Q.3. What is Social Learning Theory? Discuss.

Q.4. Describe the different Schedules of Reinforcement.

Q.5. Write down the four ways of shaping behavior through learning process.

Unit-4
Motivation

Structure:

4.1 INTRODUCTION

People throughout the organization need to develop better ways to perceive the world around them and learn about the consequences of their actions. *Perception* is the process of receiving information about and making sense of the world around us. It involves deciding which information to notice, how to categorize this information, and how to interpret it within the framework of our existing knowledge. Perceptual process is the dynamics of selecting, organizing, and interpreting external stimuli.

4.2 OBJECTIVES

After reading this unit, you should be able to:
- Outline the perceptual process.
- Explain how we perceive others.
- Describe the Attribution Theory and Attribution Errors.
- Describe how shortcuts can assist in or distort our judgement of others.
- Understand process of motivation and its nature.
- Explain various theories of motivation.

4.3 MOTIVATION: MEANING AND NATURE

Motivation is the process of channeling a person's inner drives so that he wants to accomplish the goals of the organization. Motivation is a behavioral concept by which we try to understand why people behave as they do. It concerns those dynamic processes which produce a goal-directed behaviour. A goal-directed behaviour always begins with the individual feeling certain needs (also referred to as drives or motives). These needs give an emerging thrust to the individual toward certain goals or incentives which he perceives (rightly or wrongly) as possible satisfier of his needs. Thus one may perceive food, water and friends as the possible satisfiers of his hunger, thirst and affiliation needs and may be motivated to achieve these goals. So, what controls human behaviour and gives direction to it is not the goal or the incentive but the need. The goal which is external to the individual only provides him with the opportunity for satisfying his internal needs. We can show the motivation process by means of a diagram thus.

Needs ⟶ Interpretation ⟶ Goal-directed ⟶ Accomplishment (Motives)

of goals/incentives behaviour of goals and according to one's need-reduction perception

Nature of Motivation

The following characteristics of motivation reveal the complexities in understanding motivation:

1. Motivation is an internal feeling. It is a psychological phenomenon which is created within an individual.
2. Person in totality not in part, is motivated. Each individual in the organization is a self-contained and inseparable unit and his needs are interrelated.
3. Individuals differ in their motivation.
4. Motivations of each individual change from time to time, even though he may continue to behave in the same way.
5. Motivations are expressed differently. The ways in which needs are eventually translated into actions also vary considerably between one individual and another. The reactions of individuals to successful or unsuccessful fulfillment of needs may also differ.
6. Motivation is a complex Phenomenon. It is difficult to explain and predict the behavior of workers. The introduction of an apparently favorable motivational device may not necessarily achieve the desired ends if it brings opposing motives into play. For example, in a factory, when blue-green lighting was introduced to reduce eye strain, the output of men workers increased but that of women workers decreased. On investigation it was found that the latter disliked the change in lighting because they felt that the new type of lighting had made them look "simply ghastly".
7. Motivation is the product of anticipated values from an action and the perceived probability that these values will be achieved by the action.
   a. *Motivation = Valence (anticipated values) x Expectancy*

DETERMINANTS OF MOTIVATION

Where as in the past, money was regarded as the only cause of human behavior, today in industry there is great concern with the multi-motivational determinants of behavior. The earlier monistic approach to motivation, under which man was supposed to act only to increase his monetary rewards, has now given

place to a more complete pluralistic explanation which recognizes that a man works to fulfil a variety of needs. It is now recognized that motivation is the result of inter-play among three groups of factors: (a) influences operating within the individual; (b) influences operating within the organization: and (c) influences operating the external environment, i.e., exogenous variable.

- **The Individual**- To understand what motivates employees; we must know something of their aims, needs and values. Human needs are both numerous and complex. Some of these needs are hard to describe and identify because people hide their real needs beneath an overlay of socially acceptable behavior.

- **Organizational Climate**- The climate of an organization also plays an important part in determining worker's motivation. A worker may work poorly in one organization but much better in another because of the change in the organizational climate. Some important components of organizational climate are as follows:

1. Individual autonomy, i .e. the degree of freedom from accountability to others.

2. Position structure, i.e., the extent of direct supervision and formalization.

3. Reward orientation, i.e., the extent of incentives provided for higher effort and performance.

4. Consideration, i.e., the extent of socio-emotional support provided by others.

5. Conflict, i.e., the extent of expression of differences and blocking of each other.

6. Progressiveness and development, i.e., the scope of growth of self, other members and the organization as a whole.

7. Risk taking, i.e., the extent of freedom to experiment with new ideas.

8. Control, i.e., the degree of checks imposed on the members' behavior.

The climate of an organization is determined by a number of variables such as its leadership style, economic condition, structure, technology, characteristics of its people and so on.

- **Exogenous Variables**- A worker's life is divided into two watertight compartments, one inside the factory and the other outside of it. The two are closely bound together so that the trouble and joys of off-the-job life cannot be put aside when reporting for work in the morning, nor can factory mattes be dropped when returning home after work. Culture, customs and norms, images and attributes conferred by society on particular jobs, professions and occupations, and the worker's home life-all play a strong motivational role.

An individual, for example, may find that his work has a substantial degree of respect and social acceptance accorded by society quite apart from holding a position in a particular organization.

4.4 MOTIVATION THEORIES

Since various people have been involved in finding out the answer of the questions related to what motivates people, their approaches have differed resulting into a numbered of theories concerning motivation. Though all these theories try to focus attention on the basic issue, they differ considerably. These theories concerning motivation try to provide explanations for the behavior-outcome relationship. The various theories are grouped in to three categories:

4. Theories associated with human needs- Theories given by Maslow, Herzberg,and McClelland;
5. Theories associated with basic nature of human beings- Theories given by McGregor,Urwick,and Argyris;
6. Theories associated with expectancy of individuals- Theories given by Vroom, Porter and Lawler.

Maslow's Hierarchy of Needs Theory

It's probably safe to say that the most well-known theory of motivation is Abraham Maslow's **hierarchy of needs**. He hypothesized that within every human being there exists a hierarchy of five needs. These needs are:

6. **Physiological needs**: It includes hunger, thirst, shelter, sex, and other bodily needs.
7. **Safety needs**: It includes security and protection from physical and emotional harm
8. **Social needs**: It includes affection, belongingness, acceptance, and friendship
9. **Esteem needs**: It includes internal esteem factors such as self-respect, autonomy, and achievement; and external esteem factors such as status, recognition and attention
10. **Self-actualization needs**: It is the drive to become what one is capable of becoming; includes growth, achieving one's potential, and self-fulfillment.

Self Actualization

Esteem

```
┌─────┐
│Social│
    ┌──────────┤
    │Security
┌───┴──────────────┤
│  Physiological
│
└──────────────────────────────
```
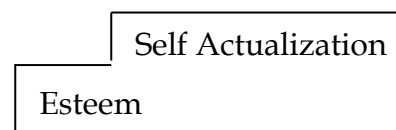
Fig. No.4.1.   Maslow's hierarchy of needs

As each of these needs becomes substantially satisfied, the next need becomes dominant. As seen in figure the individual moves up the steps of the hierarchy. From the standpoint of motivation, the theory would say that although no need is ever fully gratified, a substantially satisfied need no longer motivates. So if you want to motivate someone, according to Maslow, you need to understand what level of the hierarchy that person is currently on and focus on satisfying those needs at or above that level.

Maslow separated the five needs into higher and lower orders. Physiological and safety needs were described as **lower- order needs** and Social, Esteem, and Self-actualization needs as **higher- order needs.** The differentiation between the two orders was made on the premise that higher-order needs are satisfied internally (within the person), whereas lower-order needs are predominantly satisfied externally (by such things as pay, union contracts and tenure). In fact, the natural conclusion to be drawn from Maslow's classification is that in times of economic plenty, almost all permanently employed workers have their lower-order needs substantially met.

Analysis of the Theory: Maslow's needs hierarchy is one of the best-known organizational behaviour theories and is still widely cited. However, scholars have mostly dismissed Maslow's theory because it is much too rigid to explain the dynamic and unstable characteristics of employee needs. Researchers have found that individual needs do not cluster neatly around the five categories described in the model. Moreover, gratification of one need level does not necessarily lead to increased motivation to satisfy the next higher need level.

Herzberg's Two-Factor Theory

The two-factor theory (sometimes also called motivation-hygiene theory) was proposed by psychologist Frederick Herzberg. In the belief that an individual's relation to work is basic and that one's attitude toward work can very well determine success or failure, Herzberg investigated the question, "What do people want from their jobs?" He asked people to describe in detail, situations in which they

felt exceptionally good or bad about their jobs. According to Herzberg, the factors leading to job satisfaction are separate and distinct from those that lead to job dissatisfaction. Therefore, managers who seek to eliminate factors that can create job dissatisfaction may bring about peace but not necessarily motivation. According to Herzberg, the absence of certain job factors tends to make workers dissatisfied. However, the presence of these same factors in themselves does not produce high levels of motivation. They merely help avoid dissatisfaction and the problems it creates, such as absenteeism, turnover and grievances. Herzberg called these factors **maintenance or hygiene** factors since they are necessary to maintain a reasonable level of satisfaction. He concluded that there are **ten maintenance factors**, namely:

11. Fair company policies and administration
12. A supervisor who knows the work
13. A good relationship with one's supervisor
14. A good relationship with one's peers
15. A good relationship with one's subordinates
16. A fair salary
17. Job security
18. Personal life
19. Good working conditions
20. Status

To build high levels of motivation and job satisfaction, a different set of factors is necessary. However, if these factors are not present, they do not in themselves lead to strong dissatisfaction. Herzberg called these the **Motivators or Satisfiers**. These are *six* in number:

7. Opportunity to accomplish something significant
8. Recognition for significant accomplishments
9. Chance for advancement
10. Opportunity to grow and develop on the job
11. Chance for increased responsibility
12. The job itself.

As the lists indicate, the motivators are job-centered; they relate directly to the content of the job itself. In contrast, maintenance factors relate more to the conditions and environment in which the work is done.

Herzberg's theory and Maslow's theory compared

To a certain extent, Herzberg's theory also fits in with the earlier discussion of Maslow's needs hierarchy theory. As shown in figure, the maintenance factors mainly satisfy physiological security, social and some esteem needs. The motivators are directed at some part of esteem and self-fulfillment needs.

Herzberg's model has been applied in the industry and has given several new insights. One of these insights is job enrichment. This job enrichment applies to improvement of jobs in such a way that they have more motivators than before. This idea behind job enrichment is to keep maintenance factors constant or higher while increasing motivational factors. Job enrichment is different from job enlargement practiced earlier to make job more attractive. In job enlargement the basic idea is to change the job to become more implicated and varied so that monotony goes off, while job enrichment seeks to bring more motivators to the job by attaching more responsibility, more intrinsically satisfying work conditions and more power over the environment. Thus, Herzberg's model has solved the problems of managers who were wondering why their fancy personnel policies failed to motivate their employees adequately. However, Herzberg's model is not applied in all conditions.

Fig.No.4.2.Herzberg's theory and Maslow's theory compared
Analysis of the Herzberg's Theory

MCCLELLAND'S THEORY OF NEEDS

McClelland's theory of needs was developed by David McClelland and his associates. The theory focuses on three needs: achievement, power, and affiliation. They are defined as follows:

- **Need for Achievement**: The drive to excel, to achieve in relation to a set of standards, to strive to succeed.

- **Need for Power**: The need to make others behave in a way that they would not have behaved otherwise.
- **Need for Affiliation**: The desire for friendly and close interpersonal relationship.

Individuals with a high need to achieve prefer job situations with personal responsibility, feedback, and an intermediate degree of risk. When these characteristics are prevalent, high achievers will be strongly motivated. The evidence consistently demonstrates, for instance, the high achievers are successful in entrepreneurial activities such as running their won business and managing a self-contained unit within a large organization.

A high need to achieve does not necessarily lead to become a good manager, especially in large organizations. People with a high achievement need are interested in how well they do personally and not in influencing others to do well.

The needs for affiliation and power tend to be closely related to managerial success. The best managers are high in their need for power and low in their need for affiliation. In fact, a high power motive may be requirement for managerial effectiveness.

THEORIES ASSOCIATED WITH BASIC NATURE OF HUMAN BEINGS

McGregor's Theory X and Theory Y:

Douglas McGregor proposed two distinct views of human beings: one basically negative, labeled **Theory X**, and the other basically positive, labeled **Theory Y**. After viewing the way in which managers dealt with employees, McGregor concluded that a manager's view of the nature of human beings is based on a certain grouping of assumptions and that he or she tends to mold his or her behaviour toward employees according to these assumptions.

Under Theory X, the four assumptions held by managers are:

5. Employees inherently dislike work and, whenever possible, will attempt to avoid it.
6. Since employees dislike work, they must be coerced, controlled, or threatened with punishment to achieve goals.
7. Employees will avoid responsibilities and seek formal direction whenever possible.
8. Most workers place security above all other factors associated with work and will display little ambition.

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In contrast to these negative views about the nature of human beings, McGregor listed the four positive assumptions that he called. Theory Y:

5. Employees can view work as being as natural as rest or play.
6. People will exercise self-direction and self-control if they are committed to the objectives.
7. The average person can learn to accept, even seek, responsibility.
8. The ability to make innovative decisions is widely dispersed throughout the population and is not necessarily the sole province of those in management positions.

The Assumptions of Theory Y suggest a new approach in management. It emphasizes on the co-operative endeavor of management and employees. The attempt is to get maximum output with minimum amount of control and direction. Generally, no conflict is visible between organizational goals and individual goals. Thus, the attempts of employees which are in their best interests are also in the interests of organization.

Vroom's Expectancy Theory:

Currently, one of the most widely accepted explanations of motivation is Victor Vroom's expectancy theory. Although it has its critics, most of the research evidence is supportive of the theory. Expectancy theory argues that the strength of a tendency to act in a certain way depends on the strength of an expectation that the act will be followed by a given outcome and on the attractiveness of that outcome to the individual.

In more practical terms, expectancy theory says that an employee will be motivated to exert a high level of effort when he or she believes that effort will lead to a good performance appraisal; that a good appraisal will lead to organizational rewards such as a bonus, a salary increase, or a promotion; and that the rewards will satisfy the employee's personal goals. The theory, therefore, focuses on three relationships.

1. *Effort-performance relationship*. The probability perceived by the individual that exerting a given amount of effort will lead of performance.

2. *Performance-reward relationship*. The degree to which the individual believes that performing at a particular level will lead to the attainment of a desired outcome.

3. *Rewards-personal goals relationship*. The degree to which, organizational rewards satisfy an individual's personal goals or needs and the attractiveness of those potential rewards for the individual.

Individual effort		Individual performance		Organizational rewards		Personal goals
	1		2		3	

1. Effort-performance relationship
2. Performance-reward relationship
3. Rewards-personal goals relationship

Expectancy theory helps explain why a lot of workers aren't motivated on their jobs and merely do the minimum necessary to get by. This is evident when we look at the theory's three relationships in a little more detail. The key to expectancy theory is the understanding of an individual's goals and the linkage between effort and performance, between performance and rewards, and finally, between the rewards and individual goal satisfaction.

As a contingency model, expectancy theory recognizes that there is no universal principle for explaining everyone's motivations. Additionally, just because we understand what needs a person seeks to satisfy does not ensure that the individual perceives high performance as necessarily leading to the satisfaction of these needs.

4.5 SUMMARY

What individuals perceive from their work situation will influence their productivity. Whether or not a job is actually interesting or challenging is irrelevant. Moreover employee's needs are changing .Diverse workforce typically have diverse needs and values. These influence what organisations should and should not do to fulfill the needs. This chapter has introduced you to two fundamental activities in human behaviour in work place: perception and motivation.

In this chapter we look at the Perceptual process, Factors Influencing Perception, and Theories related to Perception and its use in making Judgments about others. In the next section we also review the key Motivation Theories to determine their relevance.

4.6 REFERENCES

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4.7 REVIEW QUESTIONS

Q.1.Define Perception and Outline the perceptual process.

Q.2.What is Attribution Theory? Write down its implications in organizational behaviour.

Q.3. What is stereotyping? Explain with example how stereotyping can create perceptual distortion.

Q.4. Describe how shortcuts can assist in or distort our judgement of others.

Q.5. Outline the process of motivation and its nature.

Q.6.Compare and contrast Maslow's hierarchy of needs Theory with Herzberg's two-Factor Theory.

Q.7. Write down the implications of McGregor's Theory X and Theory Y for managers.

UNIT-5
Leadership and Communication

Structure:

5.1 INTRODUCTION

The whirling global scenario in modern time has put tremendous pressure on Organizations' to keep pace with the technological advancement and Organizational communication for its continuous growth and development. Communication has undoubtedly plays an important role to keep Organizational informative and in continuous touch with interdepartmental personnel and various other business partners. Though Organizational Communication is a specialized branch of general communication, there is no basic difference between the two. The process is the same and so are the principles that regulate them. The difference lies in their application to situations. Whereas general communication plays many roles in the world at large, Organizational communication is specifically concerned with business activities, which are well-defined.

Business activities are of two types, internal and external. Among the internal activities are: maintaining and improving the morale of employees, giving orders to workers, prescribing methods and procedures, announcing policies and organizational changes, and keeping the management informed. The external activities relate to selling and obtaining goods and services, reporting to the government and the shareholders on the financial condition and business operations, and creating a favourable climate for conducting business. Every activity, internal or external, leads to some result.

Therefore the main purpose of every communication in business is to obtain some result that is, to secure an action by the receiver. The sender expects him to do something on receiving the message- write a cheque, place an order, approve an action, send some information, etc. To achieve this drawing attention, arousing interest or creating desire, developing conviction, and inducing action organizational communication should be effective. The main features that lend Organizational communication a distinct identity are as follows:

1. It is characterized by certain formal elements such as commercial and technical vocabulary, the use of graphic and audio-visual aids and conventional formats.
2. It deals with various commercial and industrial subjects.
3. It is impartial and objective as extreme care is taken to convey information accurately and concisely.
4. It has comparatively a high concentration of certain complex writing techniques and procedures.

To sum up, we may define organizational communication as the use of effective language for conveying a commercial or industrial message to achieve a predetermined aims and objectives.

5.2 OBJECTIVES

The unit will enable you to:
- Understand the nature of basic communication in an organization.
- Gain insights on the Organizational Communication Process.
- Acquire the complete knowledge of communication forms and networks.

5.3   MEANING OF ORGANIZATIONAL COMMUNICATION

Communication means an exchange of ideas, opinions, information and understanding between two or more persons. It is derived from the Latin word "*Communis*" which means common.

According to Keith Davis, "Communication is the process of passing information and understanding from one person to another".

According to Newman and Summer, it is an exchange of facts, ideas, opinions or emotions by two or more persons.

Allen Louis defines it as the sum of all the things one person does when he wants to create understanding in the minds of another.

Simply stated, communication means the process of passing information and understanding from one person to another. A proper understanding of information is one very important aspect of communication. If the information is not understood by the receiver in the same meaning in which its sender wants him to understand it, the very purpose of communication is defeated. This may result in confusion, chaos and organizational inefficiency, leading to non-fulfillment of business goals. It means that it is an exchange of ideas, facts, opinions, or emotions between two or more persons to create common ground of understanding. In short, communication is not merely transmission of information from one person to another but also correct interpretation and understanding of the information. It is not to get something *off the mind* of the person transmitting it, but to get something *into the mind* and actions of the person receiving it. Fig.4.1 exhibit the organizational communication model.
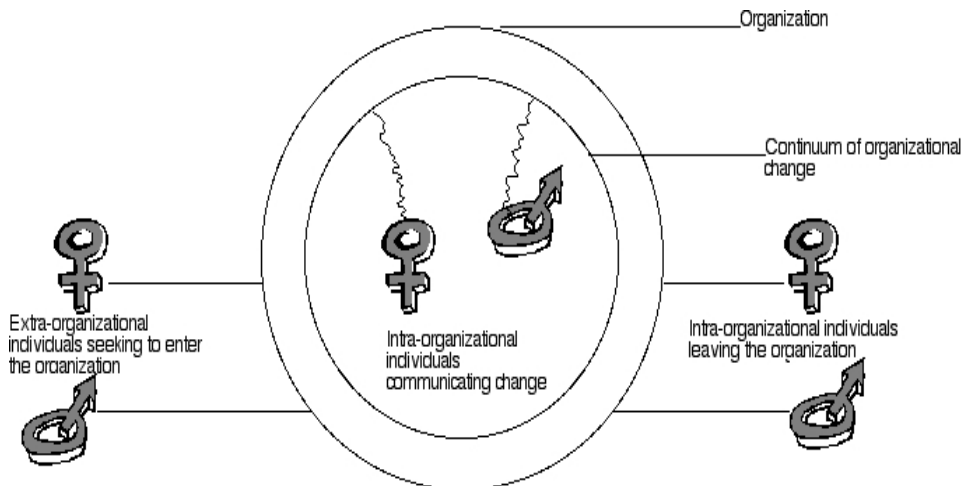
Fig. 5.1: Organizational Communication Model

IMPORTANCE OF COMMUNICATION

The classicists ignored the importance of communication, for they believed that a business unit was only a technical and formal structure. However, after the thirties, as a result of the Hawthorne experiments, it was realized for the first time that every organization structure is a social system involving the interactions of people working at different levels and proper communication among them is necessary for achieving the goals of the organization. It is the basis to an organization's existence from the birth of the organization on through its continuing life. When communication stops, organized action comes to an end automatically.

PURPOSES OF COMMUNICATION

Some important purposes which communication serves are mentioned as under:

1. Communication is needed to enable employees to perform their functions effectively and efficiently.
2. Communication is needed in the *recruitment* process to persuade potential employees of the merits of working for the enterprise.
3. Communication is needed in the area of *orientation* to make people acquainted with peers, superiors and with company's rules and regulations.
4. Communication is needed to acquaint the subordinates with the *evaluation* of their contribution to enterprise activity.
5. Communication is needed to *teach employees about personal safety* on the job.
6. Communication is of vital importance in *projecting the image* of an enterprise in the society.

7. Communication helps the manager in his *decision making process.*
8. Communication helps in achieving *coordination.* In a large organization, working on the basis of division of labour and specialization, there is need for coordination among its component parts.
9. Communication promotes *cooperation and industrial* peace. Most of the disputes in an enterprise take place because of either lack of communication or improper communication.
10. Communication increases *managerial efficiency.* It is said that the world of modern management is the world of communication and the success of a manager in the performance of his duties depends on his ability to communicate.

   In summary, it can be outlined that purposed of communication are:

   1. To provide the attitudes necessary for motivation, cooperation and job satisfaction (i.e., willingness to work); and

   2. To provide the information and understanding necessary for group effort (i.e., the skill to work).

5.4 GROWTH AND PRINCIPLES OF EFFECTIVE COMMUNICATION

Communication is a science as old as mankind. Right from the time of inception, man felt the need to communicate. Initially he made use of signs and symbols to transmit his message. Later on, it was replaced by words and languages. It was in the early 40's and 50's that communication as an inter-disciplinary subject began to gain ground. For example, in Anthropology the study of body gesture in different culture came under the scrutiny of Anthropologists. The Physiology of speech and speech pathology at this time focused interest on oral presentation, interpretation, voice, diction and debate. The success of manager depends on how well he communicates. Therefore, Communication is the most vital management tool.

Principles of Effective Communication

The management, in order to have effective communication, should keep the following principles of communication in mind:

1. The manager who wants to communicate must clear in his mind about the objectives of his communication. He should know what he wants to communicate. As W.H. Whyte has remarked, "the great enemy of communication is the illusion of it." Many executive mistake the form of

communication for its matter and pay too much attention to media and devices and too little to purpose and context.

2. Communication should be adequate and complete in all respects. If all the necessary information has not be supplied, people make assumptions about the missing information.

3. The communication should be in easily understandable language.

4. The medium of communication must be carefully selected. The medium to be selected depends on the subject matter, urgency of communication, situation etc.

5. Messages should not be mutually conflicting and should be in line with the overall objectives and policies of the concern.

6. There should be follow up of communication to know whether or not the receiver has understood the message correctly and to know his reaction. Feedback is necessary to ensure understanding.

7. There is also a need for the right climate in the organization. There should be a good superior-subordinate relationship characterized by openness and trust so that everybody may feel free to communicate and to make suggestions on his own.

8. The communicator should not act in any way which contradicts his message. A communicator is judged not only by what he says but also by what he does. Actions speak louder than words. Hence, the action of the communicator should be in line with the message conveyed.

9. Every executive should realize that the grapevine is a powerful channel in an organization. Generally, it is better to use the grapevine than to try to fight it.

There should be provision for adequate training facilities to the executives for improving their skills in report-writing, effective speaking, lecturing, interviewing and listening.

5.5 PROCESS OF ORGANIZATIONAL COMMUNICATION

Communication is a word of Latin origin; it means sharing-sharing of information or intelligence. The most common medium of communication is language. While speaking we often resort to physical gestures. We wave our hands, shrug our shoulders, smile and nod to reinforce what we say. Besides, there are several other means of communication available to us. We use non-linguistic symbols such as traffic lights, road signs, railway signals to convey information relating to the movement of vehicles and trains. We also use telegraphic code for

quick transmission of message and secret codes for communicating defence and other highly confidential information. For communication all these codes are valid in their special frames or reference and it is related to linguistic communication. Whether formal or informal, the basic communication process is still the same. It involves six steps of ideation, encoding, transmission, receiving, decoding and acting.

Communication is a process, the main components of which are *sender, message, channel, receiver* and *response.* Communication starts in the mind of the sender. Sender is the person who conveys the message (the subject matter of communication. The sender translates the message into words, symbols or some other form. This is known as encoding of message. The encoded message once developed is transmitted through some media which is known as the communication channel. It may be spoken or written. Or, it may be communicated non-verbally by a smile, a nod or a shrug of the shoulder. Once, transmitted, the message is received and the receiver attaches meaning to it (decoding). The person who receives the message is known as the receiver. The receiver sends his response to the sender of the message. Such response is known as *feedback.* Without feedback, the sender cannot be certain if the message was received and the proper meaning attached to it. With feedback, any distortion in meaning can be corrected by another communication. Thus, communication is a circular process. Exhibit 1.2 shows these components and their relationships.

| Sender | Message | Encoding | Channel | Receiver | Decoding | Message |
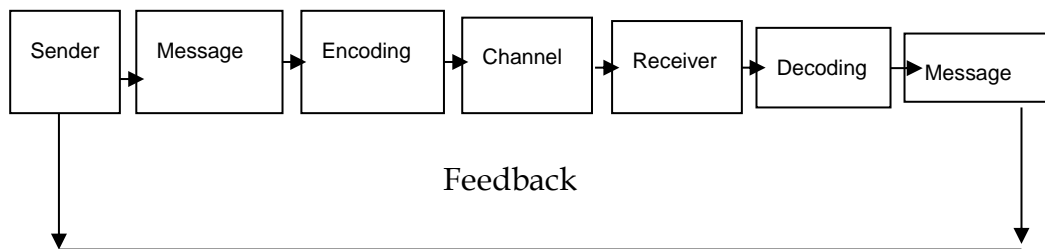
Feedback

Fig 5.2: Communication Process with feedback

The first thing to note is that in every communication situation there are two parties, a *sender* and a *receiver,* who interact within a common frame of reference. Without a common background, purpose and interest there can be no effective communication.

An important factor in the communication process is the existence of cooperation between the sender and the receiver. If you speak to a person who is

totally lost in his thoughts or use a language he does not understand, no communication will take place.

Communication, in fact, is a social function and each community develops a common medium for the purpose. The medium may consist of a language or code- a set of symbols which stand for certain ideas, feelings, notions, things, etc.

To encode a *message,* relevant symbols are selected and arranged into a pattern to convey meaning.

The choice of the *channel* and the type of symbols is determined by the situation. When addressing a conference of research workers a scientist uses technical language. He speaks distinctly and makes suitable gestures to drive home his points. On the other hand, when he talks to his wife and children he uses simple everyday language and speaks in an informal manner.

When the sender transmits a message, he expects a *response.* The response may be immediate or deferred, favourable or unfavourable. He may, for instance, send a letter of congratulations to a friend on his success in an examination and receive an immediate reply. On another occasion, an application for leave may not be granted. But for this reason it has not ceased to be a communication, only it has not produced the desired response.

The sender is naturally interested in knowing how his message has been received. The observation of the receiver's response is called *feedback.* Immediate feedback is possible only in face to face interaction or telephonic conversation. Such communication has one significant advantage. The sender can promptly adjust the tenor of his communication. But oral communication by its very nature is ephemeral.

For many of our needs we resort to written communication. Though in written communication there is no immediate feedback, yet it has other virtues which more than compensate for this shortcoming. It gives you better control over what you wish to say.

You can edit, review and revise as often as you like. You can reproduce, multiply, store or retrieve it to suit your needs. Further, it is convenient in as much as you can write at leisure and the reader can handle it at his own convenience.

Now let us take a specific situation to illustrate the communication process. Suppose as a shopkeeper you have to place an order for a bulk quantity of Lux soap. You write a letter (message) and send it by post (channel), to a wholesaler, and he dispatches the requisite quantity of soap (response) to you. On receipt you examine the soaps (feedback) to assure yourself that it is the same which you had ordered.

But all communication situations are not like the one described above. In many cases the message fails to produce the desired response because of a *semantic gap* between the sender and the receiver. The failure occurs because the sender may not be clear about his objective or he may use inappropriate language to convey his ideas. It also occurs if the receiver is not able to understand and interpret the message properly. Therefore, a great deal of importance is attached to acquiring skills of communication in all spheres of life.

5.6   TYPES OF ORGANIZATIONAL COMMUNICATION

Each business house is concerned with two types of communication: external and internal: Externally, it has to communicate with other business houses, banks, press, government offices, customers and general public. Internal communication consists in transmitting information within the organization. Internal communication may again be of two types: *formal or official and informal.*

FORMAL COMMUNICATION

Much of the communication in an organization is what we call formal communication. Formal communication flows along prescribed channels which all members desirous of communicating with one another are obliged to follow. It flows in formally established channels and is concerned with work-related matters. All orders, instructions and decisions are communicated to the subordinates through this channel. Formal communication flows in four directions. Downward, upward, laterally between the departments and between the organization (Horizontal communication) and external environment as shown in Fig. 1.3.
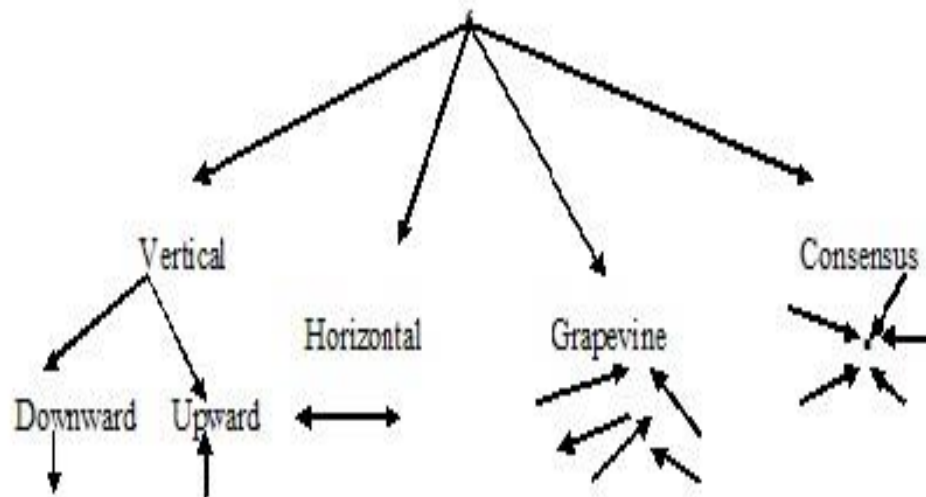
Fig. 5.3: Forms of Formal Communication

DOWNWARD COMMUNICATION:

Communications which flow from superiors to the subordinates are known as downward communications. The Managing Director communicating with the departmental heads, a manager giving a directive to an assistant manager or a supervisor, a foreman instructing a worker, are all engaged in the process of downward communication. Orders, individual instructions, policy statements, job-sheets, circulars, etc., fall under downward communication. These communications are the medium through which the superior *directs* the efforts of his subordinates, *defines* the goals of the organization and the sub-group, *tells* the subordinates what is expected of them, what resources are available, how well they are doing, etc; and *administers* reward and punishment. There can be several media of downward communication such as written orders, posters and bulletin boards, company periodicals and hand-books, information racks, loud-speakers, grapevine, annual reports, group meetings and the labour union. Of all these, orders are the most important. It is eminently suited to an organization in which the line of authority runs distinctly downwards, with each rank clearly below another, to which it is directly related. It gives specific directives about the job being entrusted to a subordinate and to explain policies and organizational procedures.

UPWARD COMMUNICATIONS

If the managers have to transmit information down the line of authority, they have also to receive information continuously emanating from levels below them. Communication which flows from the subordinates to superiors is known as upward communications. These communications generally act as a feedback. They enable the management to know how far downward communications have been understood and carried out. They also help the management to know the grievances or suggestions of the subordinates and the way in which the management is seen by the subordinates. It provides with necessary feedback to management and act as a kind of lubricant in greater harmony and cohesion.

HORIZONTAL COMMUNICATIONS

These are also known as lateral or cross-wise communications. Communication between departments or people on the same level in the managerial hierarchy of an organization may be termed as horizontal communication. They refer to communications among the subordinates who are working on the same level of the organization. Such communications help coordinate the activities of different

departments. It is the most frequently used channel of communication. The production foreman and the maintenance foreman communicate directly without going through their managers. Workers communicating with other workers, clerks exchanging information with one another and supervisor holding a coffee-break session to discuss some organizational problems are all engaged in this type of communication.

In this way, lateral communications avoids the much slower procedure of directing communications through a common superior. Face-to-face exchange of views or a brief conservation over the telephone is very convenient for horizontal communication.

Horizontal communication is extremely important for promoting understanding and coordination among various departments. Not much imagination is needed to visualized the embarrassing situations that lack of coordination might create for the organization.

EXTERNAL COMMUNICATIONS

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

INFORMAL COMMUNICATION

In addition to the formal channels of communication, there exists in every organization an informal channel, often called as the grapevine, that does not arise out of the organizational needs, but that is, nevertheless, an integral part of its communication system.

Keith Davis rightly points out that the grapevine is more a product of the situation that it is of the person. Certain situations like insecurity of services, uncertainty over promotion, special increments to a particular employee, certain innovations in the organization likely to affect the job prospects of the employees are sure to activate the leader of the grapevine so that very soon all kinds of rumours have spread in the organization.

Rumours that are all the time spreading in any organization follow the grapevine. This structure less network of informal communication flourishes in all organizations because communication is a natural human tendency.

People who know each other in the organization talk together informally. One thing they have in common is the organization they work for, so they talk about the happenings in the organization.

The grapevine carries two types of information: work-related and people-related. Employees want to know what is going on in the organization. When they are not kept informed through formal channels, they seek information from the grapevine. Likewise, they are curious about the people they work with.

The grapevine carries the type of personal information not generally communicated through formal channels.

For example, a manager cannot announce his bad mood officially to his subordinates. The best way to do this would be to put this information on the grapevine so that it reaches the subordinates informally.

Grapevine acts as a kind of safety valve for the pent-up emotions of the subordinates and it may even raise the morale of workers.

Some Characteristics of a Grapevine

1. Grapevine information is mostly oral. But it can be written also, as in the case of two employees working in two branches of a company exchanging information through e-mail.
2. Although the general impression is that the grapevine operates like a long chain in which 'A' tells 'B', 'B' tells 'C', 'C' tells 'D' and so on, but research shows that it follows a cluster chain, which means that 'A', instead of telling one person, tells 3 or 4 persons each. In other words, only a few in the grapevine spread the information.
3. Research on grapevine accuracy shows that out of the total communication bits; well over three-fourths are accurate. But the inaccurate bits, though a small in proportion are more devastating in effect.
4. A grapevine is more a product of the situation that it is of the person. For example, one can find grapevine humming with activity during periods of excitement and insecurity, such as during a threat of a lay-off.
5. A grapevine has remarkable speed. Its fast speed makes it quite difficult for the management to stop rumours or to significant news in time to prevent rumour formation.
6. A grapevine helps management in interpreting its policies to the workers and communicating their reactions and feelings to the management.

How the grapevine operates

Professor Keith Davis, who has done some research on the nature of grapevine or the informal channel of communication, classifies it into four basic types: single strand, gossip, probability, and cluster. The single strand chain involves the passing of information through a long line of persons to the ultimate recipient. 'A' tells 'B', who tells 'C', who tells 'D', and so on, till the information has reached most of the concerned persons. In the gossip chain, 'A' actively seeks and tells everyone. The probability chain is a random process in which 'A' transmits the information to others in accordance with the laws of probability and then others tell to others in similar fashion. This chain may also be called random.

In the cluster chain, 'A' tells a selected person who may in turn relay the information to other selected individuals. Most of the informal communication follows this chain as shown in fig 1.4.

SINGLE STRAND　　　　**PROBABILITY**　　　　**CLUSTER**

GOSSIP
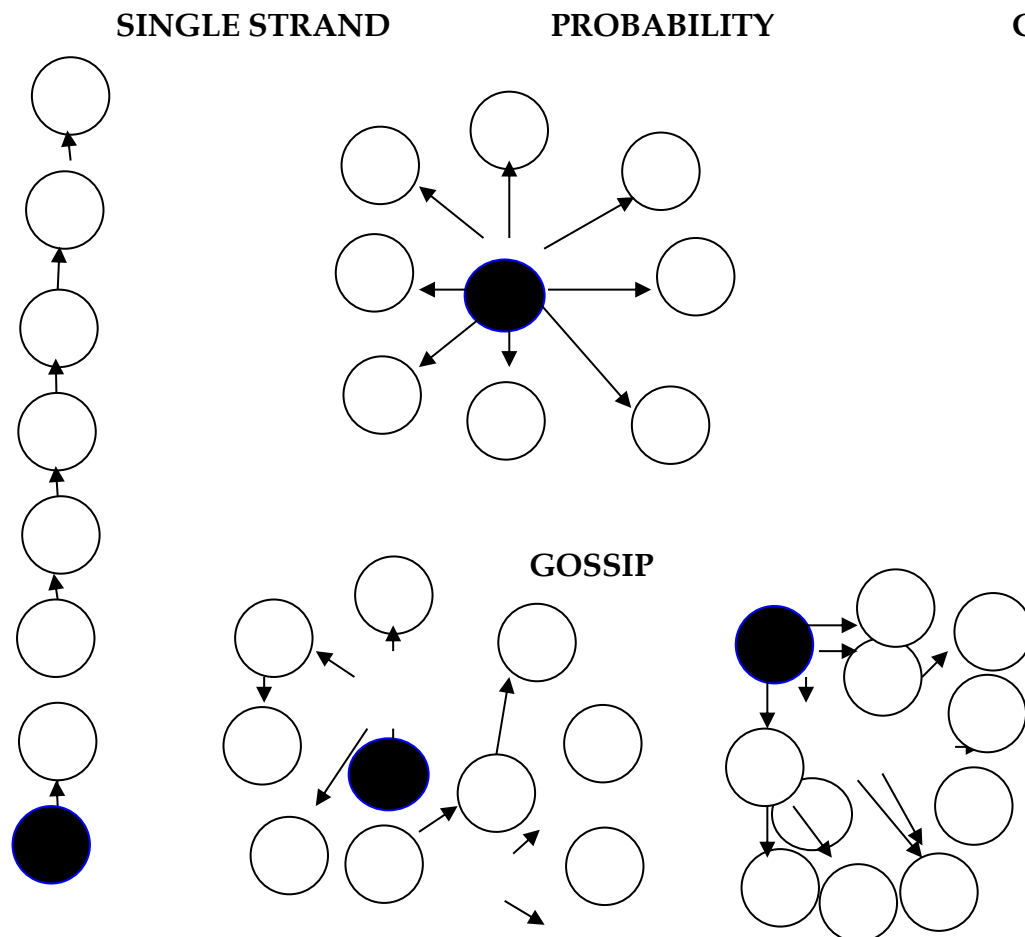
Fig-5.4 Transmission of information along the grapevine

- **Control of Rumour:** Researchers have shown that rumour is a product of *interest* and *ambiguity* in a situation. If a person has no interest in a situation, he has no cause to spread rumour about it. Similarly if, there is no ambiguity in a situation, a person has no cause for spreading rumours. Hence, a manager can prevent rumour by not allowing these two causes to develop.

5.7   FORMS OF ORGANIZATIONAL COMMUNICATION

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

Oral Communication

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

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

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

- It is not useful where the parties are very far from each other, even beyond telephonic range.
- It is not suitable for lengthy communications.
- There is no permanent record of communication.
- Sometimes, oral communication is not taken seriously by the receiver.
- If the communicator is poor in vocal expression, oral communications are likely to be misunderstood and misinterpreted.

Written Communication

Written communication, which is always is black and white can take the form of a report, statement, circular, note, manual, handbook, letter, memo, etc. Some of the merits of written communication are as follows:

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

Some of the disadvantages of written communication are as follows:

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

Non-Verbal Communication

All of us constantly send clues about our feelings- not by what we say, but by what we do. *This is called non-verbal communication.* Much non-verbal communication is expressed through the body- the facial expression, posture, gestures, etc. A number of non-verbal clues play an important role in oral communication. When we meet a stranger with whom we have to interact we form our first impressions about him by observing his physical characteristics, his body movements, his facial expression, and the way he is dressed. Though these first impression may not be accurate, they are important as they influence our understanding of what he says, and thus affect our reaction to it. We would like to emphasize that non-verbal communication is no substitute for verbal communication: it merely supplements and reinforces what we say. There are, however, occasions when non-verbal clues may believe verbal communication.

For example, a tiny, shabbily dressed person may create a poor first impression but he may later prove to an engaging interlocutor. Buts such instances are not many.

5.8   NETWORKS OF ORGANIZATIONAL COMMUNICATION

An organization's effectiveness depends upon the performance of numerous small groups which function and interact within the overall organizational system.

Since the activities of these small groups depend to a great extent upon their information flow, communication networks or the arrangement of interconnecting lines is one area in which the groups may be made more efficient.

All communication networks possess some basic characteristics which differentiate them from each other. These are as follows:

1. Size of Network: The size of network is measured in terms of the number of employees it interconnects. Some communication networks are very big, others are small. In general, the larger the loop, the greater are the problems of communication. However, large loops with several interconnecting communication links have been found to be more effective where problems are more complex and ambiguous.

2. Extent of Modification Taking Place in the Message: In some communication networks the same original message flows through all the stages without modification but in some others a change in the message occurs as it passes through different links.

3. Feedback or Closure: Communication networks also differ from each other in the way in which their communication cycles close. In some networks the cycle closes as the receiver of the message acknowledges its receipt and accepts it. But in some others the cycle does not close because the receiver does not accept the message but attempts to alter it.

4. Communication Pattern: Communication networks also differ from each other in the extent to which they are centralized or decentralized.

Four major types of small-group communication networks are shown in Fig. 1.5. These are the Circle, Free (Decentralized) Circle, Wheel and Chain networks. Each black circle represents an individual in a working group, and the solid line connects the individual with the other members of the group he or she normally interacts with in performing a task.

Circle   **Free or Decentralized Circle**

Wheel or Star   **Chain**

or   or
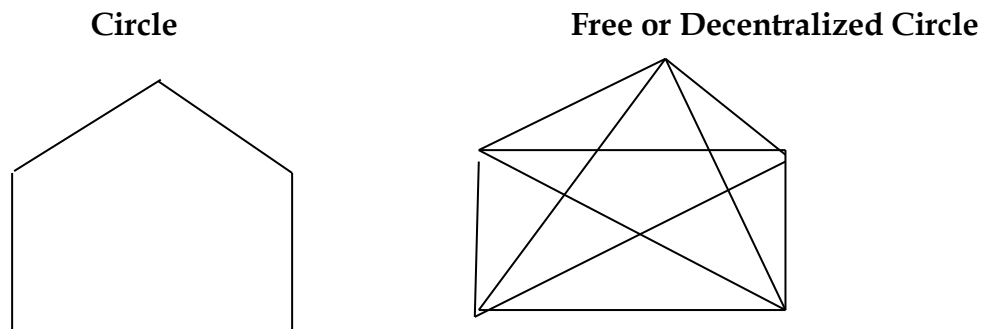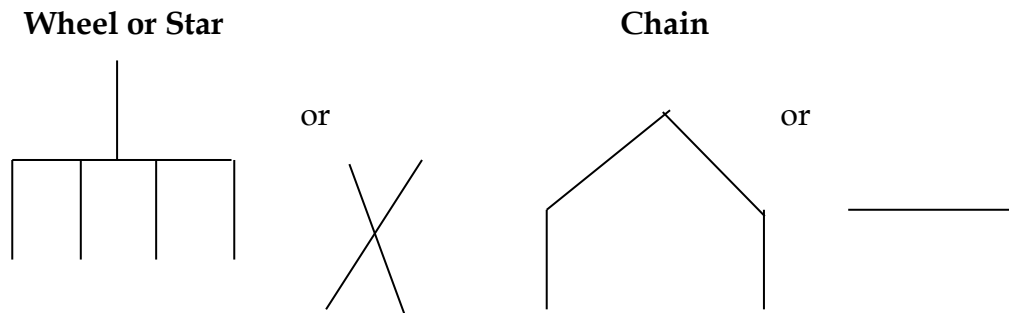
Fig. 5.5: Communication Networks

- **Single Chain:** A single chain communication network exists between a superior and his subordinate. Since there may be a number of levels in an organization, each individual within those levels is both superior as well as subordinates, except the person at the top or bottom. Often we find such a communication network in bureaucratic organization.

- **Wheel:** In wheel network, all subordinates under one superior communicate through him only as he is the hub of the wheel. They are not allowed to communicate among themselves. Thus, there is no horizontal communication. In this network, problem of coordination is the main drawback.

- **Circle:** In circular network, the communication moves in a circle. Each person can communicate with his adjoining two persons. In this network, communication flow is slow.

- **Free or Decentralized:** In this network, each person can communicate with others freely. In this network, communication flow is fast but problem of coordination exists. This is followed in free-form organization or in task force.

Early classical studies of simple communication networks carried out by Bavelas and Barrett in laboratory conditions have shown that each network causes different levels of morale, speed and accuracy as shown in Table 1.1. It will be seen from this table that the wheel and chain networks give the best job performance but they also have the lowest morale and show less flexibility to changes. In a circle or free network, since every one in the group is free to utilized whatever channels to communication he desires, most of the group's time is spent in discussion and useless debates and very little work is accomplished. But the morale in such groups is high because each person's device is appreciated and carefully evaluated.

Table 5.1: Performance of the Circle, Chain and Wheel Communication Networks

	Circle	Chain	Wheel
Speed of performance	Slow	Fast	Very fast
Accuracy	Poor	Good	Good
Flexibility to Change	Very fast	Slow	Slow
Emergence of leadership	None	Marked	Very pronounced
Morale	Very good	Poor	Very Poor

On the other hand, experiments by M.E. Shaw, using more complex problems have shown that the circle is faster and makes fewer mistakes than the wheel. The reason for this seems to lie in the fact that when the task is complex, individual s may refuse to accept the dictates of the central person without sufficient information. This forces the central person to handle more and more messages. In consequence, the speed of performance is slowed down. This in not so in circle network.

5.9   BARRIERS TO ORGANIZATIONAL COMMUNICATION

There is no such thing as perfect communication. Understandably, there are frequent errors and misunderstandings in communication which tend to distort communication and promote disorganization. Several types of barriers prevent us from transmitting our ideas meaningfully. It is hard to identify these barriers. The reason is obvious: it is difficult to realize fully whether the message we get is complete and correct, or truncated and distorted. For example miscommunication can originate at three levels: at the level of the transmitter, of the medium, or of the receiver. In technical parlance, anything that obstructs free flow of communication is called 'noise'. The feedback gives only a partial clue for determining whether the communication has succeeded or failed. Another problem is the identification of the criteria on the basis of which one would evaluate the effectiveness of communication. However, despite these problems, one must identify the barriers that hinder the process of effective communication in order to be able to keeping in check their negative effect. Studies have revealed certain common barriers and suggested ways to remove them. Some of these barriers operate in all types of communication while others may be more relevant for organizational

communication. These different barriers of communication may be classified as semantic barriers, emotional or psychological barriers, organizational barriers and personal barriers.

Semantic Barriers

Semantic is the science of meaning, as contrasted with phonetics, the science of sounds. Semantic barriers arise from limitations in symbols such as words, pictures, actions, etc. with which we communicate. Following types of semantic barriers are more prominent:

1. Faulty Translations: Every manager receives various types of communication from superiors, peers, subordinates and he must translate information destined for subordinates, peers and superiors into language suitable to each. Approximate understanding of words and the consequent faulty translations lead to impaired efficiency of communication breakdown.

2. Symbols with Different Meanings: Communication symbols usually have a variety of meanings, and one has to choose one meaning from many. In verbal communication, a particular word may have a variety of meanings. In such a situation, often there is a possibility that the receiver of the symbols may attach quite different meanings as compared to intended by the sender and communication breaks down.

3. Badly Expressed Message: Lack of clarity and precision in a message makes it badly expressed. Poorly chosen and empty words and phrases, jargons, failure to clarify implications etc. are some common faults found in this case.

4. Specialist's Language: It is often found that technical personnel and special groups tend to develop a special, peculiar and technical language of their own. This increases their isolation from others and builds a communication barrier.

5. Unclarified Assumptions: There are certain uncommunicated assumptions which underline practically all meanings. Though a message appears to be specific, its underlying assumptions may not clear to the receiver.

6. Interpretation of Words: Most of the communication is carried on through words, whether spoken or written. But words are capable of communicating a variety of meanings. It is quite possible that the receiver of a message does not assign the same meaning to a word as the transmitter had intended.

7. Bypassed Instructions: Bypassing is said to have occurred if the sender and the receiver of the message attribute different meanings to the same word or use different words for the same meaning.

8. Denotations and Connotations: Words have two types of meanings: denotative and connotative. The literal meaning of a word is called its denotative meaning. It just informs and names objects without indicating any positive or negative qualities. Words like 'table', 'book', accounts', and 'meeting' are denotative.

In contrast, connotative meanings arouse qualitative judgments and personal reactions. 'Honest', 'competent', 'cheap', 'sincere, etc., are connotative words.

Emotional or Psychological Barriers:

Emotional or psychological factors are the prime barriers in interpersonal communication. The meaning ascribed to a message depends upon the emotional or psychological status of both the parties involved.

In a communication, apart from the message, there is a meta-message, that is, what one gets out of a message when decoding. These barriers to communication are just as effective as an actual physical wall. They let through some communication but hold back other, thereby, making communication inadequate. This 'half-way' communication gets 'half-way' results. Some emotional barriers are as follows:

1. Attitudes and Opinions: Personal attitudes and opinions often act as a barrier to effective communication. If information agrees with our opinions and attitudes, we tend to receiver it favourably. It fits comfortably in the filter of our mind. But if information disagrees with our views or tends to run contrary to our accepted beliefs, we don't react to it favourably.

2. Premature Evaluation: Premature evaluation is the tendency of prematurely evaluating communications, rather than to keep an uncompromised position during the interchange. Such evaluation stops the transfer of information and begets in the sender a sense of futility. This barrier can be remedied by empathy, non-evaluating listening, where the communicator is listened to in a non-committal and unprejudiced way so that sagacious decision and action can follow.

3. Loss by Transmission and Poor Retention: When communication passes through various levels in the organization, successive transmissions of the same message are decreasingly accurate. It is said that in case of oral communication, about 30% of the information is lost in each transmission. Studies show that employees retain only 50 per cent of communicated information.

4. Inattentiveness: The preoccupied mind of a receiver and the resultant non-listening is one of the major chronic psychological barriers. It is a common phenomenon that people simply fail to react to bulletins, notices, minutes and reports.

5. Closed mind: A person with a closed mind is very difficult to communicate with. He or she is a person with deeply ingrained prejudices and they are not prepared to reconsider his opinions. If closed-minded people can be encouraged to state their reasons for rejecting a message or a proposal, they may reveal deep-rooted prejudices, opinions and emotions.

6. Status-Consciousness: Status consciousness exists in every organization and is one of the major barriers to effective communication. Status consciousness proves to be a very serious barrier to face-to-face communication.

7. Unsolicited communication: Unsolicited communication has to face stronger barriers than solicited communication. If anyone seeks advice, it should be presumed that he or she will listen to it. But if a sales letter comes to me unsolicited, it is not very sure that he or she will pay much attention to it.

Physical Barriers

These are environmental factors which prevent or reduce the sending or receiving of communication. They include physical distance, distracting noise, and similar interferences. These are as follows:

1. **Noise**: Noise is quite often a barrier to communication. If factories, oral communication is rendered difficult by the loud noise of machines. Electronic noise like blaring often interferes in communication by telephone or loudspeaker system. The word 'noise' is also used to refer to all kinds of physical interference like illegible handwriting, smudged copies of duplicated typescript, poor telephone connections, etc.

2. **Time and Distance**: Time and Distance also act as barriers to the smooth flow of communication. The use of telephone along with computer technology has made communication very fast and has, to a large extent, overcome the space barrier.

Organizational Barriers

An organization being a deliberate creation for the attainment of certain specified objectives, day to day happenings within it require being regulated in such a manner that they contribute to attain these objectives in the most efficient manner.

This is usually done by prescribing various policies, rules, regulations and procedures, lying down of norms of behaviour, instituting a reward and punishment system, etc.

All the inner processes, including communication in different directions, are markedly affected by these prescriptions. As such, major organizational barriers may be as follows:

1. **Organizational Rules and Regulations**: Organizational rules and regulations affect the flow of communication by prescribing the subject-matters to be communicated and also the channel through which these are to be communicated. The rules may restrict the flow of certain messages and may leave many important ones.

2. **Organizational Policy:** The general organizational policy regarding communication acts as an overall guideline to every one in the organization regarding how he is normally expected to behave in this matter. The policy might be in the form of explicit declaration in writing, or, as is very commonly the case, it has to be interpreted from the behaviour of organization members, particularly people at the top.

3. **Status Relationships:** The placing of people in superior/subordinates capacity in the formal organization structure also blocks the flow of communication and more particularly in upward direction.

4. **Organizational Facilities:** Organizational facilities provided for smooth, adequate, clear, and timely flow of communication may take a number of forms. Some of these are meetings, conferences, complaint box, suggestion box, open door system, social and cultural gatherings, etc. If these are not properly emphasized, generally people fail to make effective communication.

5. **Complexity in Organization Structure:** In an organization where there are number of managerial levels, communication gets delayed, chances of communication getting distorted are more and the number of filtering points are more.

Personal Barriers

While the organizational factors, no doubt, have important influences operating on communication, a host of factors internal to the two parties- sender and receiver-to this process, also exert important influences on its operation, as communication is basically an inter-personal process and these barriers are relevant in the case of downward and upward communication.

Barriers in Superiors

The role of superiors in communication is very vital. Because of their hierarchical relationships with subordinates, they act as barriers in a number of ways discussed below:

1. Attitudes of Superiors: The attitudes of superiors towards communication in general or in any particular direction affect the flow of messages in different directions.

2. Fear of Challenge to Authority: A person in the organization always tries to get a higher position and prestige to satisfy his needs. As such, managers in general try to withhold the information coming down the line or going up as frequent passing of information may disclose their weakness.

3. Insistence on Proper Channel: One of the basic features of superiors exercising the authority is that they wish to remain in communication links and they do not like any type of bypassing in communication.

4. Lack of Awareness

5. Ignoring Communication

6. Lack of Time

Barriers in Subordinates

Vertical communication in either direction can take place only when subordinates also actively participate in this process. There are various factors in the subordinates that adversely affect such active participation on their part. Two factors are more important in the case of subordinates and these are responsible for blocking communication in upward direction:

1. Unwillingness to Communicate: Sometimes, subordinates do not communicate upward certain information because they are not willing to do so.

2. Lack of Proper Incentive: Lack of motivation to communicate also refrains subordinates to communicate upward.

5.10 SUMMARY

Organizational communication is the process by which individuals stimulate meaning in the minds of other individuals by means of verbal or nonverbal messages in the context of a formal organization.   Communication   allows people to exchange thoughts by one of several methods. There are auditory means, such as speaking or singing, and nonverbal, physical means, such as body language, sign language, touch or eye contact.

Communication happens at many levels (even for one single action), in many

different ways, and for all beings, and some machines. Many or all, fields of study dedicate some attention to communication.

So when speaking about communication it is very important to be sure about what kind of communication we are speaking about, mainly: *what types of things are communicated*, between *what agents* and *with what kind of results*? Four areas of interest in communication can be cited as communication by extra-organizational individuals seeking organizational acceptance, communicating organizational change, gender differences in organizational communication and pedagogical approaches to influencing organizational communication effectiveness.

5.11 REFERENCES

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5.12 REVIEW QUESTIONS

Q1 Write a note on the importance of communication in an organization?

Q2 "Communication is sharing of understanding." Comment

Q3 Elaborate the growth and principles of communication?

Q4 Define communication and describe the important steps involve in a communication process.

Q5 Write short note on:
  a. Formal and Informal Communication
  b. Principles of Effective Communication
  c. Barriers to Effective Communication

Q6 Discuss the psychological barriers to effective communication?

Q7 What do you understand by grapevine? What is its importance in an organization?

UNIT 13: LEADERSHIP: MEANING, TYPES AND PROCESS THEORIES

Structure:

13.1 INTRODUCTION

Leadership is the ability to influence individuals or groups toward the achievement of goals. Leadership is a process by which a person influences others to accomplish an objective and directs the organization in a way that makes it more cohesive and coherent. Leaders carry out this process by applying their leadership attributes, such as beliefs, values, ethics, character, knowledge, and skills. **Leadership**, as a process, **shapes the goals** of a group or organization, **motivates**

behavior toward the achievement of those goals, and helps define group or organizational culture. It is primarily a process of influence.

13.2 OBJECTIVES

After studying this unit you should be able to:

- Define leadership
- Distinguish between leader and manger
- Discuss the styles of leadership
- Describe the theories of leadership

13.3 DEFINITIONS OF LEADERSHIP

A traditional definition of leadership: **Leadership** is an interpersonal influence directed toward the achievement of a goal or goals. Three important parts of this definition are the terms interpersonal, influence, and goal.

- *Interpersonal* means between persons. Thus, a leader has more than one person (group) to lead.
- *Influence* is the power to affect others.
- *Goal* is the end one strives to attain.

Basically, this traditional definition of leadership says that a leader influences more than one person toward a goal.

Leadership can also be defined as *a dynamic relationship based on mutual influence and common purpose between leaders and collaborators in which both are moved to higher levels of motivation and moral development as they affect real, intended change*. Three important parts of this definition are the terms relationship, mutual, and collaborators.

Relationship is the connection between people. *Mutual* means shared in common. *Collaborators* cooperate or work together. This definition of leadership says that the leader is influenced by the collaborators while they work together to achieve an important goal.

13.4 LEADERSHIP VERSUS MANAGEMENT

A leader can be a manager, but a manager is not necessarily a leader. The leader of the work group may emerge informally as the choice of the group.

If a manager is able to influence people to achieve the goals of the organization, without using his or her formal authority to do so, then the manager is demonstrating leadership.

According to John P. Kotter in his book, *A Force for Change: How Leadership Differs From Management* (The Free Press, 1990), managers must know how to lead as well as manage. Without leading as well as managing, today's organizations face the threat of extinction. **Management** is the process of setting and achieving the goals of the organization through the functions of management: planning, organizing, directing (or leading), and controlling.

A manager is hired by the organization and is given formal authority to direct the activity of others in fulfilling organization goals. Thus, leading is a major part of a manager's job. Yet a manager must also plan, organize, and control. Generally speaking, leadership deals with the interpersonal aspects of a manager's job, whereas planning, organizing, and controlling deal with the administrative aspects. Leadership deals with change, inspiration, motivation, and influence. Management deals more with carrying out the organization's goals and maintaining equilibrium.

The key point in differentiating between leadership and management is the idea that employees willingly follow leaders because they want to, not because they have to. Leaders may not possess the formal power to reward or sanction performance.

However, employees give the leader power by complying with what he or she requests. On the other hand, managers may have to rely on formal authority to get employees to accomplish goals.

Table 13.1: Manager vs Leader

Manager	Leader
Engages in day-to-day caretaker work: maintains and allocates resources	• Formulates long-term objectives to reform system: plans strategy and tactics
Exhibits supervisory behaviour: makes others maintain standard job behaviour	• Exhibits leading behaviour: acts to create change in others that is consistent with long-term objectives
Administers subsystems within organizations	• Innovates for entire organization
Asks how and when to engage in standard practice	• Asks what and why to change standard practice
Acts within established culture of organization	• Creates vision and meaning for organization

Uses transactional influences: uses rewards,sanctions and formal authority to get compliance	• Uses transactional influences: induces change in values, attitudes, and behaviour using personal examples and expertise
Relies on control strategies to get things done by subordinates	• Uses empowering strategies to make followers internalize values
Status quo supporter and stabilizer	• Status quo challenger and change creator
Has Positional Power	• Has Personal Power
Is Rational	• Is a Visionary

13.5 STYLES OF LEADERSHIP

Leadership style is the manner and approach of providing direction, implementing plans, and motivating people.

There are three different styles of leadership: Authoritarian (autocratic), Participative (democratic), and Delegative (free reign). Although most leaders use all three styles, one of them becomes the dominate one.

- **Authoritarian (autocratic):** This type is used when the leader tells the employees what he wants done and how he wants it done, without getting the advice of the people. Some people think that this style includes yelling, using demeaning language, and leading by threats and abuse of power. This is not the authoritarian style...it is an abusive, unprofessional style of leadership.

- **Participative (democratic**): This type of style involves the leader including one or more employees in on the decision making process (determining what to do and how to do it). However, the leader maintains the final decision making authority. Using this style is not a sign of weakness, it is a sign of strength that your employees will respect.

- **Delegative (free reign):** In this style, the leader allows the employees to make the decision. However, the leader is still responsible for the decisions that are made. This is used when employees are able to analyze the situation and determine what needs to be done and how to do it. You cannot do everything! You must set priorities and delegate certain tasks.

13.6 SALIENT FEATURES OF LEADERSHIP

1. A leader must have followers
2. Leadership is a working relationship between the leader and his followers
3. The purpose of leadership is to achieve some common goal or goals

4. A leader influences his followers willingly and not by force
5. Leadership is a social interaction-influence process between the leader and his followers
6. Leadership is a power relationship in which power and influences are evenly distributed
7. Leadership is a continuous and dynamic process of influencing behaviour

13.7 THEORIES OF LEADERSHIP

13.7.1 Trait Theories

In the 1920's and 1930's, leadership research focused on trying to identify the traits that differentiated leaders from non-leaders. These early leadership theories were content theories, focusing on "what" an effective leader is, not on 'how' to effectively lead. The **trait approach** to understanding leadership assumes that certain physical, social, and personal characteristics are inherent in leaders. Sets of traits and characteristics were identified to assist in selecting the right people to become leaders.

Physical traits include being young to middle-aged, energetic, tall, and handsome. Social background traits include being educated at the "right" schools and being socially prominent or upwardly mobile. Social characteristics include being charismatic, charming, tactful, popular, cooperative, and diplomatic. Personality traits include being self-confident, adaptable, assertive, and emotionally stable. Task-related characteristics include being driven to excel, accepting of responsibility, having initiative, and being results-oriented.

Trait theories intended to identify traits to assist in selecting leaders since traits are related to leadership effectiveness in many situations. The trait approach to understanding leadership supports the use of tests and interviews in the selection of managers. The interviewer is typically attempting to match the traits and characteristics of the applicant to the position. For example, most interviewers attempt to evaluate how well the applicant can work with people.

Trait theory has not been able to identify a set of traits that will consistently distinguish leaders from followers. Trait theory posits key traits for successful leadership (drive, desire to lead, integrity, self-confidence, intelligence, and job-relevant knowledge) yet does not make a judgment as to whether these traits are

inherent to individuals or whether they can be developed through training and education. No two leaders are alike.

Furthermore, no leader possesses all of the traits. Comparing leaders in different situations suggests that the traits of leaders depend on the situation. Thus, traits were de-emphasized to take into account situational conditions (contingency perspective).

The problem with the trait approach lies in the fact that almost as many traits as studies undertaken were identified. After several years of such research, it became apparent that no such traits could be identified. Although some traits were identified in a considerable number of studies, the results were generally inconclusive. Some such traits which were identified were as follows:

- *technical skill*
- *friendliness*
- *task motivation*
- *application to task*
- *group task supportiveness*
- *social skill*
- *emotional control*
- *administrative skill*
- *general charisma*
- *intelligence*

13.7.2 BEHAVIORAL APPROACH TO LEADERSHIP

To measure traits, researchers had to rely on constructs, which lacked reliability, and, given differing definitions, also lacked validity. After the problems with the trait approach became evident, researchers turned to an examination of leader behaviors. With behaviors, researchers could rely on empirical evidence. Behaviors, contrary to traits, could be observed. It was thus decided to examine the behaviors of successful (again, by whatever means success was measured) leaders.

The initial phases of the behavioral research seemed as frustrating as the trait approach -- the number of behaviors identified was staggering. However, over time, it appeared that the key behaviors could be grouped or categorized.

The behavioral theorists identified determinants of leadership so that people could be trained to be leaders. They developed training programs to change managers' leadership behaviors and assumed that the best styles of leadership could be learned.

The most prominent studies were those undertaken by the University of Michigan and by Ohio State University.

Interestingly, both studies arrived at similar conclusions. Both studies concluded that leadership behaviors could be classified into two groups.

13.7.2.1 Michigan Studies

From 1947, the Institute for Social Research, at the University of Michigan, carried out a large scale programme of research into "the organisational structure and the principles of leadership and management which result in the best performance." The study concluded that managers can be *job centred / production centered or employee centred* and that the latter were more effective. The distinction was seen as a continuum such that an increase in the degree of job centred behaviour represented a decrease in the degree of employee centred behaviour and vice versa.

- Jo Centered / Production centered behavior: when a leader pays close attention to the work of sub- ordinates, explains work procedures, and is keenly interested in performance.
- Employee centered behavior: when the leader is interested in developing a cohesive work group and in ensuring employees are satisfied with their jobs.

The Michigan studies conclusions were further developed in the Ohio State Studies who showed that the two end of the Michigan continuum were not opposites but relatively independent of each other.

Both the production-oriented and the people-oriented leadership behaviors appear to offer positives and negatives. However, since showing high concern for both people and production need not necessarily be inconsistent in one leader, it was concluded that such leaders might have an edge over those who show a propensity to act in only one of these dimensions.

13.7.2.2 Ohio State Studies

Initiated by *Carroll Sharple*, these studies took place at about the same time as the Michigan Studies. The latter studies posed a continuum such that an increase in the degree of job centred behaviour represented a decrease in the degree of employee centred behaviour and vice versa.

Researchers at **Ohio State leadership** found results which suggested two basic leader behaviors or styles.

- Initiating structure behavior: when the leader clearly defines the leader-subordinate, establishes formal lines of communication, and determines how tasks are to be performed.
- Consideration behavior: the leader shows concern for sub-ordinates and attempts to establish a warm, friendly, and supportive climate.

Unlike the Michigan Studies, these two behaviors were not viewed as opposite ends of a continuum, but as independent variables. Thus the leader can exhibit varying degrees of both initiating structure and consideration at the same time.

13.7.2.3 University of Iowa

Another approach to leader behavior focused on identifying the best leadership styles. Work at the University of Iowa identified democratic (participation and delegation), autocratic (dictating and centralized) and laissez-faire styles (group freedom in decision making). Research findings were inconclusive.

13.7.3 Tannenbaum & Schmidt's Leadership Continuum

The successful leader knows that employees want to take part in making decisions that will have an impact on their work environment. However, the successful leader also knows that the amount of participation that is possible or desirable varies with the situation. Thus the decision participation dimension of leadership behaviour can range from autocratic to democratic. Autocratic leader make the decisions by themselves and then communicate them to group members. Democratic leaders solicit input from group members or even turn the decision making role over to the group.

Boss-Centered Leadership — Subordinate-Centered Leadership

| Manager makes decision and announces it. | Manager sells decision. | Manager presents ideas and invites questions. | Manager presents tentative decision subject to change. | Manager presents problem. Gets suggestions. Makes Decision. | Manager defines limits. Asks group to make decision. | Manager permits subordinates to function with limits defined by superior. |

Fig.

13.7.2: Leadership Continuum

According to Tannenbaum & Schmidt, the decision participation factor manifests itself in the form of a leadership continuum, as shown above. The continuum of leader behaviour ranges from a boss centered approach to a subordinate centered based on a wide range of situational factors that delimit the amount of subordinate participation. Factors affecting the decision of how to lead:

1. Factors in the manager: Value systems, Training, Confidence in the subordinates, Own leadership/managerial inclinations, Feelings of security in an ambiguous situation

2. Factors in the subordinates: Greater freedom and discretion can be allowed the individual or teams if they: Have a high need for independence; Are ready to assume responsibility; Have a relatively high tolerance for ambiguity; Are interested in the problem and feel it is important; Have the necessary knowledge and experience; Understand and identify with the goals of the organization; Have learned to expect a share in the decision making

3. Factors in the Situation: *a. Type of Organization:* Tradition/climate/culture; Policies; Size of Groups- Number of subordinate; Dispersion of subordinates; Information security required; b. *Group / team / individual effectiveness:* Experience

with working together; Self-image; Group / team confidence working together; Cohesiveness; mutual acceptance; c. *The Problem itself:* Not more difficult than their experience; Related to the workers; Severity of the consequences; *d. The Pressure of Time.*

13.7.4 The Managerial Grid

The dimensions identified at the University of Michigan provided the basis for the development of the managerial grid model developed by Robert Blake and Jane Mouton. It identifies five various leadership styles that represent different combinations of concern for people and concern for production. Managers who scored high on both these dimensions simultaneously (labeled team management) performed best.

The Managerial Grid utilizes the Concern for People versus Concern for Production dichotomy proposed by both the Ohio State and University of Michigan studies.

The **assumption** made by Blake and Mouton is that **there is a best leadership style** (behavior). The best set of behaviors is assumed to be **9, 9 -- a high concern for production, coupled with a high concern for employees**. On the basis of the Managerial Grid, 1, 1 leadership (Impoverished) is the least desirable style. A representation of the Grid is as follows:

Fig. 13.7.3: The Managerial Grid
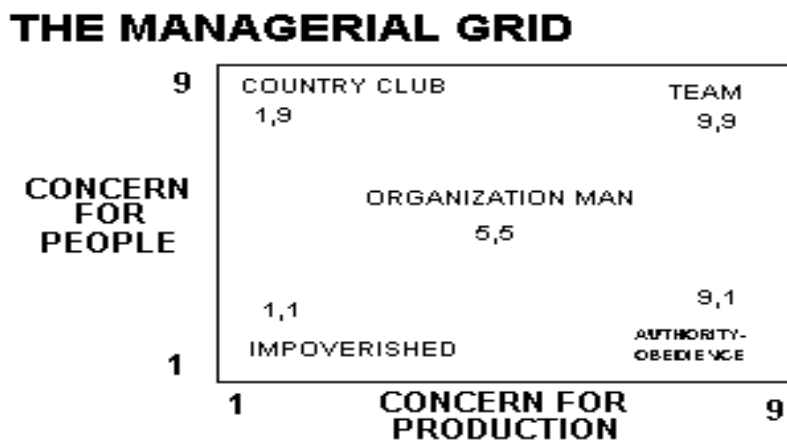
Managers with a high concern for people and a low concern for production are identified in the Grid as practicing *Country Club Management* (grid position 1,9). These managers have a tendency to give thoughtful attention to the needs of the people involved in the organization and in creating a comfortable, friendly atmosphere. We all know of some Country Club Managers: these are the ones who

have lots of social interaction, may put company sports teams or service projects high on his list.

Those who operate at the other extreme are identified as *authority-obedience managers* (grid position 9,1). These managers focus on productivity with little concern for individuals. They focus on streamlining operations so that the human resources interfere as little as possible with the other resources. Many of us also know these kinds of managers, and frequently label them as tyrants or "slave-drivers." They get the work done, but at the sacrifice of some of the human resources.

The *impoverished manager* (grid position 1,1) tends to focus on doing no more than is the absolute minimum to get the required work done, and keep his superior off his back. He or she tends to have very little concern for either the human element or the production level of the team. Impoverished managers don't last long in responsible organizations.

The 5,5 manager is categorized as the *Organization Man.* This is a manager who is constantly trying to balance the concerns of the workforce and the concern with getting out the work. He or she constantly tries to compromise between the two competing forces, keeping morale reasonable but not excellent and production close to expectations without significantly exceeding them. He or she tends to burn out rapidly as they keep both elements neither happy nor unhappy.

The ideal manager is identified by Blake and Mouton as the *Team Manager*, with a grid position of 9,9. The team manager understands that need for high concern for both the human and the other resources of the organization; these managers work toward helping their people improve their commitment, developing relationships of trust and respect with employees and others, and in enhancing productivity through a focus on common vision and mission.

13.7.5 Contingency Theories

Successful leaders must be able to identify clues in an environment and adapt their leader behavior to meet the needs of their followers and of the particular situation. Even with good diagnostic skills, leaders may not be effective unless they can adapt their leadership style to meet the demands of their environment.

13.7.5.1 Fiedler's Contingency Model

Fred E. Fiedler's **contingency theory** postulates that there is no best way for managers to lead. Situations will create different leadership style requirements for a manager. The solution to a managerial situation is contingent on the factors that impinge on the situation. In other words, Fred Fiedler believes that leadership

effectiveness depends on both the leader's personality and the situation. Certain leaders are effective in one situation but not in others. Fiedler's model assumes that group performance depends on:

- Leadership style, described in terms of task motivation and relationship motivation.
- Situational favourableness, determined by three factors:

  1. Leader-member relations - Degree to which a leader is accepted and supported by the group members.

  2. Task structure - Extent to which the task is structured and defined, with clear goals and procedures.

  3. Position power - The ability of a leader to control subordinates through reward and punishment.

High levels of these three factors give the most favourable situation, low levels, the least favourable. Relationship-motivated leaders are most effective in moderately favourable situations. Task-motivated leaders are most effective at either end of the scale.

Fiedler suggests that it may be easier for leaders to change their situation to achieve effectiveness, rather than change their leadership style.

13.7.5.2 Hersey-Blanchard Situational Leadership

The Hersey-Blanchard Situational Leadership theory is based on the amount of direction (task behavior) and amount of socio-emotional support (relationship behavior) a leader must provide given the situation and the "level of maturity" of the followers.

Task behavior is the extent to which the leader engages in spelling out the duties and responsibilities to an individual or group. This behavior includes telling people what to do, how to do it, when to do it, where to do it, and who's to do it. In task behavior the leader engages in one-way communication.

Relationship behavior is the extent to which the leader engages in two-way or multi-way communications. This includes listening, facilitating, and supportive behaviors.

In relationship behavior the leader engages in two-way communication by providing socio-emotional support. Maturity is the willingness and ability of a person to take responsibility for directing his or her own behavior. People tend to have varying degrees of maturity, depending on the specific task, function, or objective that a leader is attempting to accomplish through their efforts.

Hersay & Blanchard's approach focuses a great deal of attention on the characteristics of employees in determining appropriate leadership behaviour. This theory suggests that leadership style should be matched to the maturity of the subordinates. Maturity is assessed in relation to a specific task and has two parts:

- Psychological maturity - Their self-confidence and ability and readiness to accept responsibility.
- Job maturity - Their relevant skills and technical knowledge.

As the subordinate maturity increases, leadership should be more relationship-motivated than task-motivated. For four degrees of subordinate maturity, from highly mature to highly immature, leadership can consist of four leadership styles:

1. Directing / Telling
2. Coaching / Selling
3. Supporting / Participating
4. Delegating

According to this theory, leader behaviors fall along two continua, (1) directive behavior, and (2) supportive behavior. This categorization is not dissimilar to those of the Ohio State Leadership studies and the University of Michigan studies.

Table 13.7..2 : Hersey Blanchard Leadership Model

Blanchard Situational Leadership Model Leader Behavior Categories	
Directive Behavior	**Supportive Behavior**
• one-way communication • followers' roles spelled out • close supervision of performance	• two-way communication • listening, providing support & encouragement • facilitate interaction • involve follower in decision making

This model expands on previous approaches by taking situational variables into account.

For Blanchard the key situational variable, when determining the appropriate leadership style, is the readiness or developmental level of the subordinate(s). Their model posits 4 such developmental levels:

- D1: LOW COMPETENCE - HIGH COMMITMENT

- D2: SOME COMPETENCE - LOW COMMITMENT
- D3: HIGH COMPETENCE - VARIABLE COMMITMENT
- D4: HIGH COMPETENCE - HIGH COMMITMENT

The Blanchard model combines the behavior grid (similar to the Blake-Mouton Managerial Grid) with the Developmental Levels of subordinates to arrive at some conclusions about appropriate leadership styles. In other words, *the Developmental Level of the Subordinates determines which of the four leadership styles (S1, S2, S3, or S4) is correct.*

Fig.13.7.5: Hersey Blanchard Leadership Model
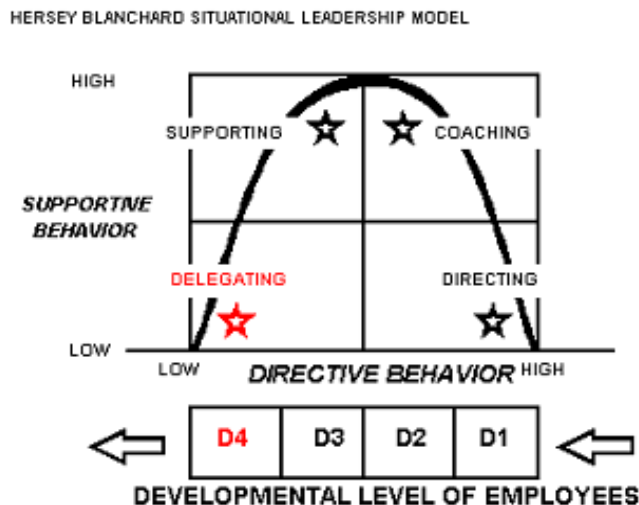
Once the maturity level is identified, the appropriate leadership style can be determined. The four leadership styles are telling, selling, participating, and delegating. High task/low relationship behavior (S1) is referred to as "telling." The leader provides clear instructions and specific direction. Telling style is best matched with a low follower readiness level. High task/high relationship behavior (S2) is referred to as "selling." The leader encourages two-way communication and helps build confidence and motivation on the part of the employee, although the leader still has responsibility and controls decision making. Selling style is best matched with a moderate follower readiness level. High relationship/low task behavior (S3) is referred to as "participating." With this style, the leader and followers share decision making and no longer need or expect the relationship to be directive. Participating style is best matched with a moderate follower readiness level. Low relationship/low task behavior (S4) is labeled "delegating." This style is appropriate for leaders whose followers are ready to accomplish a particular task and are both

competent and motivated to take full responsibility. Delegating style is best matched with a high follower readiness level.

13.7.6 Likert's Management Styles

Dr. Rensis Likert has conducted much research on human behavior within organizations, particularly in the industrial situation. He has examined different types of organisations and leadership styles, and he asserts that to achieve maximum profitability, good labor relations and high productivity, every organisation must make optimum use of their human assets. The form of the organisation which will make greatest use of the human capacity, Likert contends, is; highly effective work groups linked together in an overlapping pattern by other similarly effective groups. Organisations at present have widely varying types of management style and Likert has identified four main systems:

Management Styles

- The **exploitive - authoritative system**, where decisions are imposed on subordinates, where motivation is characterised by threats, where high levels of management have great responsibilities but lower levels have virtually none, where there is very little communication and no joint teamwork.

- The **benevolent - authoritative system**, where leadership is by a condescending form of master-servant trust, where motivation is mainly by rewards, where managerial personnel feel responsibility but lower levels do not, where there is little communication and relatively little teamwork.

- The **consultative system**, where leadership is by superiors who have substantial but not complete trust in their subordinates, where motivation is by rewards and some involvement, where a high proportion of personnel, especially those at the higher levels feel responsibility for achieving organisation goals, where there is some communication (both vertical and horizontal) and a moderate amount of teamwork.

- The **participative - group system**, which is the optimum solution, where leadership is by superiors who have; complete confidence in their subordinates, where motivation is by economic rewards based on goals which have been set in participation, where personnel at all levels feel real responsibility for the organisational goals, where there is much communication, and a substantial amount of cooperative teamwork.

This fourth system is the one which is the ideal for the profit oriented and human-concerned organisation, and Likert says that all organisations should adopt this system. Clearly, the changes involved may be painful and long-winded, but it is necessary if one is to achieve the maximum rewards for the organisation.

13.8 SUMMARY

Leadership as the process of influencing others toward achieving group goals. The art of leadership concerns the skill of understanding leadership situations and influencing others to accomplish group goals. Leadership plays a central part in understanding group behavior for it's the leader who usually the direction toward goal attainment. Therefore, a more accurate predictive capability should be valuable in impoving group performance. Leadership has the ultimate aim of raising the level of human conduct and the ethical aspiration of people.

Different leadership styles are distinguished. In this unit, leadership styles are diviede into three types: Authoritarian (autocratic), Participative (democratic), and Delegative (free reign).

The discussion of various theories is highly useful to leaders in more than one way.

13.9 GLOSSARY

- **Leadership:** The incremental influence that one individual exerts upon another and that causes the second person to change his behavior voluntarily.
- **Leader Behaviour:** The kinds of behavior that leaders actually perform in a group.
- **Managerial Grid:** Theory of leadership based on a particular optimal style of leadership that includes balance of concern for production and for people. Basic leadership and group development activities are undertaken in managerial grid interventions to bring about desired leadership and individual group behaviours.
- **Pathe Goal Model:** A contingency theory of leadership based upon expectancy theory which suggestes that the characteristics of the follower and environmental factors should determine which of four leasership styles is most appropriate.

13.10 CHECK YOUR PROGRESS

Q.1- What is Leadership? Why is there a need for leadership?

Q.2- Are Leadership and Management different from one another? If so, how?

Q.3- What is Fiedler's contingency model? Has it been supported in research?

Q.4- Write brief note on the following:

   (a) Leadership styles

   (b) Trait Theories

   (c) Behavioral Approach to Leadership

13.11 ANSWERS TO CHECK YOUR PROGRESS

Q.1- Sec. 13.3

Q.2- Sec. 13.4

Q.3- Sec. 13.7.5.1

Q.4- (a) Sec. 13.5

   (b) Sec. 13.7.1

   (c) Sec. 13.7.2

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13.14 LONG TERM QUESTIONS

- Define Leadership. Explain the various styles of leadership.
- What is managerial grid? Contrast its approach to leadership with the Ohio State and Michigan Groups.
- Examine the difference between trait theory and behavioural theory of leadership.
- Does leadership make any difference to the effectiveness of an organization? Defend your position.
- What is the different approaches of leadership? Discuss the trait theory of leadership.

Unit-6:
Organization Structure- Function- Groups in Organizations- Influence- Group Dynamics Interpersonal Communication

Structure:

6.1 INTRODUCTION

Individual behavior undergoes a change when an individual becomes member of a group. The group changes his perception and attitudes and develops in him ways of behaving that are different from what one would predict on the

basis of various theories of individual behavior. For better understanding of organization behavior, therefore one must also know about the group behavior.

In common parlance, every random collection of people whether it be a crowd on the street corner watching some event or people in a city bus etc.

6.2 OBJECTIVE

The unit will enable you to:

- Understand the concept of groups
- Understand the types and characteristics of group
- Explaining the reasons for joining the group
- Understand the five stages of group formation
- Explaining the Group Behavior Model
- Explaining the technique of Decision Making

6.3 DEFINITION

A group is defined as two or more individuals, interacting and independent who have come together to achieve particular objectives. "A number of people who communicate face to face with one another often over a span of time" Homas (1950).

According to Schein a group is "Any number of people who-

(1)   Interact with one another and

(2)   Are psychologically aware of one another and

(3)   Perceive themselves to be a group" Schien (1972)

organizational psychology.

"A group has common needs relating to task, group and individuals and each group develops its own" group personality" (Adair 1986).

According to Handy the most important criteria of group is that its people must perceive themselves to be a group thus as he say a dozen individual in a pub by random chance are not a group although they may interact (talk) have a common objective (drink and socialize) and be aware of each other. These according to Handy are not enough without this self perception by members to make them a group so we find that when members get too large perceiving themselves to be no longer group but a crowd, start dividing themselves into smaller collections, start finding names, or a private territorial or a ritual which will give them individual

identity thus from the above discretion it is clear that group has emotional substance.

6.4 TYPES OF GROUPS

A group is defined as two or more individuals, interacting and interdependent who have come together to achieve particular objectives. Groups can be either formal or informal:

Types of Group

Formal Group   Informal Group

Command Task Committee Friendship   Interest   Reference
Membership
Cliques
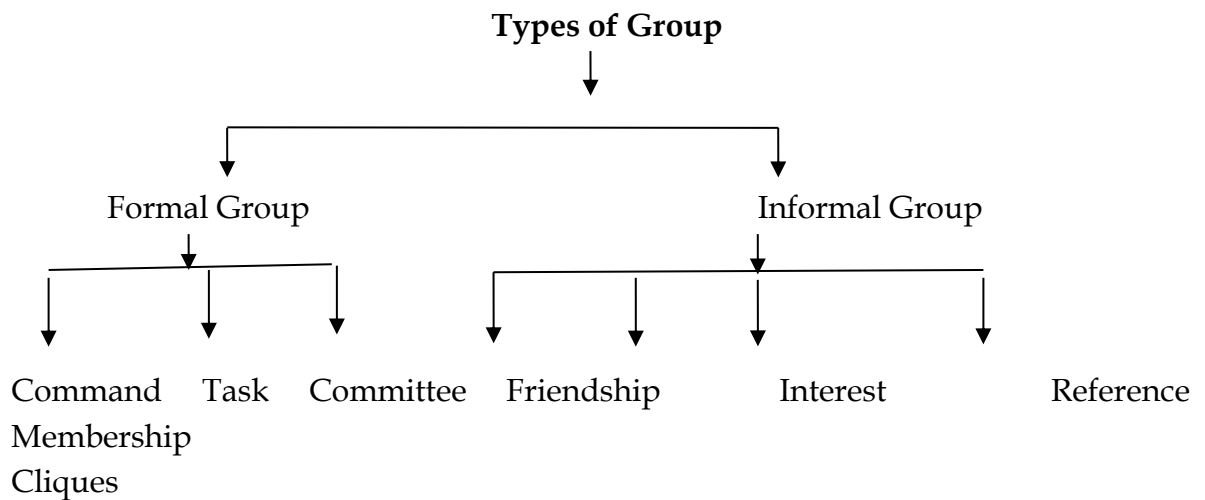
1. Formal Groups: A well defined work group with proper organization's structure. A formal group is set up by organization to carry out work in support of the organization's goal. In formal groups the behavior that one should engage in are stipulated by and directed toward organizational goals. Formal groups may be of following types:

a) **Command Groups**: A command group consists of a manager and the employees who report to him i.e. it is defined in terms of hierarchy. Membership in the group arises from each employee's position in the organizational chart.

b) **Task Group**: It is made up of employees get together to complete a particular task or project. A task group's boundaries are not limited to hierarchical boundaries. It can cross command relationships. A employee's membership in the group arises from the responsibilities delegated to the employee. Task group may be temporary i.e. till the end of the project or it may be open ended.

c) **Committee**: - A group of people officially delegated to perform a function such as investigating, considering, reporting or acting on matter.

2. Informal Group: An organization's informal groups are groups that evolve to meet social or affiliation needs by bringing people together based on shared interest or friendship. Thus informal groups are alliances that are formed with no organizational or formal structure relationship. These groups are naturally formed in response of the people need of social contact. These groups can be formed due to several reasons like for e.g. proximity i.e. when people work together, meet every day they develop common friendship. Informal Group can be of following types:

a) **Friendship Groups**: - These groups often form because the individual members have one or more common characteristics. E.g. people of same age, same view, same office etc

b) **Interest Groups**: - People with common interest, those who may or may not be aligned into common command or task group may affiliate to attain a specific objective with which each is concerned.

c) **Reference Group**: - Sometimes people use a group as a basis for comparison in making decision or forming opinions.

When a group is used in this way it is called as reference group. E.g. for most people family is a reference group while other include friends, co workers etc.

d) **Membership Groups**: - When a person does not belong to formal or informal group that group is called as membership group (affiliation group).

In this each member would be expected to contribute to the group's well being and would enjoy the benefits arising from group membership's friendship.

e) **Cliques**: - A relatively permanent informal group that involves friendship.

6.5 WHY DO PEOPLE JOIN GROUPS

People join group due to several reasons:

1. **Security**: - By joining a group individual can reduce the insecurity of standing alone. People feel stronger have fewer self doubts and are more resistant to threats when they are part of a group.

2. **Status**: - Inclusion in a group that is viewed as important by others provides recognition and status for its members.

3. **Self Esteem**: - Groups can provide people with feelings of self-worth. That is in addition to conveying status to those outside groups membership can also give increased feelings of worth to the group members themselves.

4. **Affiliation**: - Groups can fulfill social needs; people enjoy the regular interactions that come with group membership. For many people these on the job interactions are their primary source for fulfilling their needs for affiliations.

5. **Power**: - What cannot be achieved individually often becomes possible through group action as there is power in numbers.

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

7. **Companionship**: – groups provide members to simply be in the company of other people.

8. **Achievement: –** groups have the capability to achieve more than individuals acting alone.

6.6 STAGES OF GROUP DEVELOPMENT

The five stage model of group development was proposed by Bruce Tuckman in 1965.(initially it was four stage but later he added a fifth stage, Adjourning, in the 1970)r and authority

Stages of Group Development

| Prestage I | Stage I Forming | Stage II Storming | Stage III Norming | Stage IV Performing | Stage V Adjourning |
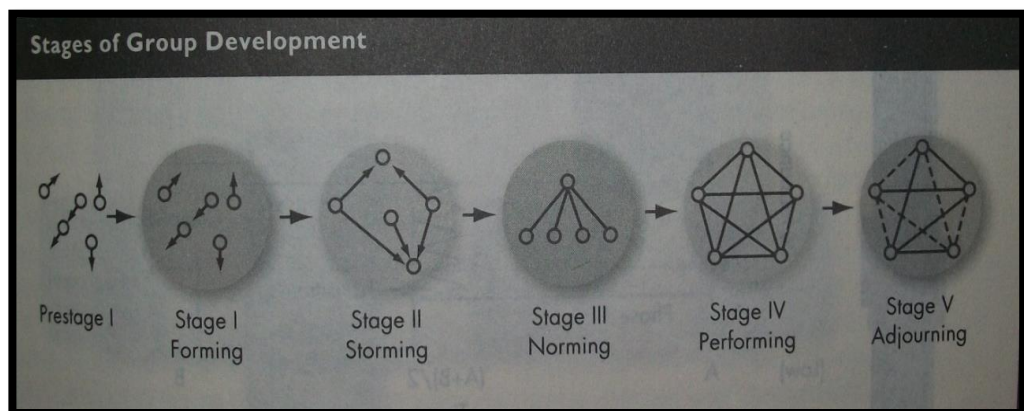
Stage 1 : Forming

When a group is initially formed, its members cannot accomplish much until they agree on what there purpose is, how they will work together etc. Answering these questions bring group members first face to face interaction to obstacles like maturity, uncertainty, anxiety and disagreement over power and authority.

Stage 2 : Storming

This stage is one of intra-group conflict. Members accept the existence of the group, but resist the constraints the group imposes on individual. Further there is conflict over who will control the group. After mutual acceptance on group leader, the remaining group member must sort out where they fit in the group. Even if all the group members accept the group leader then also group enter the phase of conflict and challenges. By the end of this stage a clear hierarchy of leadership exists within the group.

Stage 3: Norming

In this stage close relationship develop and group demonstrate cohesiveness. Entering and conducting cohesion phase requires intervention by group member who is emotionally unaffected by power and authority issue. Here group members recognize where they fit in and group agrees on how it will operate. Anew leader may emerge or existing leader may become more aware of how much others in the group contribute. The Norming stage is complete when the group structure solidifies and the group has assimilated a common set of expectations of what defines correct member behavior.

Stage 4: Performing

The structure at this point is fully functional and accepted. Group energy has moved from getting to know and understand each other to perform the task. Members attention is directed towards self motivation and motivation of other group members for task accomplishment. Some members focus on the task function of initiating activity and ensure that the work of group really gets going. Other members contribute to motivation and commitment within the group through maintenance function such as supporting, encouraging and recognizing the contribution of members or through establishing the standards that the group may use in evaluating its performance.

Stage 5: Adjourning

For the permanent work groups, performing is the last stage in their development. However for temporary groups there is adjourning stage. In this stage the group prepares for its disbandment. High task performance is no longer the group's top priority. Instead attention is direct toward wrapping activities.

Figure showing the five- stages of Group Development.
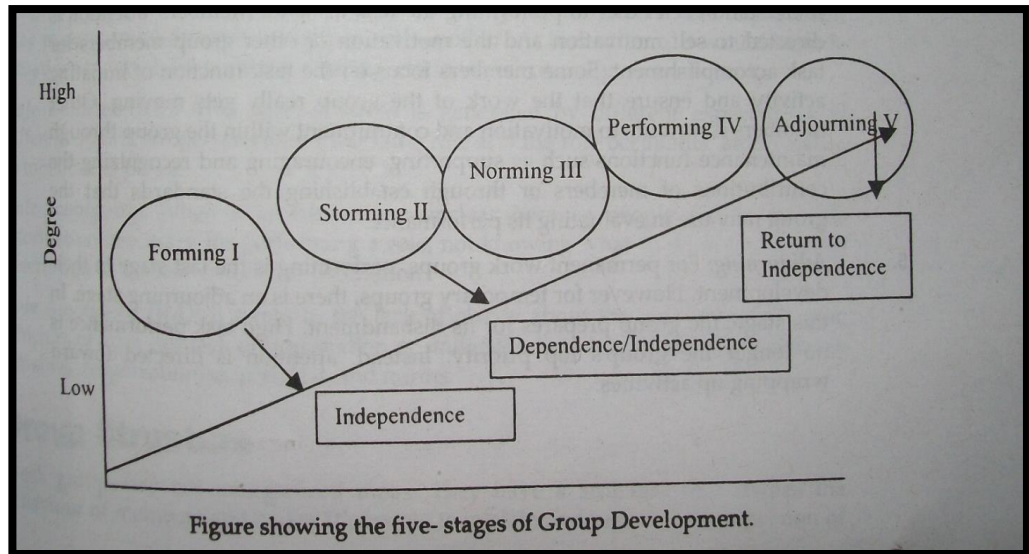
6.7 CHARACTERISTICS OF AN EFFECTIVE GROUP

Douglas Mc Gregor in his book "The Human side of Enterprise" gives the following characteristics of group.

- **Informal Climate**: - The climate in an effective group tends to be informal, comfortable and relaxed. There is no sign of boredom. The group seems to be involved in his own task. The climate in an ineffective group reflects boredom and tension.

- **Task relevant discussion and participations** :- In an effective group only discussion which are pertinent to task take place and virtually every one participates in them while in an ineffective group few dominates the discussion and generally the discussion goes off the tack and/or revolves around few.

- **Common Goal**: - In an effective group there is tradeoff between individual and group goals. Every member of the effective group consider group goal as their personal goal and work together for its achievement.

- **Disagreement**: - In an effective group disagreement among members on any issue neither completely suppressed nor permitted to result in open warfare. Efforts are made to convince every member about the correct viewpoint.

- **Candour**:- In an effective group there is little evidence of veiled personal attack or hidden agendas. People give frank expression to their ideas.

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- **Action Plan** :- In an effective group assignments are very clear, everyone knows his responsibilities And authority well and everyone is given timely feedback on his performance and is also helped by leader to meet there goal.
- **Leadership**: - In an effective group leadership shifts from one person to another according to the need of the situation, it never fixed to one place or person.

6.8 WORK GROUP BEHAVIORS

Groups in organization are more than collection of individual employees and there are some effective groups and some ineffective group thus the question arises that why are some group efforts more successful than others, the answer to that question is complex but it includes variables such as the ability of group's member, size of the group, level of conflict, and the internal pressure on members to conform to the group's norms. It is based on this model:-

❖ **External conditions imposed on the group:** Work group is a part of subsystem embedded the larger system; group does not exist in isolation. They are the part of the larger organization. These external conditions include:

Organization's overall strategy, its authority structures, formal regulations, resources, employee selection process, performance evaluation and reward system, culture and physical work setting. An *Organization's overall strategy* outlines the organization's goals and the means for attaining these goals. Organizations have *authority structure* that defines who reports to whom, who make decisions and what decisions individuals or groups are empowered to make.

Organizations create rules, procedures, policies, job descriptions and other forms of *formal regulations* to standardize employees behavior.

The presence or absence of *resources* such as money, time, raw materials and equipment which are allocated to the group by organization – have a large bearing on group's behavior.

Members of any work group are first, members of the organization of which the group is a part, and to become the member of any organization the individual need to be hired by the organization, so the criteria that an organization uses in its *selection process* will determine the kinds of people that will be in its work group.

Another organization wide variable that affects all employees is the *performance evaluation and reward system*. Since work groups are part of larger

organization system, group member's behavior will be influenced by how the organization evaluates performance and what behavior rewarded.

Every organization has an unwritten *culture* that defines standards of acceptance and unaccepted behavior of employees. After dew months most employees understand their organization's culture. They know things like how to dress for work etc and members of work groups have to accept the standard implied in the organization's dominant culture if they are to remain in good standing.

Finally the *physical work setting* that is imposed on the group by external parties has an important bearing on work behavior.
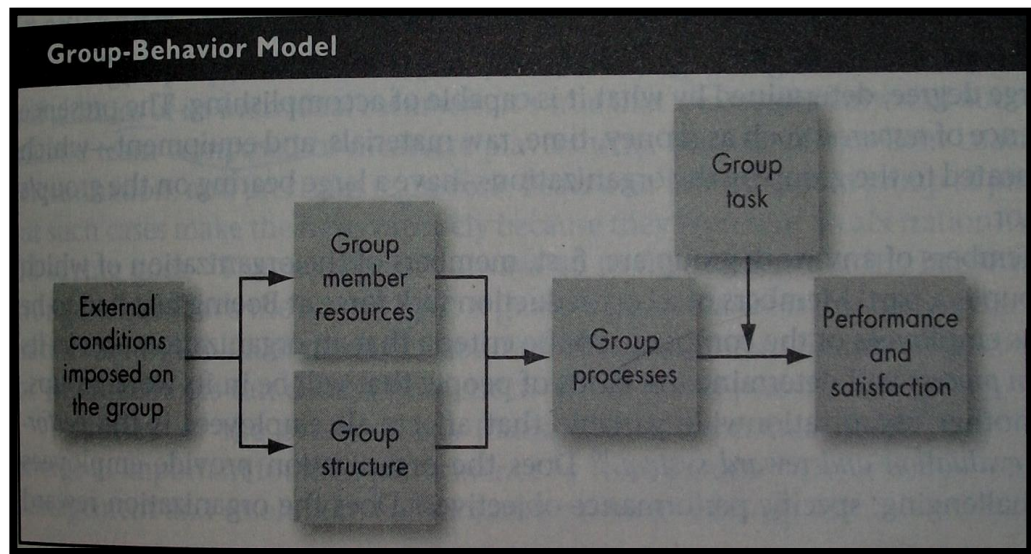
Group Behavior Model

❖ **Group Member Resources:** A group's potential level of performance is to great extent, dependent on the resources that its members individually bring to the group. It includes knowledge, skills and abilities and personality characteristics.

• **Knowledge, skills and abilities:** Part of group's performance can be predicted by assessing the knowledge, skills and abilities of its individual members. A group's performance is not merely the summation of its individual members' abilities but these abilities set parameters for what members can do and how effectively they will perform in a group. A review of evidence has found that interpersonal skills consistently emerge as important for high performance by work groups. These include conflict management & resolution, collaborative problem solving and communication. For instance members need to identify the type and

source of conflict confronting the group and to implement an appropriate conflict resolution strategy; to identify situations requiring participative group problem solving and to utilize the degree and type of participation; and to listen non evaluatively and to appropriately use active listening technique.

- **Personality Characteristics:** There has been great deal of research on the relationship between personality traits and group attitudes and behavior. The general conclusion is that attributes that tend to have positive connotation in our culture tend to be positively related to group productivity, morale and cohesiveness. These include traits such as flexibility, openness, initiative etc. In contrast negatively evaluated characteristics such as dominance etc tend to be negatively related to dependent variable. These personality traits affect group performance by strongly influencing how the individual will interact with other group members.

❖ **Group structure:** A group's structure is the internal framework that defines members' relations to one another over time. They are not unorganized mob rather they have structure that shapes the behavior of the member and makes it possible to explain and predict a large portion of individual behavior within the group as well as performance of the group itself. The most important elements of group structure are leadership, roles, norms, status, group size, composition of the group and degree of group cohesiveness.

1. **Leadership:** A major responsibility in working with group is the recognition of leadership forces is the recognition of leadership forces.. Almost every group has a formal leader. The leader can play an important in the work group success. He is appointed by management and can exercise legitimate sanctioned power. The formal leader possesses the power to discipline and/or fire member of his member group. He is identified by titles such as supervisor, departmental manager, project leader etc.

2. **Role**: A **role** can be defined as a tendency to behave, contribute and interrelate with others in a particular way. That is role is a set of expected behavior patterns attributed to someone occupying a given position in a social unit. Roles may be assigned formally, but more often are defined through the process of role differentiation. Role differentiation is the degree to which different members of a group have specialized functions.

Functional (task) roles are generally defined in relation to the tasks the team is expected to perform. The understanding of the role behavior would be dramatically simplified if each one of us choose one role and play it out regularly and constantly. However individual play multiple roles while adjusting their roles to group in which they are. Different group impose different role requirement on individual.

- **Characteristic of roles:**

    1. Roles are impersonal. It is a position that determines the expectations, not the individual.

    2. An organizational role is that set of expected behavior applicable to particular position vis-à-vis a particular job.

    3. It is fairly difficult to explain roles in exact terms. It is the most complex organized response pattern the human being is capable of undertaking.

    4. Roles are learned quickly and can result in major changes in behavior.

- **Role Identity**: Role identity is certain attitudes and behavior consistent with a role. People have ability to shift role rapidly when they identify the situation demands so. For example when a worker is promoted as supervisor his attitude will change from pro union to pro management.

- **Role Perception**: Role perception is an individual's view of how he or she is supposed to act in a given situation. Based on our own belief we engage in certain type of behavior.

- **Role Expectations**: Role expectations are defined as how others believe you should act in a given situation. How you behave is determined to a large extent by the role, defined in the context within which you are operating.

- **Role Conflict**: Role conflict is a situation in which an individual is confronted by divergent role expectations. Role conflict like other forms of conflict can be a major source of stress. Excessive stress can cause problems for individual employee and for organizations that employ them.

3. **Norms**: Norms are the rule of conduct that has been established by group members to maintain consistency in behavior. Norms tell members what they ought to do, and, what they ought not to do under certain circumstances. Group control members through norms. From individual point of view they tell what is expected of him in certain situation. Norms differ among groups, communities etc but they all have norms. According to Hackman norms have five characteristics:

- Norms summarizes and simplify group influence processes. They resolve impersonal differences in group and ensure uniformity of action.
- Norms apply only to behavior-not to private thoughts and feelings
- Norms are usually developed gradually, but the process can be shortened if members so desire.
- Not all norms apply to everyone. High status members often enjoy more freedom to deviate from the "letter of the law" than do other members.
- **Types of Norms:** A work group's norms are unique to each work group. Yet there are common classes of norms that appear in most work groups.
- Performance Related processes: Work groups typically provide their members with explicit cues on how hard they should work, how to get the job done, their level of output etc. these norms deal with performance related process and have an extremely powerful effect on an individual employee's performance
- Appearance factors: Some organizations have formal dress codes. However even in their absence, norms frequently develop to dictate the kind of clothing that should be worn to work.
- Allocation of resources: The norms can cover pay, assignment of difficult jobs, and allocation of new tools and equipment
- Informal Social arrangement: These norms can originate in the group or in the organizations and cover pay, assignment of difficult jobs and allocation of new tools and equipment.

4. **Status**: Status is a socially defined position or rank given to group or group members by others. Individual group members are also distinguished by the amount of status they have within the group – ie the degree of worth and respect they are accorded by group members. Status is an important factor in understanding human behavior because it is a significant motivator and has major behavioral consequences when individual perceives a disparity between what they believe their status to be and what others perceive it to be.
- Formal Status: may be formally imposed by organization through position and titles.

> Informal Status: status may be informally acquired by such characteristics as education, gender, skill and experience. Anything can have status value if others in the group evaluate it as status conferring.

> Status is an important characteristic of groups because it affects group structure and dynamics.

5. Size of the Group: The size of the group can have profound implication on how the group behaves internally and with regard to other groups. It is an important factor determining the number of interactions of individuals a group. The size of the group should be 3- 13 depending on the group objectives. For high quality decision making the size should be 3-5. In a small group face to face interaction is quiet easy and uncomplicated, members can easily communicate with each others. Research evidence proves that small groups are better. On the other hand in large group's members have a better chance of finding people they like to be with. The potential for greater variety of talent is also greater. Bu the disadvantages of the size is more than the advantages. Larger groups therefore apart from being relatively less manageable offer greater chances of differences among members. As group size increases leaders tend   to become more directive and satisfaction starts to decline.

6. Composition: Most group activities require variety of skills and knowledge. Given this requirement it would be reasonable to conclude that heterogeneous groups would be more likely to have diverse abilities and information should be effective. When a group is heterogeneous in terms of gender, opinions, personalities, abilities, kills and perspectives there is increased probability that the group will possess the needed characteristics to complete its task effectively.

7. Group Cohesiveness: The cohesiveness of the group refers to the degree to which group members are attracted to each other and are motivated to stay in the group. According to Shaw members of highly cohesive group are more energetic in group activities and are less likely to be absent from group meetings and are happy when group succeed and become sad when group fails whereas members of less cohesive group are less concerned about the group activities. Cohesiveness is important because it has been found to be related to the group's productivity.

Studies consistently show that the relationship of cohesiveness and productivity depends upon performance related norms established by the group. If performance related norms are high (for e.g. high output, quality of work, co-

operation with individuals outside the group), a cohesive group will be more productive than will a less cohesive group. But if cohesiveness is high and performance related norms are low productivity will be low. If cohesiveness is low and performance related norms are high productivity increases, but less than in the high cohesiveness/high norm situation. When cohesiveness and performance related norms both are low productivity will tend to fall into low to moderate range.

Relationship Between Group Cohesiveness, Performance Norms, and Productivity

		Cohesiveness	
		High	Low
Performance norms	High	High productivity	Moderate productivity
	Low	Low productivity	Moderate to low productivity
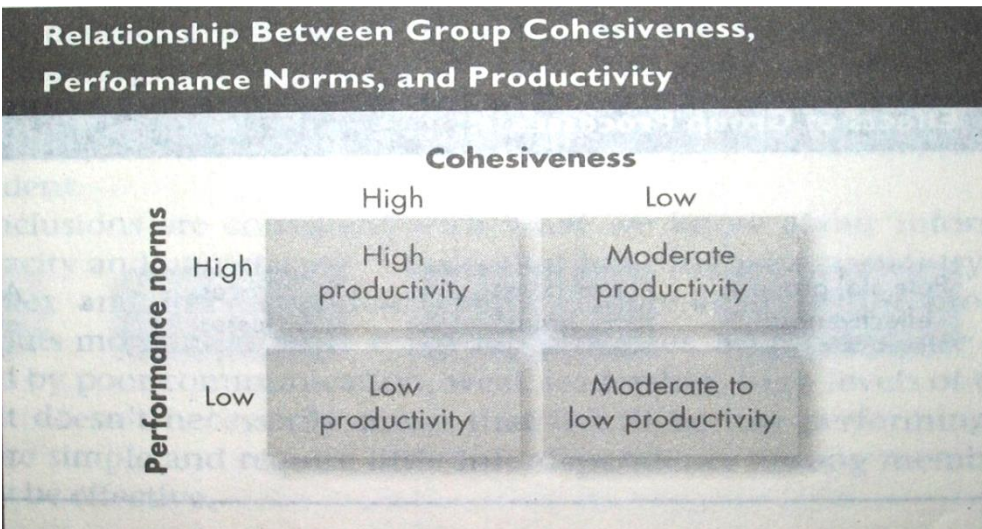
To encourage group cohesiveness following things can be done:

    a) Make the group smaller
    b) Encourage agreement with group goals
    c) Increase the time members spend together
    d) Increase the status of the group and the perceived difficulty of attaining membership in the group
    e) Stimulate competition with other groups
    f) Give rewards to the group rather than to individual
    g) Physically isolate the group

❖ **Group Process:** The next component of our group behavior model considers the process that go on within the group- the communication patterns used by members for information exchange, group decision process, leader behavior, power dynamics, conflict interactions and the like.

Why process is important to understand in group behavior model. The answer to this question is the reasons of "social loafing" as we found that 1+1+1 doesn't necessarily add up to three. In group task where each member contribution

is not clearly visible there is tendency for individuals to decrease the efforts i.e. social loafing illustrates a process loss as a result of using groups. But group processes can also produce positive result. That is group can create output greater than the sum of their inputs.

Synergy is the term meaning an action of two or more substance that result in an effort that is different from the individual summation of the substance. Social loafing represents negative synergy ,i.e. the whole is less than the sum of its parts. On the other hand research team work together towards drawing several diverse skills of various individuals to produce more meaningful result that is they produce positive synergy.

Another line of research that help us to better understand the group process is the social facilitation effect. It refers to the tendency for performance to improve or decline in response to the presence of others. While this effect is not entirely a group phenomenon – people can work in the presence of others and not be members of group- the group situation is more likely to provide the condition for social facilitation to occur.

❖ **Group Tasks:** The impact of group processes on the group's performance and member satisfaction is also moderated by the task that the group is doing. The evidence indicates the complexity and interdependence influence the group effectiveness.

Task can be generalized as simple or complex task. Complex task are ones that tend to be novel or non routine. Simple ones are routine and standardized. More the Complex the task are   the more the group will benefit from discussion among members on alternative work methods. If the task is simple group members don't need to discuss any alternative they only need to follow the standardized operating procedure for doing the job. On the other hand task that have higher uncertainty those that are complex and interdependent require more information processing, this in turns puts more importance on group processes. So just because a group is characterized by poor communication, weak leadership, high levels of conflict and the like, it doesn't necessarily mean that it will be low performing. If the group's task are simple and require little interdependence among members, the group still may be effective.

❖ **Performance:** To discuss about group performance firstly we should recognize that work groups are the part of larger organization and that factors such as the organization's strategy, authority structure, selection procedure and reward system can provide a favorable or unfavorable climate within which the group operate. So manager should never look groups in isolation, rather they should begin by assessing the degree of support provided to the group by the external conditions. It is obviously lot easier for the work group to be productive when the overall organization of which it is part is growing and it has both top management's support and abundant resources. Similarly a group is more likely to be productive when its members have the requisite skills to do the group task and the personality characteristics that facilitate working together

A number of structural factors show relationship to performance. Among the more prominent are role perception, norms, status inequities, size of the group, its demographic makeup, group task and cohesiveness.

❖ **Satisfaction:** The group size satisfaction relationship is what one should intuitively expect larger groups are associated with lower satisfaction. As size increases opportunity for participation and social interaction decreases, as does the ability of members to identify with the group's accomplishments. At the same time, having more members also promote tension, conflict, formation of subgroups which all act to make the group less effective.

6.9 GROUP DECISION MAKING

The most common form of group decision taking place in face to face interacting groups. Interacting group often censor themselves and pressure individual members towards conformity of opinion. Once the manager has decided that group decision making approach will be used, than he will decide on the technique best suited for decision making .Several techniques are :-

➢ **Brainstorming:** It is an idea generation process that specifically encourages any and all alternatives, while withholding any criticism of those alternatives. In a typical brainstorming session about 6 to 10 people sit and discuss the problem. The group leader states that problem in a clear manner so that all participants understand it. No criticism is allowed and all the alternatives are recorded for later discussion and analysis.

Brainstorming is good technique for generating as many alternatives as possible. Brainstorming is meant to overcome pressure for conformity in the interacting group that retard the development of creative alternatives. Groups that use brainstorming have been shown to produce significantly more ideas than groups that do not.

➢ **Nominal Group Technique (NGT):** It is a group decision making method in which individual members meet face to face to pool their judgment in a systematic but independent fashion. The nominal group technique restricts discussion or interpersonal communication during the decision making process, hence the term nominal. Group members are all physically present as in a traditional committee meeting but members operate independently. NGT has following steps:

   a) Individuals silently list their ideas
   b) Ideas are written on a chart one at a time until all ideas are listed
   c) Discussion is permitted but only to clarify the ideas. No criticism is allowed
   d) A vote is taken by ballot or other recordable means.

NGT is a good technique to use in a situation where group members fear criticism from others. The main advantage of NGT method is that it permits to meet the group formally but does not restrict independent thinking.

➢ **Delphi Technique:** This technique is originated at the Rand Corporation to gather the judgments of experts for use in decision making. It is similar to NGT except that it does not require physical presence of the group's member. Experts at remote locations respond through Questionnaire. A coordinator summarizes the response to the questionnaire and the summary is sent back to the experts. The expert then rate the various alternatives generated and the coordinator tabulate the result.

➢ **Electronic Meetings:** This method blends the nominal group technique with sophisticated computer technology. Issues are presented to participants and they type their responses onto their computer screen. Individual comments as well as aggregate votes are displayed on the projection screen.

➢ **Devil's Advocacy:** In this method an individual or a group is given the role of critic. This person or persons (called as Devil's advocate) has the task of coming up with the potential problem related to proposed decision. This helps organization avoid costly mistakes in decision making by identifying potential pitfalls in advance

> **Quality circles and Quality teams:** Quality circles are small group that voluntarily meet to provide input for solving quality or production problems. Quality circle are often generated from bottom up they provide advice to the managers who still have the decision making authority, quality circle members cannot force their recommendations to be followed, they can only give advice. Quality Teams in contrast are included in total quality management and other quality improvement efforts as a part of change in the organizational structure. Quality teams are generated from top down and are empowered to act on their own recommendations.

> **Self Managed teams:** Self managed teams make many of the decision that were once reserved for managers, like work scheduling, staffing etc. unlike quality circles whose role is advisory, self managed teams are delegated authority in the organizational decision making process.

TYPE OF GROUP					
Effectiveness Criteria	Interacting	Brainstorming	Nominal	Delphi	Electronic
Number of ideas	Low	Moderate	High	High	High
Quality of ideas	Low	Moderate	High	High	High
Social pressure	High	Low	Moderate	Low	Low
Money costs	Low	Low	Low Moderate	Low	High
Speed	Moderate	Moderate	High	Low	High
Task orientation	Low	High	Moderate	High	High
Potential for interpersonal conflict	High	Low	High	Low	Low
Feelings of accomplishment	High to Low	High	Moderate	Moderate	High
Commitment to solution	High	Not applicable	Moderate	Low	Moderate
Develops group cohesiveness	High	High		Low	Low

Evaluating Group Effectiveness

Before choosing a group decision making technique the manager carefully analysis the situation and evaluate the group members than the best method for accomplishing the objective of the group decision making can be selected for e.g.:-

The need for expert input would be best facilitated by Delphi technique. Decision that concerns quality or production would benefit from Quality circle. If group members are reluctant to contribute ideas that nominal group technique is best suited.

6.10 OBSTACLES TO GROUP PRODUCTIVITY

Managers should be well aware of the obstacles to the group productivity so that they can overcome these obstacles. The obstacles are:-

❖ **Breakdown in Role Development:** Breakdown in role ambiguity, role conflict or role overload. Any of these obstacles will effect group productivity. It includes:

➢ **Role Ambiguity:** It means the prescribed behavior of the employee is not clear. Whether the group is formal or informal not much about the group's role expectation is neither written nor much communicated thus when a new situation or changing conditions arises group seems to confuse as what is expected from them is not much clear and when certain role is not clear or incomplete it leads to role ambiguity or uncertainty.

➢ **Role Conflict:** When an individual is confronted by divergent role expectations the result is role conflict. It exists when an individual finds that compliance with one role requirement may more difficult the compliance with another. It may take the form of

Person-role conflict: It means the requirement of person's role violate his or her personal values, needs and attitude.

Intra-role conflict: Arises when different people's expectations for a role are incompatiable.it means if one person role satisfies one person the other will get dissatisfied.

Inter-role conflict: Occurs when the multiple roles performed by a person involves incompatible expectation.

➢ **Role Overload:** It is a situation where expected roles exceed a group member's abilities. It arises not from nature of a particular role but from number of roles person takes on.

❖ **Groupthink:** According to Irving Janis, groupthink is "a deterioration of mental efficiency, reality testing and moral judgment resulting from in-group pressures "Thus the overemphasis on consensus and agreement leads members to be unwilling to evaluate group member's ideas critically. This hinders decision making and becomes an obstacle to group productivity.

❖ **Social Loafing:** Social loafing occurs when one or more group members rely on the effort of other group members and fail to contribute their own time, effort,

thoughts or other resources to a group. This may create real drag on the group's effort and achievement. When a group carries out a task it is harder to attribute the group's output to individual contribution some group member may engage in social loafing or doing less than their share of the work on the assumption that group's result will not indicate the individual's failure to contribute. A number of method for countering social loafing exist such as having identifiable individual contribution to the group product and member self evaluation system.

❖ **Production Blocking:** Production blocking is limiting another person's output by getting in his or her way. Production blocking occurs when too many employees are trying to work in a given amount of space or when the organizational has poorly planned the use of its facilities. It can also occur when the organizational assigns more than the optimal number of employees to carry out a task.

6.11 SUMMARY

A group is defined as two or more individual interacting and independent, who have come together to achieve particular objectives. There are two types of group's i.e. formal group and informal group. Bruce Tuckman gave five stages of group formation; they are Forming, Storming, Norming, Performing and Adjourning.

The performance of some groups is better than others the reason for that is difficult to answer but it includes certain variables that determine group performance and satisfaction.

There are techniques for making decisions like brainstorming, Delphi technique and nominal group technique. Like every concept has two aspects likewise group behavior has certain barriers or obstacles that affect the productivity of group

6.12 GLOSSARY

- **Group**: - It is defined as two or more individuals, interacting and interdependent, who have come together to achieve particular objectives.
- **Formal Groups**:- A designated work group defined by organization's structure
- **Command Group**: - A command group consists of a manager and the employee who report to him.

- **Task Group**: - A task group is made up of employees who work together to complete a particular task or project.
- **Informal Group**:- An organization's informal groups are groups that evolve to meet social or affiliation needs by bringing people together based on shared interest or friendship.
- **Friendship Groups**:- Groups often develop because the individual members have one or more common characteristics.
- **Interest Groups**:- People who may or may not be aligned to common command or task groups may affiliate to attain a specific objective with which each is concerned. This is a interest group.
- **Reference Groups**:- Sometimes people use a group as a basis for comparison in making decision or forming opinion.
- **Membership Groups**:- When a person does belong to a group(formal or informal groups to which employees actually belong) the group is called a membership group.
- **Brainstorming**:- It is good technique for generating alternatives. The idea behind brainstorming is to generate as many ideas as possible, suspending evaluation until all of the ideas have been suggested.

6.13 CHECK YOUR PROGRESS

Q1. Define group? Illustrate why do people join groups?

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Q2.Explain the different types of groups?

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Q3. Discuss the different characteristics of groups?

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Q4. A group is defined as two or more individuals, interacting and interdependent who have come together to achieve particular objectives.

                  (True / False)

Q5. A……………………group is made up of employees who work together to complete a particular task or project.

Q6. In……………………technique experts are not require to be physically present but they can respond through questionnaire.

Q7. In……………………technique of group decision making several and all types of alternatives or ideas are generated.

Q8. In……………………stage close relationship develop and group demonstrate cohesiveness.

Q9. The……………………refers to the degree to which group members are attracted to each other and are motivated to stay in the group.

Q10. ……………………are the rule of conduct to maintain consistency in behavior of the group.

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14.15 SUGGESTED READING

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14.16 LONG TERM QUESTIONS

Q1.   Describe the five stages of group development?

Q2.   Explain the work group behavior model?

Q3.   Throw a light on various techniques adopted by organization for   group decision making?

Q4.   Discuss various barriers / obstacles that affect group productivity?

Q5.   What is cohesiveness? How is cohesiveness related to performance?   What implication does this relationship have for   improving   productivity   in   the organization?

Q6.   Define Group Structure and explain the elements which come   under group structure?

Q7.   Write short note on: -   a) Role

                                               b) Norms

14.17 ANSWER TO CHECK YOUR PROGRESS

Ans 1.   See Sec 14.3 & 14.5

Ans 2.   See Sec 14.4

Ans 3.   See Sec 14.7

Ans 4.   True

Ans 5.   Task

Ans 6.   Delphi technique

Ans 7.   Brainstorming

Ans 8.   Norming

Ans 9.   Cohesiveness

Ans 10.   Norms

UNIT 15: MEANING AND CONCEPT OF ORGANIZATION EFFECTIVENESS

Structure:
15.1   Introductions
15.2   Objective
15.3   Concept
15.4   Definition
15.5   Organizational Effectiveness and Culture
15.6   Organizational Life Cycle Stages
15.7   Organizational Effectiveness Criteria
15.8   Characteristics of Effective Organization
15.9   Approaches to Organization Effectiveness
15.10 Increasing Organization Effectiveness at Workplace
15.11 Summary
15.12 Glossary
15.13 Check your progress
15.14 References
15.15 Suggested Reading
15.16 Long Term Questions
15.17 Answer to Check your Progress

15.1 INTRODUCTION

The study of organizational effectiveness has long been the province of those in the management sciences. In recent years, however, workplace consultants and strategists have become increasingly interested in designing physical environments that promote organizational success. Although there are many ways to measure success, a number of factors consistently show up in effectiveness metrics. These include the following:

- Achieving organizational mission
- Product/service quality and value
- Customer satisfaction
- Capacity for innovation and creativity
- Adaptation to organizational and technological change
- Effective information sharing and communication
- Employee attraction and retention
- Effective group and individual work

- Quality of work life
- Developing partnerships and alliances
- Operational efficiency
- Image and branding

For any given organization, measures of effectiveness vary, depending upon its mission, environmental context, nature of work, the product or service it produces, and customer demands. Thus, the first step in evaluating organizational effectiveness is to understand the organization itself—how it functions, how it is structured, and what it emphasizes.

15.2 OBJECTIVE

After reading this unit, you should be able to:
- Understand the meaning and concept of Organizational effectiveness
- Understand Organizational culture and its implications to organizational effectiveness
- Learn about factors that build and nurture favorable organizational culture
- Understand different organizational life cycle stages
- Understand the importance of organizational effectiveness
- Understand the characteristics of effective organizations

15.3 CONCEPT

Organizational effectiveness is the concept of how effective an organization is in achieving the outcomes the organization intends to produce. Effectiveness is characterized by the ability to do what you set out to do. Additionally though, they defined it as partly about the organization and partly about the individuals within that organization.

At the organizational level it's about:
- Executing on direction and strategies to consistently fulfill your mission and get the result that you established
- Funding innovation (from throughout the organization) to keep moving the organization ahead
- Improving the way the organization works and executes – continuously
- Managing the 'white spaces' between the organizational boxes – such as managing risk; developing the right spirit among teams; collaborating on the right things with the right people, at the right time.

From an individual's point of view, it's about being able to do more than 'just the job'; it also includes:

- Channeling ideas and innovative thoughts up through the organization
- Leveraging 'my' sphere of influence and control to govern 'in the moment' and in response to real-time needs
- Having the right information and knowledge to make the appropriate judgment calls and decisions

While this is a wide range of definitions, none of the above is wrong. It's more about the different perspectives executives have based on their experiences, and potentially, on how they are measured as effective leaders of organizational effectiveness.

The idea of organizational effectiveness is especially important for non-profit organizations as most people who donate money to nonprofit organizations and charities are interested in knowing whether the organization is effective in accomplishing its goals.

However, scholars of nonprofit organizational effectiveness acknowledge that the concept has multiple dimensions and multiple definitions. For example, while most nonprofit leaders define organizational effectiveness as 'outcome accountability,' or the extent to which an organization achieves specified levels of progress toward its own goals, a minority of nonprofit leaders define effectiveness as 'overhead minimization,' or the minimization of fundraising and administrative costs.

15.4 DEFINITION

Organizational effectiveness is defined "as the ability of an organization to maximize its performance within a competitive external environment".

It is achieved when organizational resources are optimally utilized by creating suitable structures, processes and systems, cultures and people fully aligned to organization's business purpose and direction. An organization is a consciously coordinated entity with indefinite boundary that functions on a continuous basis to achieve common goal or set of goals. An organizational structure defines how roles are defined, task, task are allocated relationship are reported, and the formal coordination and interaction pattern that the organization would follow.

Organizations need to undergo continuous improvement in their process and system so as to bring transform in their inputs and outputs. This involves continually assessing and reassessing not only the outcomes of business processes but also the process and systems to see what improvement can be made to streamline and improve methods so as to keep making positive contribution to the overall effectiveness.

Ahisholm (1998) suggested four key challenges than are organization facing in today's scenario:

1. Rapid advancement of technology
2. Globalization
3. Operational and process complexity
4. Shift in values and beliefs

According to Richard et al. (2009) organizational effectiveness captures organizational performance plus the myriad internal performance outcomes normally associated with more efficient or effective operations and other external measures that relate to considerations that are broader than those simply associated with economic valuation (either by shareholders, managers, or customers), such as corporate social responsibility.

Several consultancies define it as the intersection of business strategy, human resources and operations management.

Wikipedia defines it as 'the concept of how effective an organization is in achieving the outcomes the organization intends to produce.

According to Mayo "Effectiveness is a function of Productivity resulting from employee satisfaction."

According to Fayol "Effectiveness is a function of clear authority and discipline within an Organization"

According to **Etzioni** organizational effectiveness is the degree to which an organization realizes its goals. Etzioni considers "organizational effectiveness" another name for "goal achievement

15.5 ORGANIZATIONAL EFFECTIVENESS AND CULTURE

Culture is a set of norms, values and assumptions that are available to the staff and thus it is inseparable from action and process. It is also defined as a learned set of rules written or verbal that instructs the individual about working effectively with each other and with their environment. It not only defines the ways to act but also the ways to react so it acts as an important component of individual capacity to live in the organization. In other words "it is the way we do things around here". Trice & Beyer (1993) has defined culture as the "unique pattern shared assumptions, values and norms that shape the socialization, symbols, language, narratives and practices of a group of people".

Schein Edgar defines organizational culture as 'the residue of successes within an organization. According to him culture is the most crucial and difficult organizational attribute to change as it is long lasting compared to all other physical

attributes of the organization. He states that there are three level of organizational attributes that contributes to its culture namely those attributes can be felt, seen and heard by the uninitiated observer. These include facilities, offices, furnishings, awards, recognition and dress code and the way each person visibly interacts with each other and outsiders. At the second level are the organization's slogans, stories, mission statement, operational creeds and values that are expressed often and repeatedly. These cultural elements of the organization can be understood by interviewing the employees of the organization about their attitudes. At the third and deepest level are the organization's underlying and tactic assumptions which are usually invisible and not cognitively identified in everyday interaction among organizational members.

Normal regular employees are unaware of these organization assumptions. Only those members of the organization who have been serving the organization for long time and understand organization culture at its deepest can understand these assumptions. They have got acclimatized to these attributes over time, thus reinforcing the invisibility of their existence. Therefore according to Schein organizational culture gets formed from shared history, values and adaptation, further organizational change is not possible without making changes that affect its culture.

Schein states that organizational culture develops in response to two major challenges that ever organization faces that are:

- **External adaptation and survival:** External adaptation and survival refers to the way an organization copes with and responds to its ever-changing environment
- **Internal adaptation**: Internal Adaptation refers to the establishment and maintenance of the effective and harmonious relationship in work situation among members of the organization.

Thus organizational culture may be defined as the overall attitude of the people within the organization. It contributes a great deal to the achievement of its objective and in improving its effectiveness. In a recent survey of business leaders it was found that 70% agreed with the statement 'culture is the true source of competitive advantage'. 91% agreed that 'culture erodes if not actively nurtured. 'Many features of the organizational performance get blocked due to the inherent diversity of the organizational membership. On one hand it can bring in healthy and necessary differences while on the other it may create conflict and lack of synergy.

Changing external environment on one hand and shifting expectation of managers as they move along different career stages, on the other, require a change in approach towards managing and leading.

The basic of building and nurturing a favorable organizational culture requires focused attention on teamwork, leadership development conflict management, inculcating best practices and values.

Thus harmonizing, aligning, and integrating people processes and system, culture and organizational structure to the business objective and direction lead to achievement of organizational effectiveness.

15.6 ORGANIZATIONAL LIFE CYCLE STAGES

Every organization undergoes life cycle stages. However what matters the most is the management of these stages in a manner that it remains on the path of growth. This mainly depends on the leader and his capability to create a culture for innovation in the organization. In this competitive world lifecycle's predictable patterns help organizations and their managers to develop greater insight as to what problems need to be corrected first. These problems may be operational and cultural. The management's ability to handle problems effectively and to create new market opportunities differentiates successful from unsuccessful business.

There are five organiztional's life cycle stages they are:-
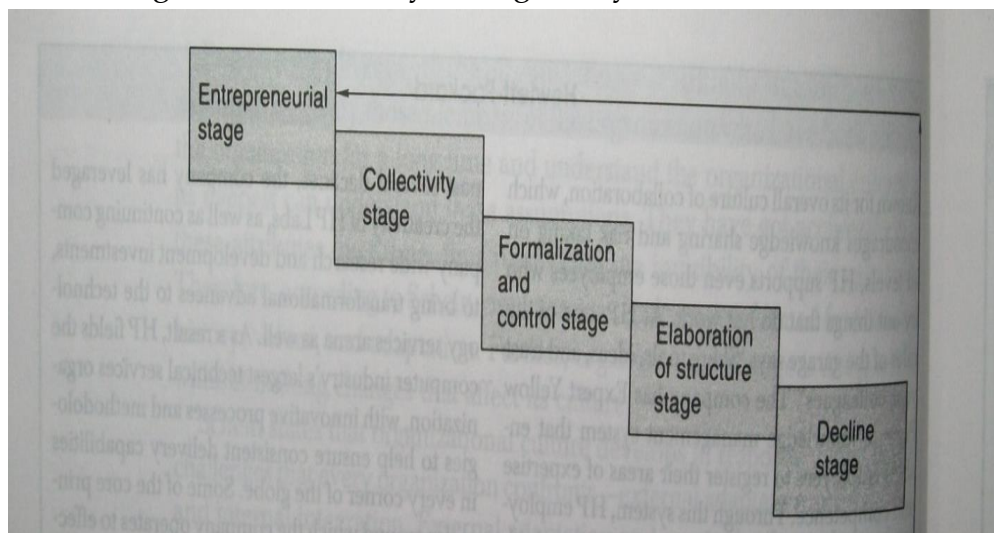
Organization Life Cycle Stage

➢ **Entrepreneurial Stage:** The organization is in its nascent stage. Although its goals are ambiguous they have high level of creativity.

> **Collectivity Stage:** Innovation continues in this stage and the organizational mission is identified. Communication is informal and its employee are highly committed to the organizational objectives and goals

> **Formalization & Control Stage:** In this stage organizational structure stabilizes and formal rules and procedure put in place. However innovation is given back seat while greater emphasis is placed on efficiency and stability a sequence

> **Elaboration of structure stage:** Products and services are diversified at this level. the structure become more complex with multiple departments giving rise to multiple reporting relationships. This is the stage in which decision making get decentralized.

> **Decline Stage:** This is the stage when management looks for always to maintain market positions and look for new opportunities. In this phase organizational effectiveness really matters in terms of coming out with new ideas to exploit existing or emerging opportunities.

15.7 ORGANIZATIONAL EFFECTIVENESS CRITERIA

An organization may achieve its goals but ultimate test of its success lies in the measurement of its result which contributes to the achieving of those goals. Those responsible and accountable for directing the organization must first determine where an organization stands and what it wants to achieve in a particular period. This must then be translated into subnormal (or objectives and results) a component of the goal's organization must achieve. Individual and group performance have to be view and evaluated Vis a Vis a predetermined criteria. Certain objectives and   goal may be qualitative while others may be quantitative. Qualitative objectives need to be converted into quantitative objectives as much possible. To achieve the desired result individual s and group at different tiers have to plan and execute a sequence of actions and activities.

Some of commonly used criteria for evaluating organizational effectiveness are such as productivity, efficiency, profit, quality, accidents growth absenteeism, turnover, dividend payment share price, earning per share etc are quantitative in nature and can be measured by using well defined variables however there are number of criteria that have impact on achievement of quantitative criteria but cannot be easily measured as they are qualitative in nature. Some of the vital qualitative criteria are –

- Job satisfaction
- Motivation
- Morale

- Control
- Conflict/cohesion
- Flexibility/adaptation
- Goal consensus
- Internalization of organizational goals
- Role and norm congruence
- Managerial and interpersonal skills
- Information management and communication readiness
- Utilization of environment, value of human resources participation and shared influence, training and development and emphasis on achievement.
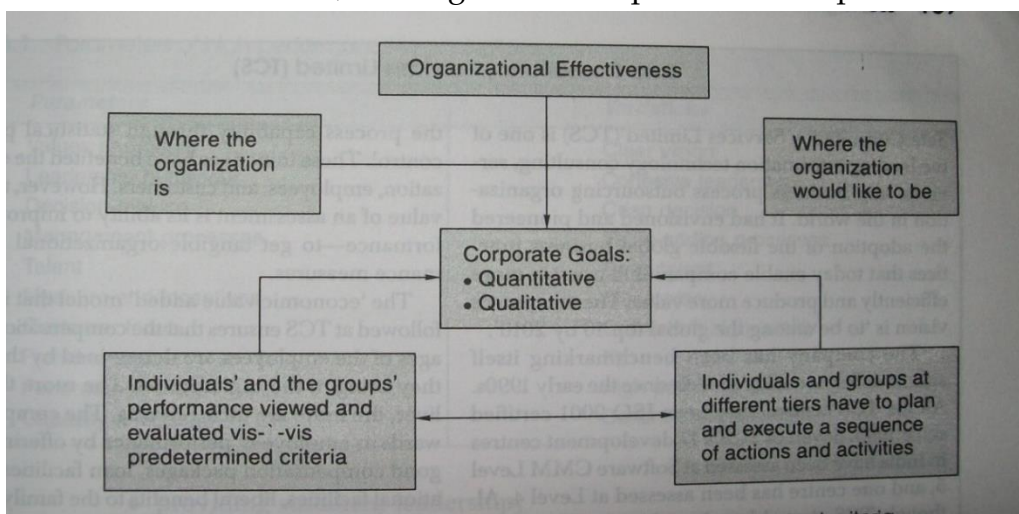
Model for Organizational Effectiveness Measurement Criteria

Measuring Organization effectiveness: To understand the criteria for measuring organization effectiveness let us first discuss what an ineffective organization would look like. It is like having:

- Missed targets and goals
- High levels of unmitigated risk
- Unnecessary turnover of leaders and high potential staff
- Lack of ROI on key strategic projects and investments
- Lower levels of customer / partner / supplier / employee satisfaction levels
- Cultural confusion - where we say one thing but do another
- Inadequate clarity of roles and accountabilities and the authority to make decisions

- Lack of nimbleness – encouraged by too many organizational layers, bureaucratic processes or governance, poor information relays, and policies that stifle common sense
- Firefighting as a strategy Impatience with solving the same problems multiple times; (and instead working to identify and act on root causes)

High Performance organization: Research shows that high performance organization can be distinguished from the rest by applying a yardstick on certain parameters. Leaders with clear vision well designed management processes, policies to attract and retain talent, customer focus, innovation and above all adaptability and capacity to change are some of things that make some organizations distinct from others.

15.8 CHARACTERISTICS OF EFFECTIVE ORGANIZATION

Effective organization has been found to possess certain characteristic that make them distinct from others they are:

- ❖ Providing sustained leadership
- ❖ Driving effective decisions
- ❖ Focusing people on performance
- ❖ Aligning the front line
- ❖ Driving a high performance culture

Thus performing, growing and developing organization create inbuilt mechanism to continuously improve their effectiveness by developing a culture that is conductive to create and respond to the environmental changes. These organizations have transparent systems and processes and a organizational structure wherein communication between tiers and within group is encouraged. People are receptive to feedback as measured in quantitative and qualitative terms. It would be imperative for any organization to focus on being effective for its long term sustainable growth and development.

Consequently, an effective organization likely has a set of merits that are:

- Holds individuals accountable for their individual performance. That means clarifying individuals' roles, responsibilities, and their authority to make decisions.
- Identifies and communicates 'acceptable' levels of risk (and the cost of not managing risk adequately)
- Measures a leader's behavioral impact and how that influences others' performance (or not)

- Clarifies 'what good looks like' since people cannot be effective if they don't understand the (qualitative and quantitative) performance standards
- Identifies the drivers for success to more consistently replicate performance
- Identifies critical feedback loops so individuals learn and develop confidence in their analysis and decisions
- Challenges everyone to perform at the next level in the organization

PARAMETERS	YARDSTICKS
Values And Goals	Clear Vision
Leadership Behavior	Cohesive Leadership
Decision Making	Crisp Decision
Management Processes	Value Adding Processes
Talent	Deep Talent
Measure & Incentives	Meritocracy
Customer Focus	Consistent High Quality
Frontline Support	Fit
Performance Culture	High Performance
Capacity To Change	Continuous Evaluation

Parameters of High Performance Organizations

ORGANIZATIONAL EFFECTIVENESS ASSESSMENT

Name:

Date:

Section / # Question Answers   Agree / Disagree

Section A Defining Organizational Effectiveness

1 I am clear on the mission for my organization

2 I can translate that mission into the goals and results required

3 I can translate those results into what I need to do in my specific role

4 I can translate the mission into leadership and team behaviors required of me

Section B Measuring Organizational Effectiveness

1 I am clear on the performance objectives and standards for my function

2 I am clear on my decision making authorities

3 I understand 'what good looks like' for my function

4 I am clear on my roles and responsibilities and accountabilities

5 I am clear on who I need to collaborate with to be successful in my role

7 My teams feel 'empowered' and supported to make decisions

8 We follow through on promises and commitments to next steps

Section C Managing the 'White Spaces'

1 The operating culture supports solving root causes not just symptoms

2 I would describe my function as 'implementation oriented'

3 Priorities for immediate action are clear

4 We build time and forum for assessing and embedding learning

5 There are mechanisms in place to formally support collaboration

6 I have developed a personal network that I collaborate with

7 I can channel my ideas and creative thoughts to those who
Make the policies and decisions

8 You can feel the 'hum' in my function

Section D Describing My Effectiveness

1 I would describe myself as an 'implementer'

2 I would describe myself as 'planner'

3 I am consulted on matters outside of my formal role/job

4 I have a high level of confidence in my ability to make the right decisions

5 I know where to find the information I need

6 I am working a level above my current roles and authorities

7 Others recognize the passion that I have for what I do

Format of Organization effectiveness assessment

15.9 APPROACHES TO ORGANIZATION EFFECTIVENESS

Organizational effectiveness research, there is little consensus emerged, either theoretically or empirically, as to what constitutes organizational effectiveness and how best to measure it.

Robbins asserts that effectiveness, like beauty, is in the eye of the beholder. Different groups (Stakeholders) judge organizations by different criteria.

A. Daft defines three contingency approaches to the measurement of organizational effectiveness:

1- Resource based approach assesses effectiveness by observing the beginning of the process and evaluating whether the organization effectively obtains resources necessary for high performance. Organizational effectiveness is defined as the ability of the organization to obtain scarce and valued resources. Ex: Low cost inputs, high quality raw materials. (In many not-for-profit organizations it is hard to measure output goals or internal efficiency.)

2- Internal process approach looks at the internal activities. Organizational effectiveness is measured as internal organizational health and efficiency. Ex: strong corporate culture.

3- Goal approach is concerned with the output side and whether the organization achieves its goals in terms of desired levels of output. Since organizations have multiple and conflicting goals, effectiveness cannot be assessed by a single indicator. Ex: operative goals.

B. The "**Competing Values Framework**" of **Quinn and Rohrbaugh** (1983) is a theory derived from research conducted on major indicators of effective organizations. Based on statistical analyses of a comprehensive list of effectiveness indicators, they discovered two major dimensions underlying the conceptions of effectiveness.

First dimension is related to organizational focus. Internal emphasis is on the well being and development of the people in the organization. External emphasis is on the well being and development of the organization itself with respect to its environment.

Second dimension is related to preference for structure and represents the contrast between "stability and control" and "change and flexibility".

Flexibility

| "Human Resources" model | "Open Systems" model |
| goal: human resource development | goal: growth and resource acquisition |

Internal ←――――――――→ External

| "Internal process" model | "Rational-Goal" model |
| goal: stability, equilibrium | goal: productivity, profit and efficiency |

Control
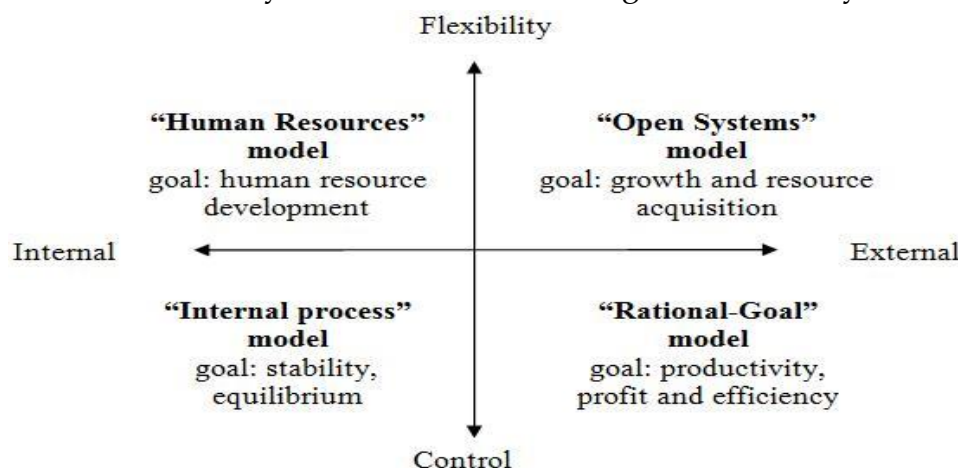
1. Human Resources model emphasizes flexibility and internal focus and stresses cohesion, morale, and human resources development as criteria for effectiveness

2. Open Systems model emphasizes flexibility and external focus and stresses readiness, growth, resource acquisition and external support

3. Rational goal model emphasizes control and external focus and stresses planning, goal setting, productivity, efficiency as the criteria for effectiveness

4. Internal process model emphasizes control and internal focus and stresses role of information management, communication, stability and control.

C. Another approach was given by J. Barton Cunningham, after reviewing the relevant literature, concluded that seven major ways of evaluating organizational effectiveness existed:
   ➢ Rational goal model
   ➢ Systems resource model
   ➢ Managerial process model
   ➢ Organizational development model
   ➢ The Bargaining model.

➢ **The Rational Goal Model:** The rational goal approach focuses on the organization's ability to achieve its goals. An organization's goals are identified by establishing the general goal, discovering means or objectives for its accomplishment, and defining a set of activities for each objective.The organization is evaluated by comparing the activities accomplished with those planned for. These criteria are determined by various factors.

➢ **The Systems Resource Model:** The systems resource model analyzes the decision-makers' capability to efficiently distribute resources among various subsystem's needs. The systems resources model defines the organization as a network of interrelated subsystems. These subsystems needs may be classified as:
   • Bargaining position - ability of the organization to exploit its environment in acquisition of scarce and valued resources;
   • Ability of the systems' decision-makers to perceive, and correctly interpret, the real properties of the external environment;
   • Ability of the system to produce a certain specified output;
   • Maintenance of internal day-to-day activities;

- Ability of the organization to co-ordinate relationships among the various subsystems;
- Ability of the organization to respond to feedback regarding its effectiveness in the environment.
- Ability of the organization to evaluate the effect of its decisions;
- Ability of the organization' system to accomplish its goals.

➢ **The Bargaining Model:** Each organizational problem requires a specific allocation of resources. The bargaining model presumes that an organization is a cooperative, sometimes competitive, resource distributing system.

Decisions, problems and goals are more useful when shared by a greater number of people. Each decision-maker bargains with other groups for scarce resources which are vital in solving problems and meeting goals.

The overall outcome is a function of the particular strategies selected by the various decision-makers in their bargaining relationships. This model measures the ability of decision-makers to obtain and use resources for responding to problems important to them.

Each of the subsystems' needs should be evaluated from two focal points: efficiency and stress. Efficiency is an indication of the organization's ability to use its resources in responding to the most subsystems' needs. Stress is the tension produced by the system in fulfilling or not fulfilling its needs

➢ **The Managerial Process Model:** The managerial process model assesses the capability an productivity of various managerial processes -decision making, planning, budgeting, and the like -for performing goals.

The managerial process model is based on the intuitive concept of substantial rationality, which interrelates the drives, impulses, wishes, feelings, needs, and values of the individuals to the functional goals of the organization.

- **The Organizational Development Model:** This model appraises the organization's ability to work as a team and to fit the needs of its members. The model focuses on developing practices to foster:
- supervisory behavior manifesting interest and concern for workers;
- team spirit, group loyalty, and teamwork among workers and between workers and management;
- confidence, trust and communication among workers and between workers and management;
- more freedom to set their own objectives.

The model's procedure attempts to answer four main questions:

- Where are we?;
- Where do we want to go?;
- How will we get there?;
- How will we know when we do get there?

These questions can be divided into four areas: question one is concerned with diagnosis, question two with the setting of goals and plans, question three with the implementation of goals, and question four with evaluation.

This model is concerned with changing beliefs, attitudes, values, and organizational structures so that individuals can be better adopt to new technologies and challenges. It is a process of management by objectives in contrast to management by control.

➤ **The Structural Functional Model:** The structural functional approach tests the durability and flexibility of the organization's structure for responding to a diversity of situations and events.

According to this model, all systems need maintenance and continuity. The following aspects define this:

- security of the organization as whole in relation to the social forces in its environment (this relates to ability to forestall threatened aggressions or deleterious consequences from the actions of others);
- stability of lines of authority and communication (this refers to the continued capacity of leadership to control and have access to individuals in the system);
- stability of informal relations within the organization;
- continuity of policy making (this refers to the ability to reexamine policy an a continuing basis);
- homogeneity of outlook (this refers the ability to effectively orient members to organization norms and beliefs).

➤ **The Functional Model:** In the functional approach an organization's effectiveness is determined by the social consequences of its activities.

The crucial question to be answered is: how well do the organization's activities serve the needs of its client groups?

The appraisal of an organization's effectiveness should consider whether these activities are function or dysfunctions in filling the organization's goals.

These seven models have their strengths and shortcomings depending upon the organizational situation being evaluated. The choice of evaluation approach usually hinges on the organizational situation that needs to be addressed.

15.10 INCREASING ORGANIZATION EFFECTIVENESS AT WORKPLACE

How do you increase organizational effectiveness and the productivity of your workforce?

To increase organizational effectiveness, winning companies create sustainable competitive advantage by aligning their talent and business strategies.

Mergers or acquisitions, restructurings or shifts in business strategy are examples of fundamental organizational change that create strong demand for processes and systems to bring focus and restore the organization's capability to function effectively.

Our organizational effectiveness capability brings value to our clients' organizations by facilitating the integration and alignment of the business strategy with a workable talent management strategy.

At the heart of Right Management's organizational effectiveness capabilities, is our holistic approach to helping companies build and align the capabilities, processes, attitudes, and talent needed to more effectively implement its chosen strategy.

Organizational Effectiveness Solutions

• **Strategy Implementation:** Right Management's Strategy Implementation consulting services improve an organization's ability to successfully execute strategy. This is achieved by focusing on structure, people systems and processes, and to deliver great customer experiences.

• **Strategic Workforce Alignment:** Strategic Workforce Alignment is a unique interactive process for executives to quickly assess and prioritize various workforce strategies, employee needs and investments. Based on proven Six-Sigma methodologies, individuals use a specially designed diagnostic process called Right Navigator to prioritize (based on importance and satisfaction) a comprehensive set of organizational workforce strategies.

• **Change Management:** Right Management's Change Management offerings are designed to support change at all levels of the organization. Our change management programs assist executives to drive organizational change, empower managers to lead through change, and enable employees to navigate and respond to change appropriately.

Four Core Capacities for Organizational Effectiveness

• **Leadership Capacity:** The ability of all organizational leaders to create and sustain the vision, inspire, model, prioritize, make decisions, provide direction and innovate, all in an effort to achieve the organizational mission

- **Management Capacity:** The ability of a nonprofit organization to ensure the effective and efficient use of organizational resources
- **Technical Capacity:** The ability of a nonprofit organization to implement all of the key organizational and programmatic functions
- **Adaptive Capacity:** The ability a nonprofit organization to monitor, assess, respond to and create internal and external changes

15.11 SUMMARY

A clear purpose and direction is a must for organizational effectiveness. Organizational Structure, processes and systems, culture and employees must all be aligned to this objective for organizational success. Organizational effectiveness is defined as ability of an organization to maximize its performance within a competitive external environment.

For organization effectiveness we need to provide healthy and effective culture within the organization and the basics of building and nurturing favorable organizational culture require focused attention on teamwork, leadership development, conflict management etc.

Every organization undergoes various lifecycle stages, which can be classified as entrepreneurial, collectivity, formalization and control and elaboration of structure stages. However management at all these stages must remain focused on the target of achieving the desired performance to make effective organization and this mainly depends upon the leader and his capability to create culture for innovation and creativity within the organization.

Some of the commonly used criteria for evaluation of organization effectiveness are productivity, efficiency, profit, growth, earning per share, turnover, dividend payment share price are the yardsticks which are quantitative in nature i.e. they can be measured and on that basis effectiveness of the organization can be measured.

There are certain yardsticks which cannot be measured e.g. sustained leadership, effective decision making etc are the examples of qualitative measurements as they cannot be measured but still are features of organization effectiveness.

Various approaches and methods of measurement have been discussed to explain organization effectiveness.

15.12 GLOSSARY

Organizational Effectiveness: It is the ability of an organization to maximize its performance within a competitive external environment.

- **Culture:** A set of norms, values and assumptions those are available to employees. It is thus inseparable from action and process.
- **Organizational Life cycle:** The various stages an organization goes through in its process of growth.
- **High Performance Organizations:** These are organizations that perform exceedingly well in terms of achievement of their goals.
- **Productivity:** It refers to accomplishment of objectives through the utilization of resources such as capital, workforce, machinery, infrastructure etc.

15.13 CHECK YOUR PROGRESS

Q1. Define Organizational Effectiveness?

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Q2. List the different Yardsticks on the basis of which high performance organization can be distinguished from low performance organization?

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Q3.Mention the characteristics possessed by effective organization?

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Q4. …………………..is a set of norms, values and assumptions that are available to the employee.

Q5. …………………..is the ability of an organization to maximize its performance within competititive external environment

Q6. Entrepreneurial stage is the nascent stage of the organization life cycle. (True / False)

Q7. Those yardsticks which cannot be measured are the examples of qualitative measurement   (True / False)

Q8. …………………..is the example of the yardsticks of quantitative measurement

Q9.Sustained Leadership is one of the important characteristics of effective organization.   (True/False)

Q10. …………………. is the stage when management looks for always to maintain market positions and look for new opportunities.

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15.15   SUGGESTED READING

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15.16   LONG TERM QUESTIONS

Q1. Discuss the stages of organization life cycle?

Q2. What is meant by organization culture? What are the factors that build a favorable organization structure?

Q3. Briefly discuss the approaches of organization effectiveness?

Q4. What is the important quantitative and qualitative criteria used to measure organization effectiveness?

Q5. How one can increase organizational effectiveness and the productivity of his workforce?

Q6. What is the advantage or importance of measuring organization effectiveness?

Q7. Draw the format of Organization effectiveness assessment chart.

15.17 ANSWERS TO CHECK YOUR PROGRESS

Ans1. See Sec 15.4

Ans2. See Sec 15.7

Ans3. See Sec15.8

Ans4. Culture

Ans5. Organizational Effectiveness

Ans6. True

Ans7. True

Ans8. Profit

Ans9. True

Ans10. Decline Stage

UNIT 16: ORGANIZATION CHANGES & ORGANIZATION DEVELOPMENT WITH CASE STUDIES EMERGING TRENDS AND PERSPECTIVE

Structure:

16.1   Introduction

16.1 INTRODUCTION

There is nothing in the Universe which is permanent or remains same, except the change, and this is the fact of life; a fundamental aspect or truth of historical evolution. Change is inevitable in a progressive culture. Change in fact is accelerating in our society. Changes are taking place in almost every field of life whether it is political, scientific, technological and institutional areas etc. Organizations cannot completely isolate themselves from this environment instability. Change is introduced to them by internal and external forces. Meeting this challenge of change is the primary responsibility of management. An organization lacking the ability to adapt with the change has no future. Adaptability to change is a necessary quality of good management. Modern managers have the

responsibility to devise management practices that best meet the new challenges and make use of the opportunities for the growth of the organization.

No discussion of managing change would be complete without including organizational development. Organizational Development is not an easily defined single concept. It is term used to encompass a collection of planned change interventions built on humanistic democratic values that seek to improve organizational effectiveness and employee well being.

16.2 OBJECTIVE

After reading this unit, you should be able to:
- Understand the concept of change and the forces that act as a stimulant to change
- Explain the sources of individual and Organizational resistance to change and remedies for it
- Explain different approaches to manage organizational change
- Understand the concept, assumptions and purpose of Organizational Development
- Understand the types of Organizational Development Activities
- Explaining Organizational development Interventions or Techniques
- Brief Introduction to other Emerging Trends

16.3 DEFINITION

Organizational change refers to a modification or transformation of the organization's structure, processes or goods. Flexibility requires that organizations be open to change in all areas, including the structure of the organization itself. In a flexible organization, employees can't think of their roles in terms of a job description. They often have to change the tasks they perform and learn new skills. The most flexible organizations have culture that
  a) Value Changes
  b) Manager who know how to implement changes effectively

16.4 FORCES FOR CHANGE IN ORGANIZATIONS

More and more organizations today face a dynamic and changing environment that in turn requires these organizations to adapt. Change has become the norm in most organizations. Plant closing, business failures, mergers and acquisition and downsizing have become common experiences for most organizations. Addictiveness, flexibility and responsiveness are terms used to describe organizations that will succeed in meeting the competitive challenges that

business face. In past organization could succeed by claiming excellence in one area-quality, reliability or cost. But this is not the case today. The current environment demands excellence in all areas.

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Forces for Change

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External   Internal

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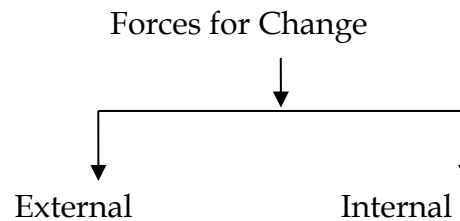
Forces For Change

Force	Examples
Nature of the work force	• More cultural diversity • Increase in professionals • Many new entrants with inadequate skills
Technology	• More computers and automation • TQM programs • Re-engineering programs
Economic shocks	• Security market crashes • Interest rate fluctuations • Foreign currency fluctuations
Competition	• Global competitors • Mergers and consolidations • Growth of specialty retailers
Social trends	• Increase in college attendance • Delayed marriages by young people • Increase in divorce rate
World politics	• Collapse of Soviet Union • Iraq's invasion of Kuwait • Overthrow of Haitian dictator

Different factors which effect the organization changes

1. **External Forces**: When the organization's general or task environment changes, the organization's success often rides on its ability and willingness to change as well. The modern manager is change conscious and operating in the constantly changing environment. Many external changes affect the modern organizations and make change inevitable. The genera environment has social, economic, legal, political and technological dimensions. Any of these can introduce the need for change. There are certain forces which affect the organization:

❖ **Technological Change**: Rapid technological innovation is a major force for change in organizations and those who fail to keep pace can quickly fall behind. According to C Handy, "the rate of technological changes is greater today than any time in the past and technological changes are responsible for changing the nature of jobs performed at all levels in the organization". Technological innovations bring about profound change because they are not changes in the

way work is performed. Instead the innovation process promotes associated changes in work relationships and organizational structures.

❖ **Globalization**: - The global economy means competitors are likely to come from across the ocean. The power players in the global market are the multinational and Trans – national organizations. This has led companies to think globally. Globalization of an organization means rethinking the most efficient ways to use resources, disseminate and gather information and develop people. It requires not only structural changes but also changes in the minds of employees.

❖ **Social & Political Changes**: A firm's fate is also influenced by such environmental pressures as social and political changes. Many new legal provisions in the corporate sector get introduced every time that affects organizations.

❖ **Workforce Diversity**: Related to globalization is the challenge of workforce diversity. Workforce diversity is a powerful force for change in organizations.

❖ **Managing Ethical Behavior**: Employees face ethical dilemmas in their daily work lives. The need to manage ethical behavior has brought about several changes in organizations. Most centre on the idea that an organization must create a culture that encourages ethical behavior. Ethical behavior is expected in relationship with other organizations. Ethical behavior is expected in relationship with other customers, environment and society.

These challenges are forces that place pressure to change on organizations. Organizations cannot afford to be rigid and inflexible in the wake of environment al pressures, rather they must be dynamic and viable so that they survive.

2.   **Internal Forces:** Besides reacting to or anticipating changes on the outside, an organization may change because someone on the inside thinks a new way of doing thinks will be beneficial or even necessary. Pressures for change that originate inside the organization are generally recognizable in the form of signals indicating that something needs to be altered. These internal forces are discussed below:-

❖ **Changes in Managing personnel**: One of the most frequent reasons for major changes in an organization is the change of executives at the top. No two managers have the same styles, skills or managerial philosophies. Thus changes in the managerial personnel are thus a constant pressure for change.

❖ **Declining Effectiveness**: Declining effectiveness is a pressure to change. A company that experiences losses is undoubtedly motivated to do something

about it. Some companies react by instituting layoffs and massive cost cutting programmes, whereas others view the loss as symptomatic of an underlying problem, and seek out the cause of the problem.

❖ **Changes in work climate**: Changes in the work climate at an organization can also stimulate change. A workforce that seems lethargic, unmotivated and dissatisfied is a symptom that must be addressed. This symptom is common in organizations that have experienced layoffs may find it hard to continue to be productive. They may fear that they will be laid off as well and may feel insecure in their jobs.

❖ **Deficiencies in the existing system**: Another internal pressure for organizational change is the loopholes in the system. These loopholes may be un manageable spans of control, lack of coordination between departments, lack of uniformity in politics, noncooperation between line and staff etc.

❖ **Crisis**: A crisis may stimulate change in an organization; strikes or walkouts may lead management to change the wage structure. The resignation of a key member may lead the management to rethink over the composition of management team and its role in the organization.

❖ **Employee expectations** : changes in employee expectations also can cause change in organizations the forces may be:
   ➢ Employee's desire to share in decision making
   ➢ Employee's demand for effective organizational mechanism
   ➢ Higher employee expectations for satisfying jobs and work environment.
   ➢ Employee's desire for higher wages.

All these forces necessitate change in organizations. Besides these forces a company that hires a group of young newcomers may be met with a set of expectations very different from those expressed by older workers.

Although organizational changes are important, managers should try to institute changes only when they make strategic sense. A logical conclusion is that managers should evaluate internal forces for change with as much care as they evaluate external forces.

16.5 FORMS OF CHANGES

Change has become the norms in most organizations. Adaptiveness, flexibility and responsiveness are terms used to describe the organizations that will succeed in two basic forms of changes in organizations that will succeed in meeting the competitive challenges that business face. There are two basic forms of change in organization:

- **Planned changes**: Planned change is change resulting from a deliberate decision to alter the organization. It is an intentional, goal oriented activity. The goals of planned changes are
  - ➢ First it seeks to improve the ability of the organization to adapt to changes in its environment.
  - ➢ Second it seeks to change the behavior of its employees.
- **Unplanned Change**: Not all change is planned. Unplanned change is imposed on the organization and is often unforeseen. Responsiveness to unplanned change requires tremendous flexibility and adaptability on the part of organizations.

Role of change agents

Changes in organizations are inevitable, but change is a process that can be managed. The individual or group that undertakes the task of introducing and managing a change in an organization is known as a change agent. Change agents can be of two types:

- **Internal Change Agents:** Change agents can be internal, such as managers or employees who are appointed to oversee the change process.

Internal change agents have certain advantages in managing the change process they are:

- ➢ They know the organization's past history, its political system and its culture.
- ➢ Internal change agents are likely to be very careful about managing change because they must live with the results of their change efforts.

There are also disadvantages of using internal change agents they are:

- ➢ They may be associated with certain factions within the organization and may easily be accused of favoritism
- ➢ Internal change agents may be too close to the situation to have an objective view of what needs to be done.
- **External Change Agents:** Change agents can also be external such as outside consultants. They bring an outsider's objective view to the organization. External change agents have certain advantages:
- ➢ They may be preferred by employees because of their impartiality
- ➢ They have more power in directing changes if employees perceive the change agents as being trustworthy, possessing important expertise and having a track record that establishes credibility

There are also disadvantages of using external change agents they are:

> ➢ External change agents face certain problems, including their limited knowledge of the organization's history
> ➢ They may be viewed with suspicion by organization members.

16.6 RESISTANCE TO CHANGE

The sources of resistance to change can be categorized into two sources: individual and organizational

1. Individual Resistance: It is the nature of mankind that they resist change as they attach great preference to maintain the status quo. The following are the reasons:

❖ **Economic Reasons** : The economic reasons to fear change usually focus on one or more of the following:

- Fear of technological unemployment
- Fear of reduced work hours and consequently less pay
- Fear of demotion and thus reduced wages
- Fear of speed up and reduced incentive wages

❖ **Fear of the unknown**: Change often bring with it substantial uncertainty. Employees facing a technological change, such as the introduction of a new computer system, may resist the change simply because it introduces ambiguity into what was once a comfortable situation for them.

❖ **Fear of Loss:** When a change is impending, some employees may fear losing their jobs, particularly when an advanced technology is introduced. Employees may also fear losing their status because of a change. Another common fear is that changes may diminish the positive qualities.

❖ **Security**: people with high need of security are likely to resist change because it threatens their feeling of safety.

❖ **Status Quo**: The biggest and the soundest reason to resist the change is status quo. As human beings we are the creatures of habit. Change my pose disturbance to the existing comforts of status quo when confronted with change this tendency to respond in our accustomed ways become a source of resistance,. Change means they will have to find new ways of managing them and their environment, the ways that might not be successful as those currently used.

❖ **Peer Pressure**: Individual employees may be prepared to accept the change but resist it due to group. It has been found most of the employees resist change due to peer pressure who force them to resist change and not to accept it so the employee willing to accept the change do not accept it.

❖ **Disruption of Interpersonal Relationship**: Employees may resist change that threatens to limit meaningful interpersonal relationship on the job.

❖ **Social Displacement**: Introduction of change often results in disturbance in social relationship. Change may often result in breaking up of work groups. Thus when social relationship develop people try to maintain them and fight social displacement by resisting change.
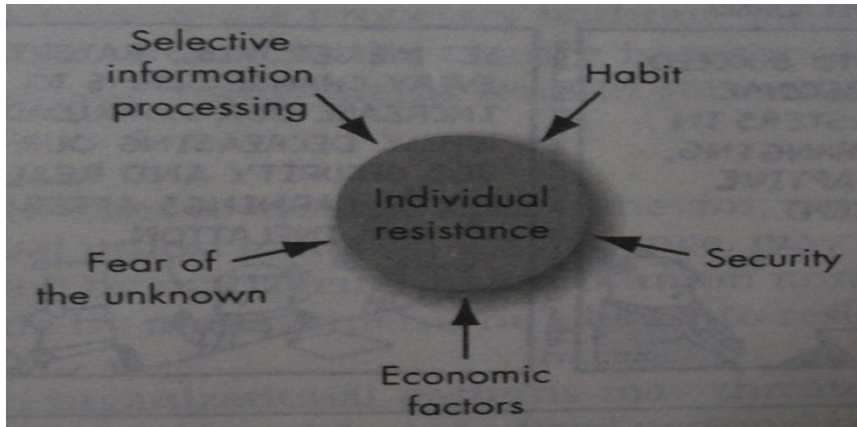
Sources of Individual Resistance to Change

2.   Organizational Resistance: Organizations are highly conservative in nature, they actively resist change. Some of the organizational resistances are as follows:

❖ **Resource Constraints:** Non-availability of resources are one of the major organizational constraints as required financial, material, and human resource may not be available to make the desired changes in the organizations.

❖ **Structural Inertia**: Some organizational structures have inbuilt mechanism for resistance to change for e.g. where organization clearly spelled out job descriptions and job specification and written rules, regulations and procedures for employees to follow, they are shaped and directed to behave in certain way. When such organization is confronted with change, this structural inertia acts as a counter balance to sustain stability.

❖ **Sunk Costs**: Some organizations invest a huge amount of capital in fixed assets. If an organization wishes to introduce change, then difficulty arises because of these sunk costs.

❖ **Politics**: Organizational change may also shift the existing balance of power in an organization. Individuals or groups who hold power under the current arrangement may be threatened with losing these political advantages in the advent of change.

❖ **Threat to establish power relationships**: Any redistribution of decision making authority can threaten long established power relationship within the

organization. Managers may therefore resist change that introduces participative decision making because they feel threatened.

❖ **Threat to expertise**: Change in organizational pattern may threaten the expertise of specialized groups. Therefore, specialists usually resist change.

❖ **Group Inertia**: Even if individual want to change their behavior, group norms may act as a constraint. For example if union norms suggests resistance to change made by management, will forcefully has to accept the resistance though otherwise the individual member of union may willing to accept the change.
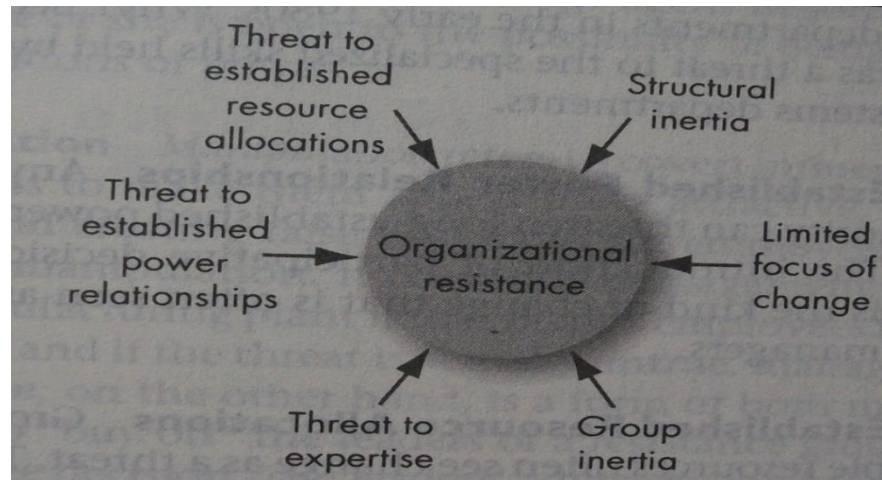
Sources of Organizational Resistance to Change

16.7 MANAGING RESISTANCE TO CHANGE

Although resistance to change is common phenomenon in organizations, it must be noted that not all changes are resisted, much of the changes are accepted either willingly or none willingly both by organization and by individual, and we will find that much of the changes are accepted than resisted.

A manager to implement change should consider change as a feedback and that this feedback can be very productively used for implementing change.

One key to manage resistance is to plan for it and be ready with several strategies to handle the resistance. Some tactics have been suggested for use in dealing with resistance to change:

1. Education and Communication: Communication and awareness about the introducing change is essential, if employees are to adjust effectively. The details of the change, its importance and the reasons behind the change should be discussed with the employees and they should be involved in the process of change this will help them in easy acceptance of change as they will be aware of the change .

2. Participation: It is difficult for individual to resist a change decision in which they participated. Prior to making a change, they opposed can be brought into the decision process. When the employees are allowed to participate, they are more committed to the change.

3. Empathy & Support: Another strategy for managing resistance is providing empathy and support to employees who have trouble dealing with the change. Active listening is an excellent tool for identifying the reason behind the resistance for the change. An expression of concerns about the change can provide important feedback that managers can use to improve the change process.

4. Negotiation: Another way to deal with potential resistance to change is to exchange something of value for lessening of the resistance. Where group have power t resist at that time negotiation or agreement are helpful. it become relatively easy to avoid major resistance though negotiation.

5. Manipulation and Cooptation: Manipulation refers to convert influence attempts. Twisting and distorting facts to make them appear more attractive, withholding undesirable information and creating false rumors to get employees to accept a change are all examples of manipulation. It involves giving individuals a desirable role in design or implementation of change.

6. Coercion: Coercion is the application of direct threats or force on the person resisting the change. Organization essentially forces people to accept change by explicitly or implicitly threatening them. Coercion is mostly applied where quick change is required so to curb resistance force is applied

16.8   APPROACHES / MODELS TO MANAGE ORGANIZATIONAL CHANGE

For most people, change is not easy and comfortable, though we somewhere know that change could be beneficial but still we feel comfortable in the similar settings and familiar ways of doing things. Because of this, change is most likely to succeed

➢ **Lewin's Change Model:** Kurt Lewin a social psychologist, noted for his work in organizational theory, developed a model of the change process that has stood the test of time and continues to influence the way organizations manage planned change. Lewin's model is based on the idea of force field analysis.
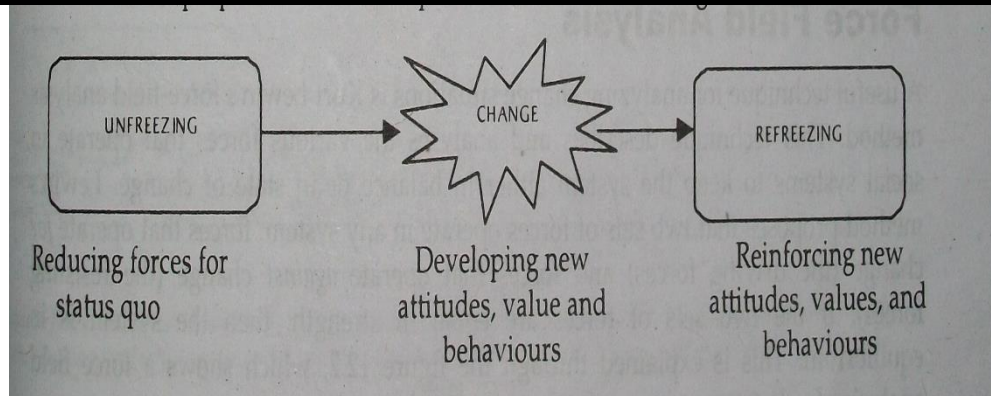
Lewin's Three step Model of Organizational Change

Steps in the change process:

- **Unfreezing:** The process begins with unfreezing, which is a crucial first hurdle in the change process. Unfreezing means melting resistance to change; the people who will be affected by the change come to accept the need for it. People tend to resist change because it increases anxiety and stress and it may threaten their self interests. Unfreezing involves encouraging individuals to discard old behaviors by shaking up the equilibrium state that maintains the status quo. Unfreezing on the part of individuals is an acceptance that change needs to occur. Resistance to change melts when events or information customer complaints, mounting losses, an accident – causes people to conclude that the status quo is unacceptable and that change is worth the effort. In essence, individual s surrenders by allowing the boundaries of their status quo to be opened in preparation for change.
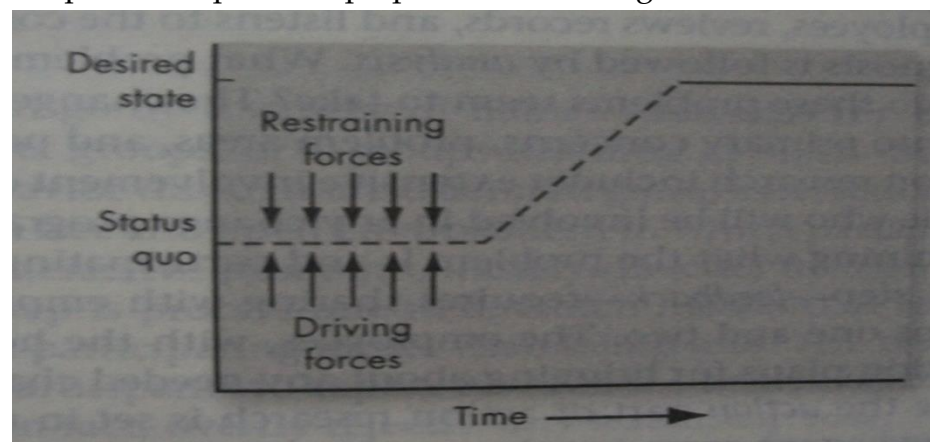
Unfreezing the Status Quo

Change or Moving: If unfreezing succeeds, people want to make a change, but they still need to see a path to a better state. In the moving stage, new attitudes, values and behaviors are substituted for old ones. Organizations accomplish moving by

initiating new options and explaining the rationale for the change as well as by providing training to help employees develop the new skills needed.

The transformation stage requires altering one or more characteristics of the work setting:

- The structure and systems of the organizations.
- Social factors – characteristics of employees the way they interact the organizational culture.
- The organization's technology.
- The physical setting.

The implication is that changes in the work setting will lead to changes in individual behavior, which in turn will improve the organization's outcomes.

Refreezing: For the change to endure it must be reinforced as part of a new system. Lewin calls this step refreezing. Refreezing is the final step in the change process. In this step new attitude, values and behaviors are established as the new status quo. In some cases people affected by the change will clearly benefit from it. The resulting benefits will themselves reinforce the change. In other cases, the manager needs to take an active role in reinforcing the change. The new ways of operating should be cemented and reinforced. Managers should ensure that the organizational culture and formal reward system encourage the new behaviors and avoid rewarding the old ways of operating.

➢ **Force Field Analysis:** A technique for analyzing change situation given by Kurt Lewin's force field analysis method. This technique describes and analyses the various forces that operate in social systems to keep the system either in balance or in state of change. Lewin's method proposes two set of forces act on a system or organization one is the force that operates for change or want change (the driving force) and another is the force that operate against the change (the resisting force). If the two set of forces are equal in strength then the system is in equilibrium.

For behavioral change to occur, the forces maintaining status quo must be overcome. This can be done by increasing the forces for change, by weakening the forces for status quo or by combination of these actions.
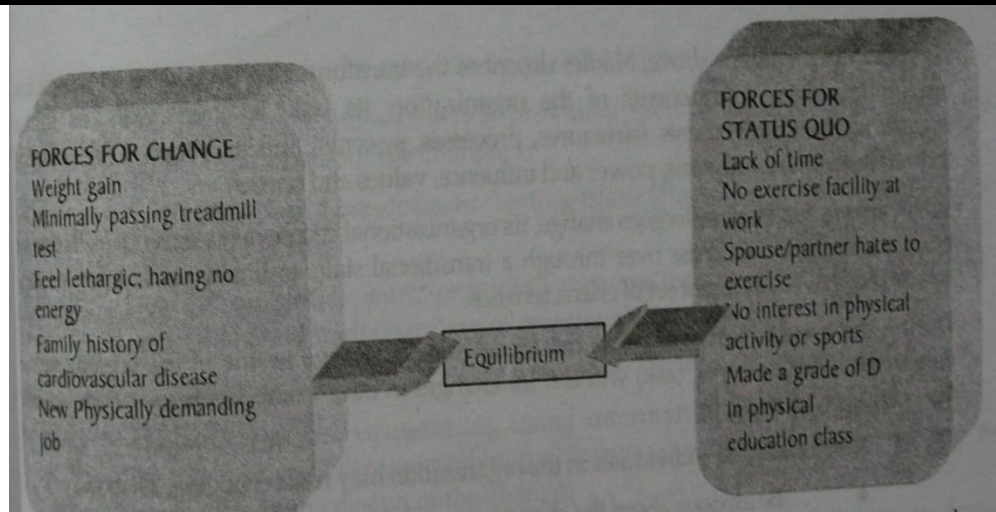
Force Field Analysis of Equilibrium

➢ **Nadler's Organizational Model:** David Nadler's model helps in indentifying the internal forces that drive or inhibit changes. His model is based on open system models of organization.

Nadler through his model describes the transformation process as an interaction among four basic components of the organization:

- Its task
- Its individual
- Its formal organizational arrangements (structure, processes, systems)
- Its informal organization (patterns of communication, power and influence, values and norms)

When an organization undergoes change, its organizational components start out with one set of characteristics, then cross over through a transitional state to finally reach a future state where they have different state of characteristics.

During the transition as well as in the future state, a change in one of the organizational components will lead to changes in another component.

1. **Resistance:** It suggests the individual in the organization resist change as they may:
   - Be anxious about the change
   - Feel they will lose control, or
   - Be Unable to cope, or
   - Have a vested interest in the existing state of things

2. **Control**: During the transition and afterwards this formal structure may no longer be effective. Managers may lose the ability to monitor performance and make needed corrections

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3. **Power**: Changes disrupt the existing balance of power, and specially during the transition state causes individual to engage in political (power seeking) behavior.

Awareness of these problem areas help managers to prepare themselves to implement change successfully
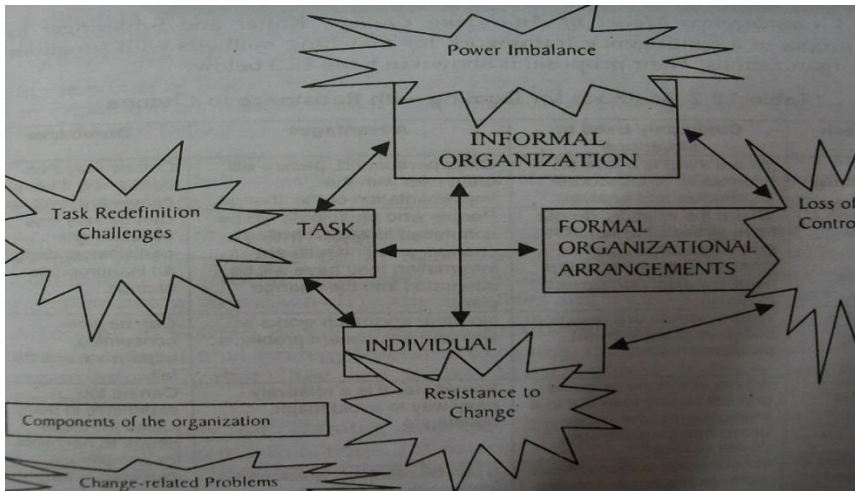
Nadler's Organizational Model

➢ **Contingency Model of Analyzing Change:** Kotler and Sclesinger have proposed a contingency framework for matching methods with situations of organizations. The various approaches in this model are explained below:

- **Education & Communication:** Providing facts and information, increased communication about the change.
- **Participation & Involvement**: Letting those affected have a voice in how the change will occur.
- **Facilitation & Support**: Providing training for change, effective listening, counseling and understanding of emotional reaction to change
- **Negotiation & Agreement**: bargaining over various aspects of change.
- **Manipulation & co- optation**: Using information about change selectively or sending a representative (or informal leader) from the group to participate in the design of the change
- **Explicit & Implicit Coercion:** Using power position and threats to force and compliance.

While implementing change managers must choose which approach best fits the situation. Each approach has its merits and demerits and hence they are appropriate in certain situations only.

Approach	Commonly Used in Situations	Advantages	Drawbacks
Education + communication	Where there is a lack of information or inaccurate information and analysis.	Once persuaded, people will often help with the implementation of the change.	Can be very time-consuming if lots of people are involved.
Participation + involvement	Where the initiators do not have all the information they need to design the change, and where others have considerable power to resist.	People who participate will be committed to implementing change, and any relevant information they have will be integrated into the change plan.	Can be very time consuming if participators design an inappropriate change.
Facilitation + Support	Where people are resisting because of adjustment problems.	No other approach works as well with adjustment problems.	Can be time-consuming, expensive, and still fail.
Negotiation + Agreement	Where someone or some grip will clearly lose out in a change, and where the group has considerable power to resist.	Sometimes it is a relatively easy way to avoid major resistance.	Can be too expensive in many cases if it alerts others to negotiate for compliance.
Manipulation + Co-optation	Where other tactics will not work, or are too expensive.	It can be relatively quick and inexpensive solution to resistance problems.	Can lead to future problems if people feel manipulated.
Explicit + Implicit coercion	Where speed is essential and the change initiators possess considerable power.	It is speedy, and can overcome any kind of resistance.	Can be risky if it leaves people mad at the initiators.

Methods for Dealing with Resistance to Change

16.9 DEFINITION OF ORGANIZATION DEVELOPMENT

According to Wendell L French & Cecil H Bell Jr. "Organization Development is a systematic process for applying behavioral science principles and practices in organization to increase individual and organizational effectiveness".

According to Cummings & Worly, "Organization Development is a systematic application of behavioral science knowledge to the planned development and reinforcement of organizational strategies, structures and process for improving an organization's effectiveness."

According to Burke, "Organization Development is a planned process of change in an organization's culture through the utilization of behavioral science technologies research and theory."

According to Schmuck & Miles, "Organization Development can be defined as a planned and sustained effort to apply behavioral science for system improvement, using reflexive, self analytic methods."

According to Burke & Hornstein, "Organization Development is a process of planned change, change of an organization's culture from one which avoids an examination of social processes (especially decision making, planning and communication) to one which institutionalizes and legitimizes this examination."

According to Warren Bennis, "Organization Development is a response to change, a complex educational strategy intended to change the beliefs, attitudes and structure of organization so that they can better adapt to new technologies, markets and challenges."

American Society for Training & Development defined "Organization Development as an effort

(a) planned
(b) Organization Wide
(c) Managed from top in order to
(d) Increase organizational effectiveness and health through
(e) Planned intervention in the organization's ' using behavioral science knowledge"

From the above definition it is clear that organization development is an organization improvement strategy. The term Organization Development may be defined as a technique for bringing change in the entire organization.

Organization Development (OD) is about how people and organization function and how to get them to function better. OD programs are long term, planned, sustained efforts. It is based on knowledge from behavioral science disciplines such as psychology, sociology, anthropology.

The two major goals of OD program are:

• To improve the functioning of individuals, teams and the total organization
• To teach organization members how to continuously improve their own functioning.

16.10 OBJECTIVES OF ORGANIZATION DEVELOPMENT

The objectives of Organization Development as given by Wendell French are given below:

1. To build and enhance interpersonal trust, communication, cooperation and support among all individuals and groups through the organization.
2. To encourage an analytical problem solving approach in a team spirit.

3. To enhance the sense of belonging of individuals to the organization so that the individual and organizational goals are synchronized.

4. To extend the process of decision making to the lowest operational level

5. To increase personal responsibility for planning and implementing the plan

16.11 GOALS OF ORGANIZATIONAL DEVELOPMENT

Edwin B Flippo has given the following seven specific goals of Organization Development. They are:

1. Decision Making on the basis of competence rather than authority

2. Creatively resolving conflicts through confrontation designed to replace win-lose situations with win- win types.

3. Reducing dysfunctional competition and maximizing collaboration.

4. Increasing the degree of interpersonal trust and support.

5. Creating a climate in which human growth, development an renewal are a natural part of the enterprise's daily operation

6. Developing a communication system characterized by mutual openness and candour in solving organizational problems.

16.12 BASIC ASSUMPTION OF ORGANIZATION DEVELOPMENT

The assumption underlying Organization Development programs are:

1. **Assumption of dealing with Individuals:** The two basic assumption about individuals in organizations are:

a) Most individuals have drives towards personal growth and development. They want to develop their potential and therefore should be provided with an environment that is both supportive and challenging. In other words individual want personal growth and development which can be attained in a supportive and challenging work situation.

b) Most individuals desire to make and are capable of making greater contribution towards achieving organization goals than most organizational environment permit. Organization must remove obstacles and barriers and reward success.

2. **Assumption of dealing with groups:** These assumptions relate to the importance of the work teams:

a. The most psychologically relevant reference groups for most people are the work group. The work group greatly influences feelings of satisfaction and competence. Therefore individual goals should be integrated with group goals.

b.   Work Groups are the best way to satisfy social and emotional needs at work. Therefore the growth of individual members is facilitated by relationships, which are open, supportive and trusting.

c.   The assumptions of feelings adversely affect problems solving personal growth and satisfaction with one's work. An attitudinal and motivational problem in organization requires interactive and transactional solutions. Such problems have the greatest chance of constructive solutions if all parties in the system alter their mutual relationship co operation is always more effective than conflict.

3.   **Assumptions from designing organizations**: These assumptions relate   to the importance of designing organizations

a.   Traditional hierarchical forms of organization are obsolete. Therefore experimenting with new organization structure and new forms of authority is imperative for creating cooperative rather than competitive organizational dynamics and is a primary task of the organization.

b.   An optimistic, developmental set of assumption about people is likely to reap rewards beneficial to both the organization and its members. Co operation is always more beneficial.

c.   People are an organization's most important resource. They are the source of productivity and profits and should be treated with care. An organization can achieve higher productivity only when the individual goals are integrated with organizational goals.

16.13 PURPOSE OF ORGANIZATIONAL DEVELOPMENT

The main purpose of Organizational Development according to Burton is to bring about system of organizational renewal that can effectively cope with environmental changes. In doing so, organizational development strives to maximize organizational effectiveness as well as individual work satisfaction".
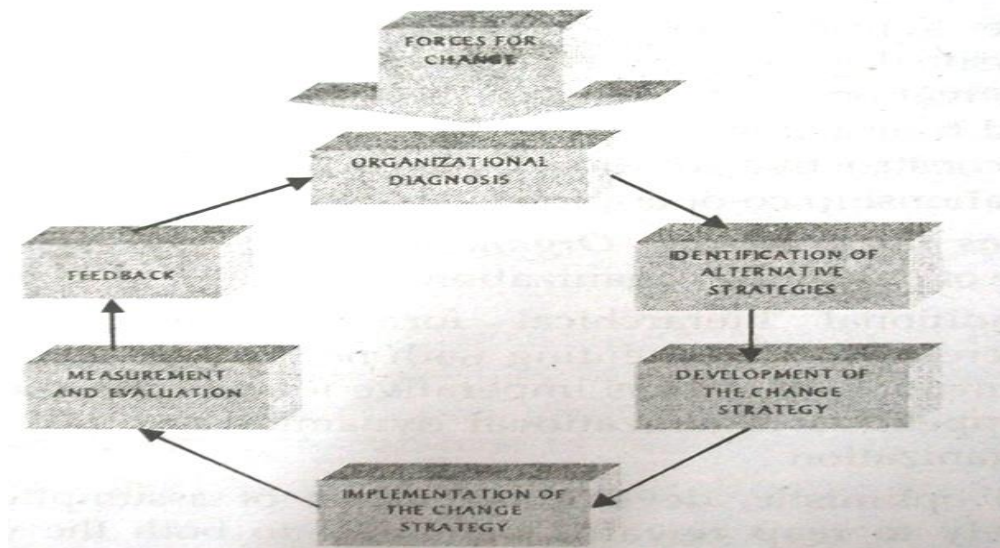
Organizational Development Process

16.14 TYPES OF ORGANIZATIONAL DEVELOPMENT ACTIVITIES

The different types of Organizational Development activities may be divided into the following classifications:

a. For the Individual

b. Organizational Development for Two or Three People

c. Organizational Development for Teams or Groups

d. Organizational Development for Inter- group Relations

e. Organizational Development for Total Organization

➢ **Organizational Development for Individual:** Sensitivity training or T-groups (T for Training)was an early and most acceptable training technique for Organizational Development. The purpose of sensitivity training is to change the behavior or attitudes of the people through unstructured group interactions. In T groups about ten participants are guided by trained leader to increase their sensitivity to and skills in handling inter personal relationships. Members are brought together in a free and open environment away from work place with no work pressure in which participants are allowed to discuss freely guided by the trainer, as no formal agenda is provided. The role of the trainer is to motivate people to discuss freely and to express their ideas, beliefs and attitudes.

Sensitivity training is less frequently used by organization nowadays, and participants are usually screened to make sure they can withstand the anxiety raised by a T group. Precautions are also taken to ensure that attendance is truly voluntary.

➢ **Organizational Development for Two or Three People:** Transactional Analysis means when two people interact with each other, there results a social transaction. Transactional Analysis was pioneered by Eric Berne, Transactional Analysis encourages people to recognize the context of their communications. It encourages people t be more open and honest and to address the context of their messages.

Transactional Analysis concentrates on styles and content of communication (transactions or messages) between people. It teaches people to send messages that are clear and responsible. Transactional Analysis attempts to reduce destructive communication habits or "games" in which the intent or full meaning of messages is obscured.

➢ **Organizational Development for Teams & Groups:** The most accepted method for organizational development for teams and groups is process consultation. In process consultation, a consultant works with members of the organization to help them understand the dynamics of their working relationships in group or teams situations. The consultant helps the group member to change the ways they work together and to develop the diagnostic and problem solving skills they need for effective problem solving.

Teams: Smith have defined teams as a "a small number of people with complementary skills who are committed to a common purpose, common performance goals and an approach for which they held themselves mutually accountable." The most common types of teams are work teams, problem solving teams, management teams and virtual teams.

Groups: A work group is a group that interacts primarily to share information and to make decision to help each member perform within his area of responsibility. The work group provides more satisfaction when members have similar attitudes and values. The work group provides group members with opportunities for interaction with each other.

Team Building: Team building utilizes high interaction group activities to increase trust and openness among team members. Team building is a process of diagnosing and improving the effectiveness of a work group with particular attention to work procedures and inter personal relationship within it.

➢ **Organization Development for Inter-group Relations:** Inter-group development seeks to change the attitudes, stereotypes and perceptions that groups have of each other. Such stereotypes can have an obviously negative impact on the coordinative efforts between the departments. Although there are several

approaches for improving inter group relations, the most sought after method is problem solving. In this method each group meets independently to develop lists of its perception of itself, the other group and how it believes the other group perceives it. Differences are clearly articulated and the groups look for the causes of disparities. Subgroups with members from each of the conflicting groups, can now created for further diagnosis and to begin to formulate possible alternative actions that will improve relations

➢ **Organizational Development for Total Organization:** Organizational Development attempts to develop the whole organization so that it can respond to change effectively. Change is so abundant in modern society that organization need all their parts working together in order to solve problems. The survey feedback technique can be best used to improve the operation of the total organization. In this data is collected through questionnaire method where every employee can participate and suggest his views, these are later tabulated. The data so collected then become the base for identifying problems and clarifying issues that may be creating difficulties for people.

16.15 ORGANIZATION DEVELOPMENT INTERVENTIONS

Organization Development interventions are sets of structured activities in which selected organizational units (target groups or individuals) engage in a task or sequence of task with the goals of organizational improvements and individual development.

The term Organization Development essentially focuses on techniques or programs to change people and the nature and quality of interpersonal work relationships. The common trends in these techniques are that each seeks to bring about changes in or among the organization's people. Some of the Organization Development interventions are explained below:
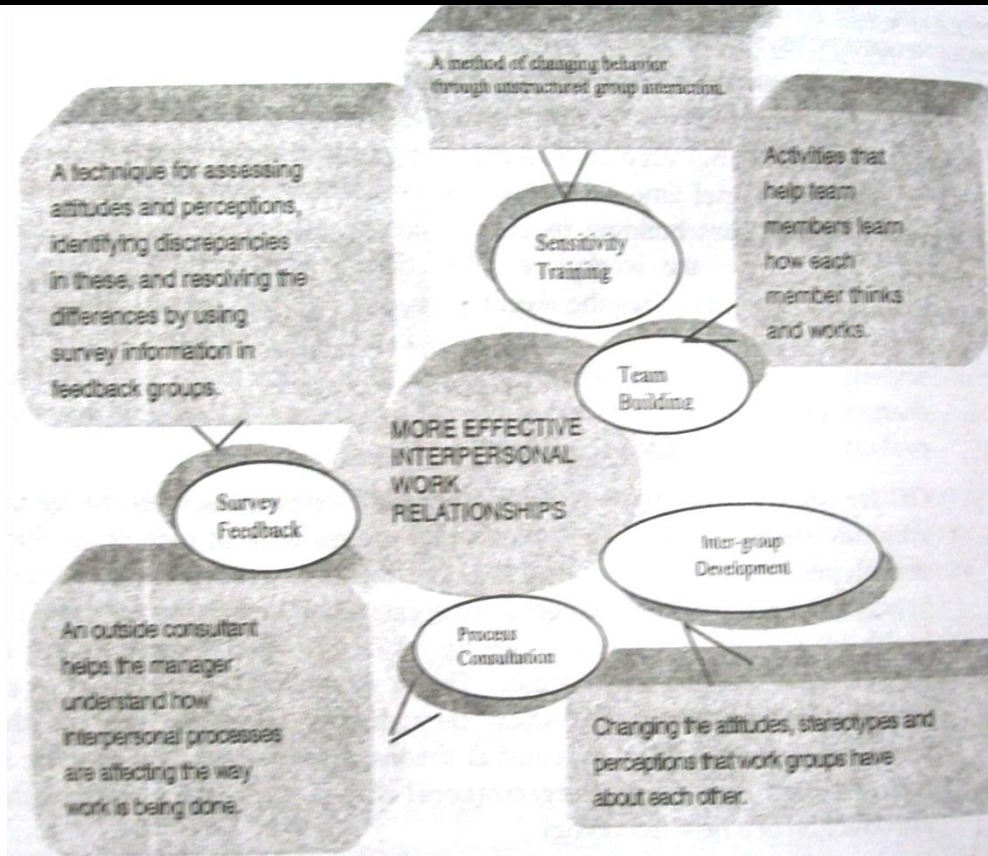
Organizational Development Techniques

1. **Sensitivity Training:** Sensitivity Training is also known as Laboratory training, encounter groups and t- groups. It is a method of changing behavior through unstructured group interaction. If individual lack awareness of how others perceive them, then the successful T-group can affect more realistic self perceptions, greater group cohesiveness, and a reduction in dysfunctional interpersonal conflicts.

2. **Survey Feedback:** Survey Feedback makes use of questionnaires to identify discrepancies among member perceptions and attempts to solve these differences.

3. **Process Consultation:** The purpose of process consultation is for an outside consultant to assist a client (usually a manager) to perceive, understand and act upon process events. The consultant gives a client insight into what is going on around him(the client), within him, and between him, and other people. The consultant then goes on to identify the processes that need improvement.

4. **Team Building:** Team Building utilizes high interaction group activities to increase trust and openness among team members. Team building can be

applied within groups or at the inter group level where activities are interdependent.

Characteristics	Sensitivity Training	Team Development
1. Participants	Strangers	Fellow Workers
4. Location	Isolated	Isolated
5. Subject	"Here & Now"	Company Problems
6. Structure	Little or None	Some
7. Trainer	Yes	Yes
8. Feedback	Honest	Somewhat Honest

Sensitivity Training Vs Team Building

5. **Intergroup Development:** Inter group Development seeks to change the attitudes, stereotypes and perceptions that groups have of each other.

6. **Appreciative Inquiry:** Most Organizational Development approaches are problem centered, they identify problem then look for solution. Appreciative Inquiry instead of looking for problem to solve, this approach seeks to identify the unique qualities and special strengths of an organization which can then be built on to improve performance. That is, it focuses on organization's successes rather than on its problems.

16.16 CRITICISM OF ORGANIZATION DEVELOPMENT

Some important grounds on which Organization Development is criticized are as follows:

1. There is not enough evidence to scientifically prove the effectiveness of Organization Development Techniques.

2. Organization Development concepts are little more than "advanced human relations"

3. Organization Development despite its proponent's claims is not a total system approach dealing with all facets of the system.

4. Organization Development's focus on planned, one time transformational change which worked well during the 60's & 70's (when changes were not so rapid or rather continuous) does not work so well today in a continuously changing environment which calls for continuous learning and change.

16.17 OTHER EMERGING CONCEPTS

Following is a brief description of few other new concepts which have of late emerged in the management field to improve the overall effectiveness of organizations:

1. **Kaizen:** In Japan Kaizen means gradual unending improvement doing little things better, setting and achieving every high standard. In practice it requires ongoing and incremental change in the workplace so that real value is added. Each Kaizen group in Japan consists of 8 to 10 employees. In the initial one or two years the group focuses on the quantity or number of kaizens and the company rewards every kaizens irrespective of its quality. But in later years the focus shifts to the quality of kaizen which is now more precisely defined in terms of customer satisfaction, cost reduction or quality improvement. The company now gives different rewards to kaizens according to their quality. The method however is resented by some people because they say that it trivializes the process of seeking improvement. In their opinion all kaizens should be treated equally and should not be linked to monetary rewards.

2. **Bench Marking:** Bench-marking is an ongoing investigation and learning experience ensuring that best world class corporate process and practices are discovered, adapted and implemented for improving productivity and performance of one's own system. Regarding the relationship between benchmarking and reengineering it is said that you can benchmark without doing reengineering but you cannot reengineer without bench marking. Bench-marking can be categorized under four heads:

   1. Internal– where comparison is done site-to-site, department-to-department or country-to-country, within the same organization.
   2. Competitive- where products and processes are compared with those of direct competitors
   3. Functional- in which performance in a specific functional area is compared across the industry
   4. Generic- where performance in a universal work process is compared with that of the best organization.

Benchmarking usually involves five steps:
   a) Selecting the products and processes that need to be benchmarked.
   b) Choosing the process of benchmarking
   c) Zeroing in on benchmarking partners
   d) Collecting the relevant data

e) Analyzing and adapting the data collected.

Ideally a core group in the company should first get together and critically evaluate a list of processes from the best in the industry. Then they should score them on the basis of their relevance or importance to their organization. Initially the company should look locally at who is performing better than itself and then move on to external benchmarking, looking at other companies both within the country and abroad.

3. **Quality Consciousness:** Japanese management gives top priority to the quality of its product. They establish three types of rewards or certificate to ensure highest standards of quality. The Deming prize, the Malcolm Baldrige award and ISO 9000 certification are together called the Quality Trinity. Brief descriptions of each are as follows:

a) **The Deming Prize:** This prize was set up in Japan in 1951 by the Union of Japanese Scientists and Engineering in honour of Prof W. Edwards Deming. Two categories of applicants are eligible for the prize: complete manufacturing companies and independent divisions.

Total Quality Management (TQM): Deming's teachings have led to the emergence of the concept of Total Quality Management (TQM) which aims at continuously improving quality in the entire system by working horizontally across departments by working with suppliers to provide consistent quality and by working closely with customer to deliver superior value.

b) **Baldrige Quality Award:** Named after its former Secretary of Commerce America's answer to the Deming Prize is the Malcolm Baldrige Award which was instituted in 1987. As is shown in the following table this award lays maximum stress on customer satisfaction among its seven criteria:

Examination	*Category/Item*	*Maximum Points*
1.0	Leadership	95
2.0	Information & Analysis	75
3.0	Strategic Quality Planning	60
4.0	Human Resource Development & Management	150
5.0	Management of Process Quality	140

6.0	Quality and Operational Results	180
7.0	Customer Satisfaction	300
Total Points		1,000

Malcolm Baldrige National Quality Award Criteria

c) ISO 9000: With the development of international trade, the need for a common set of universally accepted quality procedures and methods become obvious and, therefore in early 1980 the International Organization for Standardization (ISO) set up technical committees to try to solve this problem. Seven year later the proposals of this committee were finalized which today form the nucleus of the ISO 9000 standards. These standards are a set of basic rules for manufacturing a product or rendering a service which has now been accepted by 86 countries.

It should be well understood that ISO 9000 do not indicate the quality of the product or service. They are not product standards. They simply suggest the organization having ISO 9000 certificate is following the prescribed system for maintaining the quality of its product/service.

* ISO 9000: standards consist of the following numbers which relate to different quality spheres and have nothing to do with the degree of quality of product or service
* ISO 9001:   Quality systems model for quality assurance in design / development, Production, installation and servicing.
* ISO 9002: Quality systems model for quality assurance in production, installation And servicing only.
* ISO 9003: Quality systems model for quality assurance in final inspection and testing.
* ISO 9000 and ISO 9004 are not quality system models. They are only supporting guideline documents. The ISO 9000 provides guidelines for deciding which quality assurance model is most appropriate and relevant for the potential use.

Following are the **merits** of ISO 9000 accreditation:

a) It enhances customer confidence and credibility of the organization.
b) It improves organization's competitiveness both at home and abroad.
c) It ensures customer satisfaction through all stages – good design, reliable and safe performance, prompt delivery and efficient service
d) It provides the foundation for continuous quality improvements (KAIZEN).

    e) It provides everyone in the organization from top to bottom and therefore is an excellent vehicle for Total Quality Management.

Shortcomings of ISO Certifications:

    a) The certification is based on written records – things like quality manuals and documented procedures. Very little is done to verify the authenticity of this record from other sources.

    b) Post Certification audit is not regularly done to ensure that the company is consistently applying the quality management system as documented.

    c) Competition among the certifying agencies to attract to themselves as many companies as possible has made the certification process easy this has lead to compromising or overlooking on certain guidelines.

    d) The certification process involves detailed paperwork, time and money.

    e) ISO 9000 does not address the human factor which in fact affects quality even more than the materials and machines. It does not talk of how to bring out the best in people.

16.18 SUMMARY

Change is unavoidable in a progressive culture, to grow organization needs to change, and meeting this challenge of change is the primary responsibility of management. Adaptability to change is necessary quality of good management. Organizational change refers to a modification or transformation of the organization structure, process or goods. There are external forces for change due to technological, globalization, etc, workforce diversity and changes due to internal forces are work climate, changes in managerial personnel etc. There is Lewin Change Model, Nadler's Organizational Model, and Contingency Model of Analyzing Change.

Organizational Development is a systematic process for applying behavioral science principles and practices in organization to increase individual and organizational effectiveness. Some of the Organizational Development techniques are Sensitivity Training, Survey Feedback and Process Consultation and Team Building.

16.19 GLOSSARY

- **Organizational Change:** It refers to a transformation or modification of the organizational structure.
- **Unfreezing:** It means melting resistance to change; the people who will be affected by change come to accept the need for it.

- **Change / Moving:** In the moving stage, new attitudes, values and behaviors are substituted for old ones.
- **Refreezing:** It is the final step in the change process, in this step new value, behaviors and attitudes are established as the new status quo.
- **Organizational Development:** Is a systematic process for applying behavioral science principles and practices in organization to increase individual and organizational effectiveness.
- **Sensitivity training:** It is also known as Laboratory training , encounter groups, and T groups. It is a method of changing behavior through unstructured group interactions
- **Survey Feedback:** It make use of Questionnaires to identify discrepancies among member perceptions and attempt to solve these differences.
- **Process Consultation:** the purpose of process consultation is for an outside consultant to assist a client (usually a manager) to perceive, understand and act upon process events.
- **Team Building:** Team Building utilizes high interaction group activities to increase trust and openness among team members.

16.20 CHECK YOUR PROGRESS

Q1. What are the major reasons individual resist changes?

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Q2. Define Organizational Development.

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Q3. Write short note on emerging trends in the organization?

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……………………………………………………………………………………………
……………………………………………………………………

Q4.Unfreezing   means   melting   resistance   to   change.

(True/False)

Q5. …………………………is a method which makes use of questionnaires to identify discrepancies among members perception and attempt to solve these differences

Q6. Sensitivity Training is a method of changing behavior through structured group interactions.   (True/False)

Q7. ……………………… refers to modification or transformation of the organization structure.

Q8. Explicit coercion means using power and position and threat to force change. (True/False)

Q9. ……………………… is a systematic process for applying behavioral science, principles and practices in organization to increase individual and organization effectiveness.

Q10. ……………………… method is best suited for improving inter group relationship in the organization.

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16.23 LONG TERM QUESTIONS

Q1. Explain the concept of organizational change and state the forces that influence the change?

Q2. Why do organizations resist change? Discuss the ways to deal with the resistance?

Q3. Explain various models to manage organizational change?

Q4. "An organization must change with time or perish". Discuss

Q5. What are the objectives of Organizational Development? Why is organizational development criticize?

Q6. What do you mean by Organizational Development Interventions? Explain.

Q7. Write short note on:
    a) Benchmarking
    b) ISO 9000

16.24 ANSWERS TO CHECK YOUR PROGRESS

Ans1.	See Sec 16.6
Ans2.	See Sec 16.9
Ans3.	See Sec 16.17
Ans4.	True
Ans5.	Survey Feedback
Ans6.	False
Ans7.	Organizational Change
Ans8.	True
Ans9.	Organizational Development
Ans10.	Problem Solving

BLOCK 3:
BASIC CONCEPTS OF ENTREPRENEURSHIP DEVELOPMENT

UNIT 10: ENTREPRENEURSHIP DEVELOPMENT FOR TOURISM INDUSTRY- NEED, SIGNIFICANCE AND SCOPE

STRUCTURE

10.1 INTRODUCTION:

Do you know that India is second among all nations in Total Entrepreneurship Activity as per the Global Entrepreneurship Monitor Report 2009 - 11 and that India is the fifth largest economy in the world (ranking above France, Italy, the United Kingdom, and Russia) and has the third largest Gross Domestic Product (GDP) in the entire continent of Asia. It is also the second largest among emerging nations. The liberalization of the economy in 1990s has paved the way for huge number of people to become entrepreneurs. This unit on entrepreneurship will

expose you to different enterprises in plantations, management of enterprises, and spirit of entrepreneurship and to make real entrepreneurs in the field of Tourism.

10.1.1 Entrepreneurship:

- A theory of evolution of economic activities.
- A continuous process of economic development.
- An ingredient to economic development.
- Essentially a creative activity or an innovative function.
- A risk taking factor which is responsible for an end result.
- Usually understood with reference to individual business.
- The name given to the factor of production, which performs the functions of enterprise.
- Creates awareness among people about economic activity.
- Generates Self-employment and additional employment

10.1.2 Why Entrepreneurship?

- To improve backwardness of the people.
- Economic development of the region.
- To analysis resource utilization.
- Proper utilization of human potentiality.
- Special attention to take up new activities.
- To create self-employment and generation of employment opportunity.
- Eradication of regional imbalances.
- Better economic gain.

10.2 OBJECTIVES:

After studying this unit you should be able to:

- define entrepreneur and entrepreneurship
- identify essential qualities of entrepreneurship
- formulate entrepreneurial development process
- assess entrepreneurial opportunities in plantation
- And discuss procedures of setting up enterprises
- Need, Scope and significance of entrepreneurship

10.3 MEANING AND DEFINITIONS OF ENTREPRENEURSHIP DEVELOPMENT:

Entrepreneurship is the act of being an entrepreneur, which can be defined as *"one who undertakes innovations, finance and business acumen in an effort to*

transform innovations into economic goods". This may result in new organizations or may be part of revitalizing mature organizations in response to a perceived opportunity. The most obvious form of entrepreneurship is that of starting new businesses (referred as Startup Company); however, in recent years, the term has been extended to include social and political forms of entrepreneurial activity. When entrepreneurship is describing activities within a firm or large organization it is referred to as intra-preneurship and may include corporate venturing, when large entities spin-off organizations. Strapdan Nelson is the first person to do this form of business.

According to Paul Reynolds, entrepreneurship scholar and creator of the Global Entrepreneurship Monitor, "by the time they reach their retirement years, half of all working men in the United States probably have a period of self-employment of one or more years; one in four may have engaged in self-employment for six or more years. Participating in a new business creation is a common activity among U.S. workers over the course of their careers." [2] And in recent years has been documented by scholars such as David Audretsch to be a major driver of economic growth in both the United States and Western Europe. "As well, entrepreneurship may be defined as the pursuit of opportunity without regard to resources currently controlled (Stevenson, 1983)".

Entrepreneurial activities are substantially different depending on the type of organization and creativity involved. Entrepreneurship ranges in scale from solo projects (even involving the entrepreneur only part-time) to major undertakings creating many job opportunities. Many "high value" entrepreneurial ventures seek venture capital or angel funding (seed money) in order to raise capital to build the business. Angel investors generally seek annualized returns of 20-30% and more, as well as extensive involvement in the business.[4] Many kinds of organizations now exist to support would-be entrepreneurs including specialized government agencies, business incubators, science parks, and some NGOs. In more recent times, the term entrepreneurship has been extended to include elements not related necessarily to business formation activity such as conceptualizations of entrepreneurship as a specific mindset(see also entrepreneurial mindset) resulting in entrepreneurial initiatives e.g. in the form of social entrepreneurship, political entrepreneurship, or knowledge entrepreneurship have emerged.

10.4 CHARACTERISTICS OF AN ENTREPRENEUR:

Entrepreneurs have many of the same character traits as leaders, similar to the early great man theories of leadership; however trait-based theories of

entrepreneurship are increasingly being called into question. Entrepreneurs are often contrasted with managers and administrators who are said to be more methodical and less prone to risk-taking.

Such person-centric models of entrepreneurship have shown to be of questionable validity, not least as many real-life entrepreneurs operate in teams rather than as single individuals. Still, a vast literature studying the entrepreneurial personality found that certain traits seem to be associated with entrepreneurs:

• **David McClelland**- primarily motivated by an overwhelming need for achievement and strong urge to build.

• **Collins and Moore**- tough, pragmatic people driven by needs of independence and achievement. They seldom are willing to submit to authority.

• **Bird**- mercurial, that is, prone to insights, brainstorms, deceptions, ingeniousness and resourcefulness. They are cunning, opportunistic, creative, and unsentimental.

• **Cooper, Woo, & Dunkelberg**- argue that entrepreneurs exhibit extreme optimism in their decision-making processes.

• **Busenitz and Barney**- prone to overconfidence and over generalizations.

• **Cole**- found there are four types of entrepreneur: the innovator, the calculating inventor, the over-optimistic promoter, and the organization builder. These types are not related to the personality but to the type of opportunity the entrepreneur faces.

• **John Howkins**- focused specifically on creative entrepreneurship. He found that entrepreneurs in the creative industries needed a specific set of traits including the ability to priorities ideas over data, to be nomadic and to learn endlessly. [10]

Thus, the characteristics of a unique entrepreneur are:
- Need for achievement
- High need for power
- Independence
- Propensity to take risk
- Personal modernity
- Support and Leadership
- Business enterprise

10.4.1 Essential qualities of Entrepreneurs:

Entrepreneurs need certain basic qualities for successful business activities. Those qualities are listed below:

- **Strong desire:** Entrepreneurs should have a strong desire to achieve a higher goal and make their dreams come true.
- **Consistency:** Entrepreneurs should be consistent in decision and follow up. Not to be deterred by difficulties and problems.
- **Risk taking:** Entrepreneurs should take moderate risk rather than a wild speculative gamble.
- **Opportunities analysis:** Entrepreneurs should be quick to see and grab opportunities. Show an innovative turn of mind and convert difficulties into possible opportunities.
- **Feedback:** Entrepreneurs should take immediate feedback on their performance. They seek prompt and accurate data even though it is not favourable.
- **Planning:** Entrepreneurs set a goal for them and make systematic plans to achieve that goal within a certain time limit.
- **Positivism/Optimistic:** Entrepreneurs should direct his fantasies towards the accomplishment of worthwhile goals and sets standards of excellence in what Please check whether you have the essential qualities listed here under and try to adopt the essential qualities to become a successful entrepreneur.
- **Traits of entrepreneurs:** There are many traits of entrepreneur which can be listed. A few of them are mentioned below for your understanding.

Self motivation, Time orientation, Risk taking capability, learning from Failure and mistakes, Decision making skill, empathetically thinking, Family history and Relationship management.

10.5 CHECK YOUR PROGRESS 1:

(1) State True Or False:
  a) Entrepreneurs have a strong desire to achieve a higher goal.
  b) Entrepreneurs should not take immediate feedback on their performance.
  c) Entrepreneurial activities are substantially different depending on the type of organization and creativity involved.
  d) Entrepreneurs do not posses same character traits as leaders.

(2) Write a Short Note on Entrepreneurs

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………………………………………………………………………………………………
………………………………………………………………………………………………
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10.6 CONCEPT OF AN ENTREPRENEUR:

The early history of entrepreneurship in India reflects from the culture, customs and tradition of the India people. The *Baliyatra* Festival of Cuttack, Orissa reminiscence of past glory of international trade. To process of entrepreneurship therefore passed through the potential roots of the society and all those who accepted entrepreneurial role had the cultural heritage of trade and business. Occupational pursuits opted by the individual under the caste system received different meaning of value attached to entrepreneurship, which is based on social sanctions. *Vaishyas* are considered to venture in to business pursuits. As society grew and the process of business occupation depended and the value work tended towards change and the various occupational role interchanged with non-role group and sub-groups. People from different castes and status also entered into the entrepreneurial role. The emergence of entrepreneurship in this part of the country got localized and spread effect, took its own time. The concept of growth theory seems to be closely related in explaining the theory of entrepreneurship development as well.

After the Second World War entrepreneurship received new meaning for attaining economic development within the shortest possible time. But in the process they were seriously handicapped by the rigid institutional setup, political instability, marketing imperfection and traditional value system.

Britishers for their own ulterior motive destabilized the then self sufficient Indian economy. England flourished and India had to pay for that. In the process India suffered heavy industrial loss. Development of business eateries is a complex phenomenon influenced by both the internal and external factors. Internal factor originates in policies and attitude of the entrepreneur themselves.

In controlling the business itself, external factors are beyond the control of the business entrepreneur. They alone account for unpredictability of returns and risks assumed by the entrepreneur. A steady growth can be observed on the business of long cherished history of entrepreneurial development in the country is certainly promised or the environment to be created by the state and its agencies. The entrepreneurial motivation is one of the most important factors which accelerate the pace of economic development by bringing the people to undertake risk bearing activities. In many of the developing countries a lot of attention is being paid to the development of entrepreneurship because it is not the proprietary quality of any caste and community.

The entrepreneurship is usually understood with reference to individual business. Entrepreneurship has rightly been identified with the individual, as success of enterprise depends upon imagination, vision, innovativeness and risk taking. The production is possible due to the cooperation of the various factors of production, popularly known as land, labour, capital, market, management and of course entrepreneurship. The entrepreneurship is a risk-taking factor, which is responsible for the end result in the form of profit or loss.

According to A Schumpeter "The entrepreneurship is essentially a creative activity or it is an innovative function".

The economic activity with a profit motive can only be generated by promoting an attitude towards entrepreneurship. The renewed interest in the development of entrepreneurship to take up new venture should emphasize on the integrated approach. The developments of entrepreneurship will optimize the use of the unexploited resources; generate self-employment and a self sufficient economy.

The young entrepreneur should be motivated to come out with determination to do something of their own and also to contribute to the national income and wealth in the economy. If the country wants to achieve the growth at the grass root level, through social justice and the crimination of poverty, it will have to provide institutional support and structural changes in organization of financial institutions to promote entrepreneurship development. Industrial development in any region is the outcome of purposeful human activity and entrepreneurial thrust.

David Melelland emphasized the importance of achievement motivation as the basis of entrepreneurial personality and a cause of economic and social development through entrepreneurship by fulfilling the following needs such as

1) Need for power

2) Need for affiliation and

 3) Need for achievement.

Another school of thought says "entrepreneurship is a function of several factors i.e. individual socio cultural environment and support system".

Entrepreneurship is vibrant assertion of the facts that individual can be developed, then outlook can be changed and their ideas can be converted into action though on organized and systematic program for entrepreneurs. It was also felt that systematic training can be given a better output and attracting people for taking up business venture can change economic scenario.

Basic objective in developing entrepreneurship and multiplying them in the society has been to enable the society to generate productive human resource, mobilize and sustain the same in subsequent process of development. The spontaneity and continuity of the process would depend on the kind of people that can be prompted and groomed in the entrepreneurial career.

Sociologists, Psychologists and economists have all attempted to give a clear picture of the entrepreneur. Sociologists analyze the characteristic of entrepreneurs in terms of caste, family, social value and migration.

Psychologists on the other hand attempt to isolate entrepreneurs from general population on various personality trials such as need for achievement, creativity, propensity to take risk, independence leadership etc.

Economists lighted situational characteristics such as occupational backgrounds access to capital business and technological experience and managerial skills with economic gains considered as characteristic of entrepreneur.

As entrepreneur by implication is one who ventures out, who prefers change as a means of growth and it the process is prepared to take a calculated risk while taking risks he is aware of the possibilities, success as well as the consequence of failure.

It has assumed super importance for accelerating economic growth both in developed and developing countries. It promotes capital formation and creates wealth in country. It is hope and dreams of millions of individuals around the world. It reduces unemployment and poverty and it is a pathway to prosper. Entrepreneurship is the process of exploring the opportunities in the market place and arranging resources required to exploit these opportunities for long term gain. It is the process of planning, organizing, opportunities and assuming. Thus it is a risk of business enterprise. It may be distinguished as an ability to take risk independently to make utmost earnings in the market. It is a creative and innovative skill and adapting response to environment.

10.6.1 Promotion:

Given entrepreneurship's potential to support economic growth, it is the policy goal of many governments to develop a culture of entrepreneurial thinking. This can be done in a number of ways: by integrating entrepreneurship into education systems, legislating to encourage risk-taking, and national campaigns. An example of the latter is the United Kingdom's Enterprise Week, which launched in 2004.

Outside of the political world, research has been conducted on the presence of entrepreneurial theories in doctoral economics programs. Dan Johansson, fellow at the Ratio Institute in Sweden, finds such content to be sparse. He fears this will dilute doctoral programs and fail to train young economists to analyze problems in a relevant way.[11]

Many of these initiatives have been brought together under the umbrella of Global Entrepreneurship Week, a worldwide celebration and promotion of youth entrepreneurship, which started in 2008.

10.6.2 Financial Bootstrapping:

Financial bootstrapping is a term used to cover different methods for avoiding using the financial resources of external investors. Bootstrapping can be defined as "a collection of methods used to minimize the amount of outside debt and equity financing needed from banks and investors". The use of private credit card debt is the most known form of bootstrapping, but a wide variety of methods are available for entrepreneurs. While bootstrapping involves a risk for the founders, the absence of any other stakeholder gives the founders more freedom to develop the company. Many successful companies including Dell Computers and Facebook were founded this way. There are different types of bootstrapping:

- Owner financing
- Sweat equity
- Minimization of the accounts receivable
- Joint utilization
- Delaying payment
- Minimizing inventory
- Subsidy finance
- Personal Debt

10.6.3 External Financing:

Many businesses need more capital than can be provided by the owners themselves, and in this case a range of options are available including:

- Angel Investors
- Venture capital investors.
- Crowd funding
- Hedge Funds
- Alternative Asset Management

Some of these sources provide not only funds, but also financial oversight, accountability for carrying out tasks and meeting milestones, and in some cases business contacts and experience - in many cases in return for an equity stake.

10.7 OBJECTIVES OF ENTREPRENEUR:

The main objectives of an entrepreneurial development programme are:
 • To identify and train the potential entrepreneurs in the region;
 • To develop necessary knowledge and skills among the participants in EDPSs.
 • To impart basis managerial knowledge and understanding;
 • To provide post-training assistance;
 • To develop and strengthen entrepreneurial quality and motivation;
 • To analyze the environmental issues related to the proposed project;
 • To help in selecting the right type of project and products;
 • To formulate the effective and profitable project;
 • To enlarge the supply of entrepreneurs for rapid industrial development;
 • To develop small and medium enterprises sector, which is necessary for employment generation and wider dispersal of industrial ownership;
 • To industrialize rural and backward regions;
 • To provide gainful self-employment to educated young men and women;
 • To diversity the source of entrepreneurship;
 • To know the pros and cons of being an entrepreneur.
 • To provide knowledge and information about the source of help, incentives and subsidies available from government to set up the project;
 • To impart information about the process, procedure and rules and regulations for setting up a new projects.
 • Therefore, entrepreneurial development programmes have become imperative for exploiting vast untapped human skills and to channelize them into accelerating industrialization.

10.8 ENTREPRENEURIAL DEVELOPMENT:

The process of starting a new venture is embodied in the entrepreneurial development process. The process has four distinct phases.
 1) Identification and evaluation of the opportunity
 2) Development of the business plan
 3) Determination of the required resources
 4) Management of enterprises

1) Identification and Evaluation of the Opportunity: The process by which an entrepreneur come up with the opportunity for new venture. Each opportunity must be carefully screened and evaluated. It is important for the entrepreneur to understand the cause of opportunity. It may be technological change, market shift, government regulation or competition. Opportunity analyses focus only on the opportunity but not the entire venture.

2) Development of the Business Plan: A good business plan must be developed in order to exploit the defined opportunity. A good business plan is not only important on developing the opportunity but also essential in determining the resources required and obtaining these resources and successfully managing the resulting venture.

3) Determination of the Required Resources: The resources needed for the opportunity can also be determined. This process stars with an appraisal of the entrepreneur's available resources. Any resources that are critical must then be distinguished from those are just helpful.

4) Management of Enterprises: After resources are identified, the entrepreneur must employ them through the implementation of the business plan. A control system must be established so that problem areas can be carefully monitored.

10.8.1 Types of Entrepreneurship

One of the first decisions an entrepreneur faces while starting a new business is selecting the form of ownership for the new business venture. Understanding of ownership is very important for better entrepreneurial process. Entrepreneurs have a wider choice of forms of ownership. The most common forms of ownership are sole proprietorship, partnership, family ventures and corporation.

a) Sole proprietorship: A business is owned and managed by an individual. This form of ownership is by far the most popular. Advantages of this are, it is simple to create; least costly form of ownership to begin; total decision making authority; no special legal restrictions and easy to discontinue. However they are certain disadvantages like unlimited personal liability, limited skills and capabilities, feelings of Isolation, limited access to capital, and lack of continuity for the business.

b) Partnership: A partnership is an association of minimum two and maximum of seven people who co-own a business for the purpose of making a profit. Advantages of this are: it is easy to establish, complementary skills, division of profits, larger pool of capital, ability to attract limited partners and less governmental regulations. Disadvantages are: it has unlimited liability of at least one partner, capital

accumulation, difficulty in disposing of partnership, lack of continuity and potential for personality.

- **General partnership:** Partners of a firm share in the management and profits of the business; have ready access to accounting records and business affairs of the partnership; enjoys more privacy.
- **Limited partnership:** It is an association formed by one or more general partners and one or more limited partners. The general partner or partners manage the operation: The limited partner or partners are investors only. The general partner manages the partnership without interference from the limited partner or partners.

c) Family ventures: It is generally locally owned and operated, often by one person called a sole proprietor. Proprietors may have started their businesses in an effort to supplement or replace family income.

d) Corporation: Corporate entrepreneurship is the process of encouraging "innovation" within existing companies through motivated employees who are supported with company resources. This is classified as:

- **Administrative entrepreneurship:** The firm simply moves a step beyond formal R&D projects to encourage greater innovation and commercial development of new inventions.
- **Opportunistic entrepreneurship:** Talented Personnel is given freedom to pursue opportunities both for the organization and through external markets.
- **Acquisitive entrepreneurship:** Corporations actively count other firms and entrepreneurial start-ups rather than developing ideas through R&D
- **Initiative entrepreneurship:** This type of entrepreneurship takes advantage of other fm's ideas.
- **Incubative entrepreneurship:** Whenever new ideas materialize develop internally or through acquisition.

10.9 SIGNIFICANCE OF ENTREPRENEUR IN ECONOMIC DEVELOPMENT:

The industrial health of a society depends on the level of entrepreneurship existing in it. A country might remain backward not because of lack of natural resources or dearth of capital [as it is many times believed] but because of lack of entrepreneurial talents or it inability to tap the latent entrepreneurial talents existing in that society. Entrepreneurs historically have altered the direction of national economies, industry or markets- Japan, Singapore, Korea, Taiwan to name a few.

Economic Development: Entrepreneurship is basically concerned with creating wealth through production of goods and services. This results in a process

of upward change where by the real per capita income of a country rises overtime or in other words economic development takes place.

Thus entrepreneurial development is the key toeconomic development. In fact it is one of the most critical inputs in the economic development of a region. It speeds up the process of activating factors of production leading to a higher rate of economic growth, dispersal of economic activities and development of backward regions. If a region is unable to throw up a sufficient number of entrepreneurs then alien entrepreneurs usually step in to provide goods and services needed by the people.

However the profits earned by these entrepreneurs are usually not ploughed back but repatriated to their place of origin. As a result development in that region cannot take place. Dr. M.M. Akhori refers to this practice as 'The Leech Effect'.

The above reiterates the importance of entrepreneurship development for fu ellingeconomic growth of a region. Entrepreneurship begets and also injects entrepreneurship by starting a chain reaction when the entrepreneur continuously tries to improve the quality of existing goods and services and add new ones. E.g. when computers came into the market there was continuous improvement in the models, their functions etc. like first generation computers, personal computers, laptops and palmtops etc. Not only had this fostered the development of the software   industry,   computer education institutes, computer maintenance   and stationery units etc. but also other industries like banking, railways, education, travel, films, medical and legal transcriptions, business process outsourcing [BPOs] etc. In this manner by harnessing the entrepreneurial talent a society comes out of traditional lethargy to modern industrial culture.

India needs entrepreneurs to capitalize on new opportunities and to create wealth and new jobs.

Education: Towards the end of the sixties, two significant contributions were made in the field of entrepreneurship. One was that there is a positive linkage between entrepreneurship and economic development and the other was regarding the emergence of a strong hypothesis that entrepreneurship can be developed through planned efforts. Consequently planners realized that absence of a strong entrepreneurial base acts as a serious handicap in the industrial development of a region.

The identification anddevelopment of first generation entrepreneurs throug h Entrepreneurial DevelopmentProgrammes is an important strategy. There is a growing realization that presence of resources and favourable government policies

cannot automatically manufacture economic development. It is theentrepreneurial spirit of the people, which can transform the economy of that region. Both the quantity and quality of entrepreneurs are of utmost significance for achieving the goal of economic development. The myth that entrepreneurs are born with some innate traits is fortunately no longer held. You will learn more about this in the lesson on motivation.

Many research studies have brought out that entrepreneurship can be taughtand learned. Entrepreneurship is a discipline and like all disciplines. It has models, processesand case studies, which can help an individual to study this subj ect. Thenecessary competencies required of a successful entrepreneur can be acquired through training and development.

Numerous courses in entrepreneurship are being taught all over the world in schools and colleges, seminars and conferences are being organized and EDPs are being conducted. The thinking today is why just create managers why not create people who can absorb managers. One can acquire the traits and learn the skills for becoming an entrepreneur e.g. a person can learn to be achievement oriented, selfconfident, perseverant etc. which are all part of the characteristics of a successful entrepreneur.

10.9.1 Importance of Entrepreneurship in Developed Economy:

- The nature of a developing economy is quite different from developed economy.
- The developing economy can be an agricultural country moving towards the industrialization or it may be the one where in the industry may be in its infancy lacking advance technology.
- The modern era is an era of changes. The whole world is becoming avillage due to the industrial revolution and fast developingcommunication technology. The globalization of industry andcommerce   is   bringing   a vast change in various aspects of life.
- Economic development of a country is the outcome of purposeful human activity.
- The modern era is an era of changes. The whole world is becoming avillage due to the industrial revolution and fast developingcommunication technology. The globalization of industry andcommerce   is   bringing   a vast change in various aspects of life.
- Economic development of a country is the outcome of purposeful human activity.

- Economic development is a highly dynamic process characterized by the pattern of demand shifts, new products are needed, appear for the production of goods within a country.

- A developing country needs entrepreneurs who are competent to perceive new opportunities and are willing to incur the necessary risk in exploiting them.

- A developing economy is required to be brought out of the vicious circle of low income and poverty.

- Entrepreneur can break this vicious circle.

- Entrepreneurs and helping government can change a developing   economy in developed economy.

10.10   NEEDS FRAMEWORK OF ENTREPRENEURIAL MOTIVATION:

In common perception, entrepreneurs are after money and they engage in profit making. True, profit- as understood in terms of the residual income of the owner after meeting all the expenses incurred on the engagement and utilisation of other factors of production-is the reward of entrepreneurship just as salary is to men and women in employment and professional fees is to those in profession. So everybody works for money. But people certainly don't work for money alone. After all, money is required not for its own sake, but for the sake of the needs of the person that it can fulfill. Money, thus, is not the need as such. It is teleological (to put it more simply, distantly) related to the internally felt needs (such as need for food) and socially acquired needs (such as status symbols).This leads us to the needs framework of studying entrepreneurial motivation. This framework serves the important purpose of enabling us to understand what motivates an entrepreneur. There are various variants of the needs framework, such as the Need Hierarchy Theory propounded by Maslow, Two-Factor Theory given by Herzberg and Three-Factor/ERG Theory formulated by Alderfer. We would, however, be referring to here much celebrated framework of 'manifest' needs given by McClelland who may be regarded as the father of the study of entrepreneurial motivation. The prefix 'manifest' suggests that you can easily perceive or observe these needs from the behaviour of the individual. As such 'manifest' needs framework relates directly to what the entrepreneurs do and how they do it. Take for example the risk-taking and innovative behaviour of entrepreneurs that imply an individual's desire to undertake challenging identified tasks, pursuit of excellence and competitiveness. All these observable behaviours are summarized in 'Need for Achievement' or N-Arc. In the manifest needs framework.

10.10.1 Manifest Needs Theory

McClelland three types of manifest needs, namely, Need for Achievement (N-Ach.), Need for Power (N-Pow) and Need for Affiliation (NAff.). However, it is the N-Ach. That finds the pride of its place in entrepreneurship literature, so much so that achievement motivation is considered synonymous to entrepreneurial motivation. We would be describing N-Ach. In greater detail after having discussed N-pow. and N-Aff.

- **Need for Power (N-Pow.):** If a man "speculates about who is boss", he has a concern for power, notes McClleland. Need for power, in effect, is the "concern for influencing people" or the behaviour of others for moving in the chosen direction and attaining the envisioned objectives. In common perception, politicians, social-religious leaders Chief Executive Officers (CEOs), Government Bureaucrats/Civil Servants typify the need for power. Such a perception seems more based on the belief that the source of power lies in the "position" a person occupies in organizational/societal context. In the same vein, business ownership too may imply a need for power. Moreover, you would appreciate that the process of founding a business, one has to win the commitment of capital providers, suppliers of equipment and materials, the employees and that of the customers. Link this aspect of entrepreneurial motivation to the competencies related to Assertiveness, Persuasion and Influence Strategies.

- **Need for Affiliation:** If a man "readily thinks about interpersonal relationships", he has a concern for affiliation, wrote McClleland. It implies, among other things, "a tendency of the people to conform to the wishes and norms of those whom they value." Apparently, social activists, environmentalists, teachers, and doctors and nurses may seem as predominantly driven by these needs. Entrepreneurs are believed to be low on affiliation, as they are and expected to be, innovative, trendsetters and tradition breakers. However, it is not necessary that affiliation should only interfere with achievement. In certain cultures, family comprises the bedrock on which the successful careers are built. One works, as if, not for personal gratification but for family. Desire to carry on the tradition of business in the family and the community to which one belongs, may be interpreted as reflecting need for affiliation as well. In the countries with the colonial past, such as ours, the first generation of entrepreneurs in Independent India was driven by patriotic fervor and the desire to rebuild the economy left stagnated by the alien rulers. One can certainly trace some elements of affiliation in such instances. Moreover, some industries are

particularly suitable for person with high need for affiliation and having distinct competencies in Empathy and Concern for Employees.

• **Need for Achievement:** Entrepreneurial behaviour is so much singularly attributed to this need that one may just stop short of taking entrepreneurial motivation and achievement motivation as synonymous. N-ach Concerns issues of excellence, competition, challenging goals and overcoming difficulties. A complete achievement sequence would comprise, "… defining the problem, wanting to solve it, thinking of means to solving it, thinking of difficulties that get in the way of solving it (either in one's self or in the environment), thinking of people who might help in solving it, and anticipating what would happen if one succeeded or failed."

Accordingly, a person with need for achievement would want to take personal responsibility for solving problem. One is goal oriented, that is, one sets moderate, realistic, attainable goals. One also seeks challenge, excellence, and individuality, one takes calculated/ moderate risk and is willing to work hard for that. One is always keen to find out how well one is doing and likes concrete feedback on performance. In fact, it is the "feedback" value of profit/money that often results in incorrect attribution of motive to behaviour.

In market economies, profit is probably the best indicator of business performance just as the salary drawn is a measure of one's status and competence and professional fees charged a measure of one's creditability.

Entrepreneurs may appear to be chasing profit for its own sake, the fact of the matter could be that they derive a feedback satisfaction from the amount of profits earned and are more concerned about achieving the goals they set for themselves. Should other measures of performance become paramount, the amount of profit earned would cease to be the sole feedback on performance.

In fact, as the society progresses, measures such as respectability, ethicality, quality, employee involvement, customer satisfaction eco-friendliness and overall business/corporate citizenship etc. assume increasing importance as regards business performance. Affirmative action, responsible and responsive business behaviour is the talk of the day. Sometimes, people lament that the amount of money earned and wealth in one's possession confound other important aspects of one's performance so much so that money becomes the end and not the means. A stereotypical image of the entrepreneurs is that they engage in reckless pursuit of profit even at the expense of legitimate expectations of the customers of quality, employees of fair wages and as regards payment of taxes. However, research is

inconclusive about entrepreneurs being neither more nor less ethical than those in other occupations in this regard.

McClelland's research methodology sought to identify the dominant need through projective techniques. We would like to say, however, that it is rarely if ever that we are trying to satisfy just one type of need through our behaviour. As a person, we try to simultaneously satisfy multiple needs economic, social, and psychological. Hence, for example, quest for a "respectable," "growth oriented," "challenging," "fun," job/career. In fact, as regards entrepreneurship, one often hears "Need for Autonomy" or N-Aut also being an important driver of behaviour.

- **Need for Autonomy:** The need for autonomy is a desire for independence which, in effect, becomes a desire to do work of one's choice and at one's pace, defining one's own rules of the game, taking initiative, making independent and innovative choices and being responsible and accountable to oneself rather than some external authority for performance. Research evidence too seems to suggest desire independence as the prime motivator of entrepreneurial behaviour. Hence, in the context of entrepreneurship it may be interpreted as the determination not to work for someone else. Clearly a preference for 'YOB' over 'JOB.' A career departure from employment to entrepreneurship may also be interpreted as 'Desire to be on one's own' as one becomes so much dissatisfied with present employment that rather than seeking another job, entrepreneurship seems a more preferred alternative. Further, it is the absence of this autonomy in jobs rather than other factors that seem to be driving people into starting their own ventures- for a distant observer such a decision may appear "risky" given the job security and compensation package! Thus, you may come across people who risk their cushy jobs for the sake of preserving their autonomy.

10.11 CHECK YOUR PROGRESS 2:

(1) Fill in the blanks:

1. ……………………………. is a term used to cover different methods for avoiding using the financial resources of external investors.

2. ………………………….. is essentially a creative activity or it is an innovative function.

3. …………………………. is a business is owned and managed by an individual

4. The industrial health of a…………. depends on the level of entrepreneurship existing in it.

5. Entrepreneurship is basically concerned with creating wealth through production of …………………………

10.12 ENTREPRENEURSHIP DEVELOPMENT: PROGRAMME OR PROCESS:

Performance of Entrepreneurship Development Programmes (EDPs) in India has not been very exciting. Starting 1971, India embarked on a massive programme of entrepreneurship development. Since then, there is no looking back. As of now, more than 700 state levels financial institutions, public sector banks and other agencies across India, have been conducting thousand of EDPs every year. This is similar to 'Senior Achievement Programme' based on the principle of 'Catch them young' in the USA; and 'Young Enterprises Programme' in the UK (Khanka, 2005).

Well known behavioral scientist David McClelland at Harvard University made an interesting investigation into why certain societies displayed great creative powers at particulars periods of their history? What was the cause of these creative bursts of energy? He found that 'the need for achievement' (n ach factor) was the answer to his question (McClelland, 1961). It was 'need to achieve' that motivated people to work hard. According to him, money making was incidental. It was only a measure of achievement, not its motivation.

In order to answer the next question whether this need for achievement could be induced, he conducted a five- year experimental study in one of the prosperous district.

This experiment is popularly known as 'Kakinada Experiment'. As a part of this experiment, young persons were selected and put through a three month training programme and motivated to seek fresh goals. One of the significant conclusions of the experiment was that the traditional beliefs did not seem to inhibit an entrepreneur and that the suitable training can provide the necessary motivation to the entrepreneurs (McClelland and Winter, 1969). The achievement motivation has positive impact on the performance of entrepreneurs. The Kakinada Experiment could be treated as a precursor to the present day EDP input on behavioral aspects.

In fact, it was the Kakinada Experiment that made people appreciate the need for and importance of the entrepreneurial training, now popularly known as EDP, to induce motivation and competence among the young prospective entrepreneurs.

10.12.1 Evaluation of EDPs:

Developing entrepreneurship has become a movement in India in the recent years. EDPs have been considered as an effective instrument for entrepreneurship in the countryside. Hundreds of EDPs are conducted by more than 700 organizations to impart entrepreneurial training to participants in thousands (Gupta, 1990).

The main objective of these EDPs is to train enterprise creators. Having spent lot of public money and effort for organising EDPs it was also necessary to evaluate

whether the objectives of EDPs are fulfilled or not. In simple words, there is a need to have a data as to how many participants of these EDPs have actually started their own enterprises after completing the training.

It was observed that one out of every four trainees (26 per cent) actually started his/her enterprise after undergoing entrepreneurial training. However, the expected final start-up rate was slightly higher around 32 per cent. About 10 per cent trainees are found blocked due to various reasons at various stages in the process of setting up their enterprises. If not helped effectively, they may join the category of those 29 percent trainees who have already given up the idea of launching their ventures. According to the secondary sources, viz., family, friends and neighbours, out of trainees who could not be contacted personally during this field survey, 17 per cent have given up the idea of venture launching as they are engaged in other activities.

According to Awasthi and Sebastian (1996), the performance of EDPs across the states and across the ED organization has not been uniform. The actual start- up rates are observed to be oscillating between 9 percent and 56 per cent, bringing down the overall national start-up rate to about 26 per cent. This by any count cannot be considered as impressive performance. And in this non impressive performance lies the need for looking at the problems and constraints of EDPs.

10.12.2 Measuring Performance:

It is clear that the problems are not with the strategy but with its implementation. One way of evaluating the EDPs is to assess their effectiveness in developing 'need for achievement' among the entrepreneurs. This is also called 'the qualitative evaluation' of EDPs. McClelland and winter (1969) used the following criteria to assess the effectiveness of EDPs in motivating the entrepreneurs-

   (i) Activity level of the respondents;
   (ii) New enterprise established;
   (iii) Total investments made;
   (iv) Investments in fixed assets made;
   (v) Number of people employed;
   (vi) Number of jobs created;
   (vii) Increase in profit;
   (viii) Increase in sales;
   (ix) Quality of product/service improved; and
   (x) Quicker repayment of loans.

In other behavioral experiments the impact of EDPs is measured with the help of indices relating to the entrepreneurial behaviour. The entrepreneurial behaviour is measured on the following four dimensions –

(a) Planning orientation,

(b) Achievement orientation,

(c) Expansion orientation, and

(d) Management orientation.

10.12.3 Reported Problems Faced by EDPs:

Different studies on evaluation of EDPs have highlighted a few issues. EDPs suffer on following counts. The problems and lacunae are on the part of participants and steps in the process - should it be the trainers and the trainees, the ED organization, the supporting organizations, and the government bodies involved. The important problems EDPs face are listed as follow:

1. Trainer-motivations are not found up to the mark in motivating the trainees to start their own enterprises.

2. ED organizations lack in commitment and sincerity in conducting the EDPs. In some cases, EDPs are used as a means to generate surplus (income) for the ED organizations.

3. Non-conducive environment and constraints make the trainer-motivators' role ineffective.

4. The apathetic attitude of the supporting agencies like banks and financial institutions serves as stumbling block in the success of EDPs.

5. Selection of wrong trainees also leads to low success rate of EDPs.

10.13 SCOPE OF ENTREPRENEURSHIP DEVELOPMENT:

In India there is a dearth of quality people in industry, which demands high level of entrepreneurship development programme throughout the country for the growth of Indian economy. The scope of entrepreneurship development in country like India is tremendous.Especially since there is widespread concern that the acceleration in GDP growth in the post reforms period has not been accompanied by a commensurate expansion in employment.

Results of the 57th round of the National Sample Survey Organization (NSSO) show that unemployment figures in 2008-09 were as high as8.9 million. Incidentally, one million more Indian joined the rank of the unemployed between 2009-10 & 2010-11. The rising unemployment rate (9.2%2010 est.) in India has

resulted in growing frustration among the youth. In addition there is always problem of underemployment.

As a result, increasing the entrepreneurial activities in the country is the only solace. Incidentally, both the reports prepared by Planning Commission to generate employment opportunities for 10 crore people over the next ten years have strongly recommended self-employment as a way-out for teaming unemployed youth. We have all the requisite technical and knowledge base to take up the entrepreneurial challenge. The success of Indian entrepreneurs in Silicon Valley is evident as proof. The only thing that is lacking is confidence and mental preparation. We are more of a reactive kind of a people. We need to get out of this and become more proactive. What is more important than the skill and knowledge base is the courage to take the plunge. Our problem is we do not stretch ourselves. However, it is appreciative that the current generations of youth do not have hang-ups about the previous legacy and are willing to experiment. These are the people who will bring about entrepreneurship in India. At present, there are various organizations at the country level & state level offering support to entrepreneurs in various ways.

The Govt. of India & various State Govts have been implementing various schemes & programmes aimed at nurturing entrepreneurship over last four decades. For example, MCED in Maharashtra provides systematic training, dissemination of the information & data regarding all aspects of entrepreneurship & conducting research in entrepreneurship. Then there are various Govt. sponsored scheme for the budding entrepreneurs.

Recognizing the importance of the entrepreneur development in economic growth& employment generation, Maharashtra Economic Development Council (MEDC) has identified entrepreneurial development as the one of the focus area for Council activities two years ago. Various Chambers of Commerce & apex institutions have started organizing seminars & workshops to promote entrepreneurship. Incidentally, various management colleges have incorporated entrepreneurship as part of their curriculum. This is indeed a good development. This shows the commitment of the Govt. & the various organizations towards developing entrepreneurial qualities in the individuals.

10.13.1 Future Perspective:

Entrepreneurship as in the past will determine technical innovations, status of social institutions and political management systems. On the basis of these factors, we can expect the future to be a place where basic needs will remain and only the wants will change. India will overcome the barriers of infrastructure; we

will also visualize a strong manufacturing and agricultural sector. Entrepreneurs and not managers will be in demand, as only they will be equipped to find order in chaos.

The focus of entrepreneurial energy will shift from achieving volume sales to fulfill a specific requirement. Governance will become more transparent and will be willing to accept changes necessary for growth and development. More autonomy will become the basis of all issues.

The future will see Entrepreneurship as the key driver of economic development Technological obsolescence will become order of the day and there will be more space for leisure. New businesses will be credited with providing variety of new jobs in the economy. New and small business will also develop more than their share of product and service innovation. At one end we will see the technological upheavals in quick succession and on the other end there will be social value systems and cultural issues undergoing slow but dynamic transformations.

10.14 SUMMARY:

In this unit you have learn about the meaning of Entrepreneurship, why Entrepreneurship is needed for tourism industry. Significance and scope of Entrepreneurship is also being defined in this unit. Entrepreneurship is the act of being an entrepreneur, which can be defined as "one who undertakes innovations, finance and business acumen in an effort to transform innovations into economic goods".

Entrepreneurial activities are substantially different depending on the type of organization and creativity involved. Entrepreneurship ranges in scale from solo projects (even involving the entrepreneur only part-time) to major undertakings creating many job opportunities. The industrial health of a society depends on the level of entrepreneurship existing in it. A country might remain backward not because of lack of natural resources or dearth of capital [as it is many times believed] but because of lack of entrepreneurial talents or it inability to tap the latent entrepreneurial talents existing in that society. Entrepreneurs historically have altered the direction of national economies, industry or markets- Japan, Singapore, Korea, Taiwan to name a few.

10.15 GLOSSARY:

- **Entrepreneur Innovator**- Someone who organizes a business venture and assumes the risk for it

- **Extrinsic rewards**- are the outcome not belonging to the activity to which it is connected, e.g. a prize or an award
- **Intrinsic rewards**- the rewards those are inherent in the activity such as 'pleasure'
- **Manifest-needs**- the need pattern evident from one's behavior

10.16 ANSWERS TO CHECK YOUR PROGRESS1 & 2:

CHECK YOUR PROGRESS-1

(1) State True or False

1. True
2. False
3. True
4. False

CHECK YOUR PROGRESS-2

(2) Fill In The Blanks:

1. Financial bootstrapping
2. Entrepreneurship
3. Sole proprietorship
4. Society
5. Goods and services.

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10.18 SUGGESTED READING

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- Entrepreneurship and Growth of Enterprise in Industrial Estates: Rao N. Gangadhar
- Entrepreneurial Performance in Indian Industry: Sharma R.A.
- Motivation, Performance, Rewards: Saxena Anand
- Organization Theory and Behaviour: Sharma R.A.

10.19 TERMINAL QUESTIONS

Short Answer Type Questions:

1. Explain the three roles played by entrepreneurs.
2. State the importance of Entrepreneurship in the economic development of a country.
3. What are the objectives of Entrepreneurship Development Programmes (EDPs)?
4. What issues and problems do entrepreneurs face in 'Selection of Business' and inn'Choice of form of business enterprise'?
5. Give a brief outline of entrepreneurial practices in India.

Long Answer Type Questions:

1. Describe any five qualities that a person should possess to be a successful entrepreneur.

2. What are the important functions performed by entrepreneurs, after conception of a business idea?

3. A person having sufficient amount of money can become a successful entrepreneur. Do you agree with this statement? Give reason in support of your answer.

4. Jai comes from a family of weavers who have been working on a small scale on their handloom. She dreams of turning the family vocation into a world-wide business. To start and set up a business enterprise in this field what are the factors she should consider?

Unit 11: ENTREPRENEURIAL ATTRIBUTES, TYPES AND ENTREPRENEURSHIP FUNCTIONS

STRUCTURE

11.1 Introduction

11.2 Objectives

11.3 Entrepreneurial Attributes

11.4 Check Your Progress-1

11.5 Entrepreneurial Types

11.6 Entrepreneurship Functions

11.7 Check Your Progress- 2

11.8 Summary

11.9 Glossary

11.10 Answer to Check Your Progress- 1, 2.

11.11 References

11.12 Suggested Readings

11.13 Terminal Questions

11.1 INTRODUCTION:

In the previous you have learn about the meaning of entrepreneurship need, significance and scope of entrepreneurship development for tourism industry. In this unit you will study about the entrepreneurial attributes, types and functions of entrepreneurship.

Entrepreneurship is the act of being an entrepreneur, which can be defined as "one who undertakes innovations, finance and business acumen in an effort to transform innovations into economic goods".

According to A Schumpeter "The entrepreneurship is essentially a creative activity or it is an innovative function".

The economic activity with a profit motive can only be generated by promoting an attitude towards entrepreneurship. The renewed interest in the development of entrepreneurship to take up new venture should emphasize on the

integrated approach. The developments of entrepreneurship will optimize the use of the unexploited resources; generate self-employment and a self sufficient economy.

11.2 OBJECTIVES:

After studying this unit you will able to learn

- Meaning of entrepreneurship
- Entrepreneurial attributes
- Entrepreneurial types
- Entrepreneurship functions

11.3 ENTREPRENEURIAL ATTRIBUTES:

Being self-employed or starting your own business takes a lot of time, hard work, patience and determination - but it takes more than that. It takes entrepreneurship, dedication and commitment - but it takes even more than that. It takes someone who is organized, willing to learn from mistakes and can keep going even in the tough times.

Some people naturally possess (and apply) all, or most, of the important entrepreneurial attributes – and for those people entrepreneurship comes more easily. Many of us have to work hard to improve our shortcomings and improve them we must. Take note of where you need to improve and how you can learn the attributes you will need to be successfully self-employed. Some of the attributes of successful entrepreneurs are given below

11.3.1. To Do Something:

You should remember the feeling, even to this day, after a short period of re-entering the workplace as an employee and being sacked because I was too good at what I did. Yes it sounds back to front doesn't it? But someone in management was threatened by my success in procuring leads for the company, and so decided to relieve me of my duties. I am extremely thankful, because on that day I declared that I would never again work for anyone else. That was the day that I decided to do something'.

And that's what it takes. An entrepreneur, for whatever triggers that sets them off to enter the world of entrepreneurialism, takes charge and does something. I did it for freedom. I did it for family. I did it for income. I did it for something. The very fact that within a few short weeks I was making more money than I had ever made working for someone else, by working less hours in my own business —

confirmed to me that by deciding to do something, and then doing it, was definitely the pathway I was going to travel on for the rest of my working life.

11.3.2. To Undertake:

If you're going to be an entrepreneur you're going to have to undertake. That doesn't mean you're going into the funeral business, although I have heard that it's very profitable and that it will never die out. Apart from wanting to work for yourself, you have a product or a service that you believe in, and you want to sell that to your customers.

No matter whether it was a cleaning business, publishing company or a web design business, I undertook to provide a professional service, establish my unique selling position so that I stood out from the crowd and provided impeccable customer service. I undertook to do things with a spirit of excellence, and while doing this made it my mission to learn as much about not just being the technician in my business — but rather being the owner of the business that was working not only in the business, but on the business.

11.3.3. To Risk:

I have risked, and at times I have failed. That is why it is called risk. In the early days I took risks that literally cost me everything. With more experience and wisdom under my belt, I learned the power of operating from a position of calculated risk rather than all out â€˜red-blooded' risk where I had a chance of crashing and burning. The risks that I take today generally have an exit strategy in place before I enter the venture or at least a boiler fund of finance on hand if things don't go to plan.

I also endeavour to create a range of income generating sources in the process, just in case one doesn't produce as anticipated. I no longer enter business transactions with rosy-tinted glasses on. I do my research. I put all the correct legal in place. I seek advice from a range of professionals and mentors, but at the same time listen to my â€˜gut'.

11.3.4. To Profit:

If a venture is not profitable within a reasonable timeframe of expended effort, I am not afraid of closing it down. However, timeframes may vary. For ex., low cost online ventures might only require a month or two of testing to see whether they are going to produce.

However, a venture that requires a much larger investment of staff, stock and leases may require a year or two. But if they are not profitable in the proposed time

frame, then I am not afraid to kill projects. The facts are, some ideas will never work, and are better off dead before they kill you. I have learned to never allow my identity be so caught up in a project that I am afraid to cut the lifeline. The end of any business doesn't necessarily mean the end of you- especially if you cut off the life supply long before it cuts off yours.

11.3. 5. To Know:

Even after being involved in a number of businesses for many years I realized that there was still much that I didn't know. That's when I hired a business coach.

I quickly developed a love/hate relationship with my coach. I hated my business coach because he asked me the hard questions when we met every week. But on the other hand I loved my business coach because we doubled our income in the next twelve months of operation.

Nowadays, I surround myself with mentors from a range of industries to keep me primed— and from time to time pull in coaches who are experts in an area I am exploring so I can learn more. To be successful as an entrepreneur you must know you, know your business, know where you're going, know how your business is running, know whether your business is sick or healthy, and know where the next trend is coming from so that you can be a leader and not just a follower. To know, and to then apply what you know, is power indeed for the successful entrepreneur.

11.3.6. To Judge:

There are two judgments that you can make as an entrepreneur: wise judgments and unwise judgments. Wise judgments will provide you with positive results that will grow your business.

Unwise judgments will provide you with negative results that will impact your business, and if you are willing to learn from your mistakes they can actually become the building blocks for future success as an entrepreneur. The important thing is that you don't sit on the fence. You must pass judgment and make judgments. There is an element of risk involved in this, but if you surround yourself with wise counsel — either coaches or mentors — you will minimize the impact, if for some reason you make a mistake.

11.3.7. To Manage:

When it comes to being successful as an entrepreneur, the first one whom you need to manage is you. Time management is an important key (though someone once told me that you can never manage time — it should rather be termed as you

management) and I have found that if you can manage you, then you will be in a better position to manage others and your business affairs.

Here are the two best time management strategies Mary Kay, who created a cosmetic empire, managed her time by making her list of 6 every day: the 6 most important things that needed doing. Whatever wasn't completed was transferred to the next day and so on. Giorgio Armani works on 8 projects simultaneously. One hour per project. That means 8 projects per day. When the hour's up one project is put aside and another is commenced.

11.3.8. To Produce:

Alfred Marshall, back in the 19th Century, proposed that this included land, labor, capital and organization, but in the 21st Century it now includes such things as technology plus more, and who knows what the years ahead will add to that list. Entrepreneurs are the producers of this century and are bringing wonderful changes designed to create better lives for all of us.

To be a successful entrepreneur, we produce products and services for our clients to make their lives better, but the spin-off from this is that we lift the lid on our own earning capacity so that we can bless our families from our efforts. Apart from the money, one of the positive outcomes that has come from me bringing my children up in the world of entrepreneurialism is that they are now owning and operating their own businesses, and they realize that no matter where they could find themselves in the world they have possession of the skills and the abilities to start something profitable from nothing, let's say a business, not reliant on governments, employers, nor the state of the economy. They, as responsible entrepreneurs are responsible for their own success and their own future.

11.4 CHECK YOUR PROGRESS- 1:

(1) Define entrepreneurship?

(2) Identify Whether True/False:

    (a) Entrepreneurship is an innovative function.
    (b) Entrepreneurs should have a strong desire to achieve a higher goal and make their dreams come true.
    (c) An Entrepreneur is pessimistic in nature.
    (d) Management is an important attributes of Entrepreneurs.

11.5 ENTREPRENEURIAL TYPES:

In the initial stages of economic development, entrepreneurs tend to be shy and humble but as the development process picks up speed, they tend to become more enthusiastic and confident.

They help make the business environment healthy and development oriented. Highly enthusiastic and innovative entrepreneurs exist only in developed countries as level of their -economic and technological development has reached a certain level whereas in developing and under-developed countries, imitative entrepreneurs are more successful. However, the various types or entrepreneur are classified as under:

(A) According to the Type of Business:

(i) Business entrepreneur: Business entrepreneurs are those entrepreneurs who conceive the idea of a new product or service and then translate their ideas into reality. Entrepreneur examines the various possibilities of sources of finance, supply of labour, raw-materials or finished product as the case may be.

Business entrepreneur may be undertaking the trading business or manufacturing business but initially the size of the business is very small. As the entrepreneur flourishes, he tends to expand his business.

(ii) Trading entrepreneur: As the very name indicates trading entrepreneur is concerned with trading activities and not manufacturing. Trading means buying the finished product from the producer and selling off to the customer directly or through a retailer.

A trading entrepreneur has to be creative enough as he has to identify the market. He has to identify potential market, create demand through extensive advertisement of his product and thus inspire people to buy his product. For this is inevitable for him to find out the desires, tastes and choices of his customer in domestic as well as international market.

(iii) Industrial entrepreneur: As the very name indicates, an industrial entrepreneur is one who sets up an industrial unit. He perceives the opportunity to set up his unit, complies with necessary formalities of getting license, power connection, pollution control clearance (if the need be) arrange initial capital, providing securities and guarantees to the financial institutions, making payment of wages and supply necessary technical know-how. An industrial entrepreneur has the ability to convert economic resources and technology into a considerably profitable venture. Manufacturer of leather products, textiles, electronics, food items and the like are industrial entrepreneurs.

(iv) Corporate entrepreneur: Corporate entrepreneur is the one who plans, develops and manages a corporate body. He is a promoter, an essential part of board of directors, an owner as well as an entrepreneur. He gets his corporate body registered under the requisite Act which gives his company the status of separate legal entity.

(v) Agricultural entrepreneur: Agricultural entrepreneur is the one who is engaged in the agricultural activities. He uses latest technology to increase the productivity of agriculture and also adopts mechanisation.

(B) According to Motivation:

(i) Pure entrepreneur: Pure entrepreneur is one who may or may not possess an aptitude for entrepreneurship but is tempted by the monetary rewards or profits to be earned from the business venture. He is status-conscious and wants recognition.

(ii) Induced entrepreneur: Induced entrepreneur is attracted by the various incentives, subsidies and facilities offered by the government. 'An entrepreneur is not born' — this is no doubt true as every person can be trained to become a good entrepreneur.

Most of the entrepreneurs who enter into business are induced entrepreneur as various kinds of financial, technical and managerial facilities are provided by the government to promote entrepreneurship. An entrepreneur can develop himself much more by attending EDPs and they can make a stand in the market. Import restrictions, allocation of production quotas to SSIs, reservation of products for small industry etc. have forced many young people to set up a small industry.

Non-Resident Indians (NRIs) and educated unemployed seeking self-employment or newly married bridegrooms by taking financial support of their in-laws may be described as induced entrepreneur. This class of entrepreneur accounts for maximum number of failures because there is no proper screening of misfits.

(C) According to the Use of Technology:

(i) Technical entrepreneur: The strength of a technical entrepreneur is in his skill in production techniques. He concentrates more on production than on marketing. He possesses craftsman skill in himself which he applies to develop and to improve the technical aspect of the product.

(ii) Non-technical entrepreneur: Unlike technical entrepreneur, non-technical entrepreneur is not concerned with the technical aspect of the product rather he spends more time in developing alternative strategies of the marketing and distribution to promote his business. His target is not to change the production technique but how to increase the demand of the product in which he is dealing.

(iii) Professional entrepreneur: Professional entrepreneur means an entrepreneur who is interested in floating a business but does not want to manage or operate it . Once the business is established, he sells it out and catches on to float a new business.

(D) According to Stages of Development:

(i) First generation entrepreneur: First generation entrepreneur are those entrepreneurs who do not possess any entrepreneurial background. They start an industrial unit by means of their own innovative skills.

(ii) Second generation entrepreneur: Second generation entrepreneur are those entrepreneurs who inherit the family business firms and pass it from one generation to another.

(iii) Classical entrepreneur: A classical entrepreneur is a stereotype entrepreneur whose aim is to maximize his economic returns at a level consistent with the survival of the unit but with or without an element of growth.

(E) Classification Given by Danhof:

(i) Innovating entrepreneur: Innovative entrepreneurs are generally aggressive and possess the art of cleverly putting the attractive possibilities into practice. An innovating entrepreneur is one who introduces new goods, inaugurates new methods of production, discovers new market and re-organises the enterprise. He arranges money, launches an enterprise, assembles the various factors, chooses the competent managers and sets his enterprise go.

Schumpeter's entrepreneur is of this type. His entrepreneur belongs to that nation which has wide industrial base, modern banking facilities, rich infrastructure, up to date technology and the like. Innovative entrepreneurs do not exist in developing economies where lack of capital, technological know-how block the path of innovativeness.

In developed countries, people are highly developed and consistently look forward for change. They want to consume such products which do not commonly exist in the world. They want progress as they have achieved high level of development. Innovating entrepreneur played a key role in the rise of modern capitalism, through their enterprising spirit, hope of making money, and ability to recognise and exploit opportunities.

(ii) Imitative entrepreneurs: Imitative entrepreneurs are characterised by readiness to adopt successful innovations inaugurated by successful innovating entrepreneurs. Imitative entrepreneurs do not imitate the changes themselves, they only imitate techniques and technologies innovated by others. Such entrepreneurs

are significant for under-developed economies because they put such economies on high rate of economic development. Entrepreneurs prefer to imitate the technology already existing somewhere in the world.

However, the talent of imitative entrepreneurs should not be under-estimated. Even imitative entrepreneurs are revolutionary and agents of change. They have ability to do things which have not been done before even though, unknown to them, the problem may have been solved in the same way by others. Innovative entrepreneur is creative, while imitative entrepreneur is adoptive.

(iii) Drone entrepreneur: Drone entrepreneurs are characterised by a refusal to adopt opportunities to make changes in production formulae even at the cost of severely reduced returns. They can suffer loss but are not ready to make changes in their existing production methods. When competition increases, they are pushed out of the market as it becomes uneconomical for them to exist and operate in a competitive market.

(F) According to Capital Ownership:

(i) Private entrepreneur: When an individual or a group of individuals set up an enterprise, arrange finance, bear the risk and adopt the latest techniques in the business with the intention to earn profits, he or the group is called us private entrepreneur/entrepreneurs.

(ii) State entrepreneur: As the name indicates, state entrepreneur means the trading or industrial venture undertaken by the state or the government itself.

(iii) Joint entrepreneur: Joint entrepreneur means the combination of private entrepreneur and state entrepreneur who join hands.

11.6 ENTREPRENEURSHIP FUNCTIONS:

An entrepreneur performs a series of functions necessary right from the genesis of an idea up to the establishment and effective operation of an enterprise. He carries out the whole set of activities of the business for its success. He recognises the commercial potential of a product or a service, formulates operating policies for production, product design, marketing and organisational structure. He is thus a nucleus of high growth of the enterprise.

According some economists, the functions of an entrepreneur is classified into five broad categories:

- Risk-bearing function,
- Organisational function,
- Innovative function,

- Managerial function, and
- Decision making function.

11.6.1. Risk-Bearing Function:

The functions of an entrepreneur as risk bearer are specific in nature. The entrepreneur assumes all possible risks of business which emerges due to the possibility of changes in the tastes of consumers, modern techniques of production and new inventions. Such risks are not insurable and incalculable. In simple terms such risks are known as uncertainty concerning a loss. The entrepreneur, according to Kinght, "is the economic functionary who undertakes such responsibility of uncertainty which by its very nature cannot be insured neither capitalised nor salaried too."

Richard Cantillon conceived of an entrepreneur as a bearer of non-insurable risk because he described an entrepreneur as a person who buys things at a certain price and sells them at an uncertain price.

Thus, risk bearing or uncertainty bearing still remains the most important function of an entrepreneur which he tries to minimise by his initiative, skill and good judgement. J.B. Say and other have stressed risk taking as the specific function of the entrepreneur.

11.6.2 Organisational Function:

Entrepreneur as an organiser and his organising function is described by J.B. Say as a function whereby the entrepreneur brings together various factors of production, ensures continuing management and renders risk-bearing functions as well. His definition associates entrepreneur with the functions of coordination, organisation and supervision. According to him, an entrepreneur is one who combines the land of one, the labour of another and the capital of yet another and thus produces a product. By selling the product in the market, he pays interest on capital, rent on land and wages to labourers and what remains is his/her profit. In this way, he describes an entrepreneur as an organiser who alone determines the lines of business to expand and capital to employ more judiciously. He is the ultimate judge in the conduct of the business.

Marshall also advocated the significance of organisation among the services of special class of business undertakers.

11.6.3 Innovative Function:

The basic function an entrepreneur performs is to innovate new products, services, ideas and informations for the enterprise. As an innovator, the

entrepreneur foresees the potentially profitable opportunity and tries to exploit it. He is always involved in the process of doing new things.

According to Peter Drucker, "Innovation is the means by which the entrepreneur either creates new wealth producing resources or endows existing resources with enhanced potential for creating wealth". Whenever a new idea occurs entrepreneurial efforts are essential to convert the idea into practical application.

J.A. Schumpeter considered economic development as a discrete dynamic change brought by entrepreneurs by instituting new combinations of production, *i.e.* innovation. According to him innovation may occur in any one of the following five forms.

- The introduction of a new product in the market with which the customers are not get familiar with.
- Introduction of a new method of production technology which is not yet tested by experience in the branch of manufacture concerned.
- The opening of a new market into which the specific product has not previously entered.
- The discovery of a new source of supply of raw material, irrespective of whether this source already exists or has first to be created.
- The carrying out of the new form of organisation of any industry by creating of a monopoly position or the breaking up of it.

11.6.4 Managerial Function:

Entrepreneur also performs a variety of managerial function like determination of business objectives, formulation of production plans, product analysis and market research, organisation of sales procuring machine and material, recruitment of men and undertaking, of business operations. He also undertakes the basic managerial functions of planning, organising, co-ordinating, staffing, directing, motivating and controlling in the enterprise. He provides a logical and scientific basis to the above functions for the smooth operation of the enterprise thereby avoids chaos in the field of production, marketing, purchasing, recruiting and selection, etc. In large establishments, these managerial functions of the entrepreneur are delegated to the paid managers for more effective and efficient execution.

11.6.5 Decision Making Function:

The most vital function an entrepreneur discharges refers to decision making in various fields of the business enterprise. He is the decision maker of all activities

of the enterprise. A. H. Cole described an entrepreneur as a decision maker and attributed the following functions to him.

- He determines the business objectives suitable for the enterprise.
- He develops an organization and creates an atmosphere for maintaining a cordial relationship with subordinates and all employees of the organization.
- He decides in securing adequate financial resources for the organisation and maintains good relations with the existing and potential investors and financiers.
- He decides in introducing advanced modern technology in the enterprise to cope up with changing scenario of manufacturing process.
- He decides the development of a market for his product, develops new product or modify the existing product in accordance with the changing consumer's fashion, taste and preference.
- He also decides to maintain good relations with the public authorities as well as with the society at large for improving the firms image before others.

11.7 CHECK YOUR PROGRESS- 2:

(1) What are the types of entrepreneur according to capital ownership?

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_____

(2) Define the organisational functions of an entrepreneur?

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_____

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_____

(3) Identify Whether True/False:

   (a) Innovative entrepreneurs are generally aggressive and possess the art of cleverly putting the attractive possibilities into practice.

   (b) An entrepreneur determines the business objectives suitable for the enterprise.

   (c) Joint entrepreneur means the combination of private entrepreneur only.

   (d) Innovative function is concern with the introduction of a new product in the market with which the customers are not get familiar with.

11.8 SUMMARY:

In this unit you have learn about the meaning of entrepreneurship, what are important attributes of a successful entrepreneur? Various types of entrepreneur and functions   of entrepreneurship is also being discuss in this unit. An entrepreneur is defined as someone who undertakes a business venture in other words we can say that an entrepreneur was someone who undertakes a business venture with no guarantee of profits, or is rather the bearer of risks inflicted by changes in market demand. An entrepreneur as someone who assumes not only the risk of a business venture (as a capitalist) but also the management of the business venture. The economic activity with a profit motive can only be generated by promoting an attitude towards entrepreneurship. The renewed interest in the development of entrepreneurship to take up new venture should emphasize on the integrated approach.

11.9 Glossary:

- **Entrepreneur-** Someone who organizes a business venture and assumes the risk for it.
- **Extrinsic reward**s-It is the outcome not belonging to the activity to which it is connected, e.g. a prize or an award.
- **Innovative Product**- It is concern with the introduction of a new product in the market with which the customers are not get familiar with.
- **Joint entrepreneur:** Joint entrepreneur means the combination of private entrepreneur and state entrepreneur who join hands.
- **Manifest-needs**- The need pattern evident from one's behavior.
- **Risk –** it is the activity in which fear of loss is involved.
- **Venture:** Any initiative that entails the mobilization of resources to establish a good, service, program, and so forth to address needs, wants, problems, and challenges.

11.10 Answer to Check Your Progress:

Check Your Progress-1

(1) Entrepreneurship is the act of being an entrepreneur, which can be defined as "one who undertakes innovations, finance and business acumen in an effort to transform innovations into economic goods".

(2) Identify Whether True/False:

   (a) True

(b) True

(c) False

(d) True

Check Your Progress-2

(1) (i) Private entrepreneur: When an individual or a group of individuals set up an enterprise, arrange finance, bear the risk and adopt the latest techniques in the business with the intention to earn profits, he or the group is called us private entrepreneur/entrepreneurs.

(ii) State entrepreneur: As the name indicates, state entrepreneur means the trading or industrial venture undertaken by the state or the government itself.

(iii) Joint entrepreneur: Joint entrepreneur means the combination of private entrepreneur and state entrepreneur who join hands.

(2) According Organisational Function to an entrepreneur is one who combines the land of one, the labour of another and the capital of yet another and thus produces a product. By selling the product in the market, he pays interest on capital, rent on land and wages to labourers and what remains is his/her profit.

(3) Identify Whether True/False:

      (a) True

      (b) True

      (c) False

      (d) True

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11.12 SUGGESTED READINGS:

- Entrepreneurship and Small Business Management: Gupta C.B, Khanka S.S
- Entrepreneurial Performance in Indian Industry: Sharma R.A.
- Entrepreneurship and Growth of Enterprise in Industrial Estates: Rao N Gangadhar
- Motivation, Performance, Rewards: Saxena Anand
- Organization Theory and Behaviour: Sharma R.A.

11.13 TERMINAL QUESTIONS:

Q1. Define entrepreneurship? Discuss in detail entrepreneurial attributes of successful entrepreneurs.

Q2. Discuss in different types of entrepreneurial in detail?

Q3. Discuss the functions of entrepreneurship?

UNIT 12: THEORIES OF ENTREPRENEURSHIP AND INSTITUTIONAL ROLE IN THE ENTREPRENEURSHIP DEVELOPMENT

STRUCTURE

12.1 Introduction

12.2 Objectives

12.3 Introduction: Meaning Of Entrepreneur and entrepreneurship

12.4 Theories of Entrepreneurship

12.5 Check Your Progress 1

12.6 Entrepreneurial Practices in India

12.7 Institutional Support to Entrepreneurs

12.8 Check Your Progress 2

12.9 Summary

12.10 Glossary

12. 11 Answers to Check Your Progress 1 And 2

12.12 Reference

12. 13 Suggested Reading

12.14 Terminal Questions

12.1 INTRODUCTION:

In the previous chapter, you have learnt about Entrepreneurial Attributes, Entrepreneurial Types and Entrepreneurship Functions. In the present chapter we will be discussing about theories of entrepreneurship, what are important roles of different financial institutions in better development of entrepreneurs at central level, state level and district level?

12.2 OBJECTIVES:

After studying this unit, you will be able to:
- State the meaning of entrepreneurship.
- Explain various theories of entrepreneurship.
- Describe Entrepreneurial practices in India

- Explain important roles of different financial institutions in entrepreneurship development at central and state level.
- Explain important roles of different financial institutions in entrepreneurship development at district level.

12.3 MEANING OF ENTREPRENEUR AND ENTREPRENEURSHIP:

It is often said that a person cannot win a game that they do not play. In the context of entrepreneurship, this statement suggests that success depends on people's willingness to become entrepreneurs. Moreover, because the pursuit of entrepreneurial opportunity is an evolutionary process in which people select out at many steps along the way, decisions made after the discovery of opportunities — to positively evaluate opportunities, to pursue resources, and to design the mechanisms of exploitation — also depend on the willingness of people to 'play'' the game. An entrepreneur is an innovative person who maximizes his profits by following new strategies or venturing into new products or services. A good entrepreneur is one who is capable of inspiring confidence in people, and has the ability to motivate them. An Entrepreneur is a person who has possession over a company, enterprise, or venture, and assumes significant accountability for the inherent risks and the outcome.

12.3.1 Definition:

Entrepreneur has been defined as under:

1. **According to Oxford Dictionary** "A person who sets up a business or businesses, taking on financial risks in the hope of profit"
2. **International Encyclopedia defines entrepreneur as** "An individual who bears the risk of operating a business in the face of uncertainty about the future conditions"

The entrepreneur is an individual who forms an organization for commercial purpose. He/She is proprietary capitalist, a supplier of capital and at the same time a manager who intervenes between the labour and the consumer.

"Entrepreneur is an employer, master, merchant but explicitly considered as a capitalist"

On the other hand Entrepreneurship consists of doing things that are not generally done in the ordinary course of business routine; it is essentially a phenomenon that comes under the wider aspect of leadership. Entrepreneurship has been defined as under:

1. In the words of **Albert Shapero** "In entrepreneurship, there is agreement that we are talking about a kind of behaviour that includes: (1) initiative taking, (2) the organizing or reorganizing of social economic mechanisms to turn resources and situations to practical account, and (3) the acceptance of risk of failure" .

2. **Joseph Schumpeter** defines "Entrepreneurship is the dynamic process of creating incremental wealth. This wealth is created by individuals who assume the major risks in terms of equity, time, and/or career commitment of providing value for some product or service. The product or service itself may or may not be new or unique but value must somehow be infused by the entrepreneur by securing and allocating the necessary skills and resources".

12.4 THEORIES OF ENTREPRENEURSHIP:

Entrepreneurship refers to a process of action an entrepreneur undertakes to establish his/her enterprise. It is an innovative and creative response to the surrounding. In other words entrepreneurship can be defined as an ability to discover create or invent opportunities and exploit them to the benefit of the society, which brings prosperity to the innovator and his organisation.

Main theories of entrepreneurship are summarised as follow:

12.4.1 Early Theories of Entrepreneurship:

Richard Cantillon (1680-1734) was the first of the major economic thinkers to define the entrepreneur as an agent who buys means of production at certain prices to combine them into a new product. He classified economic agents into landowners, hirelings, and entrepreneurs, and considered the entrepreneur as the most active among these three agents, connecting the producers with customers.

Jean Baptise Say (1767-1832) improved Cantillion's definition by adding that the entrepreneur brings people together to build a productive item.

12.4.2 Frank Knight's Risk Bearing Theory:

Frank Knight (1885-1972) first introduced the dimension of risk-taking as a central characteristic of entrepreneurship. He adopts the theory of early economists such as Richard Cantillon and J B Say, and adds the dimension of risk-taking. This theory considers uncertainty as a factor of production, and holds the main function of the entrepreneur as acting in anticipation of future events. The entrepreneur earns profit as a reward for taking such risks.

12.4.3 Alfred Marshall's Theory of Entrepreneurship:

Alfred Marshall in his Principles of Economics (1890) held land, labor, capital, and organization as the four factors of production, and considered entrepreneurship as the driving factor that brings these four factors together. The characteristics of a successful entrepreneur include:

- thorough understanding of the industry
- good leadership skills.
- foresight on demand and supply changes and the willingness to act on such risky foresights.

Success of an entrepreneur however depends not on possession of these skills, but on the economic situations in which they attempt their endeavors. Many economists have modified Marshall's theory to consider the entrepreneur as the fourth factor itself instead of organization, and which coordinates the other three factors.

12.4.4 Max Weber's Sociological Theory:

The sociological theory entrepreneurship holds <u>social cultures </u>as the driving force of entrepreneurship. The entrepreneur becomes a role performer in conformity with the role expectations of the society, and such role expectations base on religious beliefs, taboos, and customs.

Max Weber (1864-1920) held religion as the major driver of entrepreneurship, and stressed on the spirit of capitalism, which highlights economic freedom and private enterprise. Capitalism thrives under the protestant work ethic that harps on these values. The right combination of discipline and an adventurous free-spirit define the successful entrepreneur.

12.4.5 Mark Casson's Economic Theory:

Mark Casson (1945) holds that entrepreneurship is a result of conducive economic conditions.

In his book "Entrepreneurship, an Economic theory" he states the demand for entrepreneurship arising from the demand for change. Economic factors that encourage or discourage entrepreneurship include:

1. taxation policy
2. industrial policy
3. easy availability of raw materials
4. easy access to finance on favorable terms
5. access to information about market conditions
6. availability of technology and infrastructure

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7. marketing opportunities

12.4.6 Joseph Schumpeter's Innovation Theory:

Joseph Schumpeter's innovation theory of entrepreneurship (1949) holds an entrepreneur as one having three major characteristics: innovation, foresight, and creativity. Entrepreneurship takes place when the entrepreneur

1. creates a new product
2. introduces a new way to make a product
3. discovers a new market for a product
4. finds a new source of raw material
5. finds new way of making things or organization

Schumpeter's innovation theory however ignores the entrepreneur's risk taking ability and organizational skills, and place undue importance on innovation. This theory applies to large-scale businesses, but economic conditions force small entrepreneurs to imitate rather than innovate. Other economists have added a dimension to imitating and adapting to innovation. This entails successful imitation by adapting a product to a niche in a better way than the original product innovators innovation.

12.4.7 Israel Kirtzner's Theory of Entrepreneurship:

Israel Kirzner (1935) hold spontaneous learning and alertness two major characteristics of entrepreneurship, and entrepreneurship is the transformation of spontaneous learning to conscious knowledge, motivated by the prospects of some gain.

Kirzner considers the alertness to recognize opportunity more characteristic than innovation in defining entrepreneurship. The entrepreneur either remedies ignorance or corrects errors of the customers. His entrepreneurship model holds:

1. The entrepreneur subconsciously discovering an opportunity to earn money by buying resources or producing a good, and selling it.
2. Entrepreneur financing the venture by borrowing money from a capitalist.
3. Entrepreneur using the funds for his entrepreneurial venture.
4. Entrepreneur paying back the capitalist, including interest, and retaining the "pure entrepreneurial profit."

12.4.8 Leibenstein's Theory of Entrepreneurship:

Harvey Leibenstein (1922-1994) consider entrepreneur as gap-fillers. The three traits of entrepreneurship include:

1. recognizing market trends

2. develop new goods or processes in demands but not in supply

3. determining profitable activities

Entrepreneurs have the special ability to connect different markets and make up for market failures and deficiencies.

12.4.9 McClelland's Theory of Achievement Motivation:

McClellands Theory of Achievement Motivation hold that people have three motives for accomplishing things: the need for achievement, need for affiliation, and need for power. Need for achievement and need for power drive entrepreneurship. David McClelland (1917-1988) considers entrepreneurs as people who do things in a better way and makes decisions in times of uncertainty. The dream to achieve big things overpowers monetary or other external incentives. McClelland's experiment reveled that traditional beliefs do not inhibit an entrepreneur, and that it is possible to internalize the motivation required for achievement orientation through training.

12.4.10 Peter Drucker's Theory of Entrepreneurship:

Peter Drucker (1909-2005) holds innovation, resources, and an entrepreneurial behavior as the keys to entrepreneurship. According to him entrepreneurship involves

1. increase in value or satisfaction to the customer from the resource

2. creation of new values.

3. combination of existing materials or resources in a new productive combination.

12.5 CHECK YOUR PROGRESS: 1

Answer the following in brief:

(1) Define entrepreneur.

....
....
....
....

(2) Define entrepreneurship.

....
....

(3) Fill In The Blanks:

1. .... is the dynamic process of creating incremental wealth.

2. Entrepreneurship refers to a process of action an entrepreneur undertakes to establish his / her...........................

3. Harvey Leibenstein consider entrepreneur as......................

4. Israel Kirzner hold ....two major characteristics of entrepreneurship.

12.6 ENTREPRENEURIAL PRACTICES IN INDIA:

The history of entrepreneurship is important worldwide, even in India. In the pre colonial times the Indian trade and business was at its peak. Indians were experts in smelting of metals such as brass and tin. Kanishka Empire in the 1st century started nurturing Indian entrepreneurs and traders.

Following that period, in around 1600 A.D., India established its trade relationship with Roman Empire. Gold was pouring from all sides. Then came the Portuguese and the English. They captured the Indian sea waters and slowly entered the Indian business. They forced the entrepreneurs to become traders and they themselves took the role of entrepreneurs. This was the main reason for the downfall of Indian business in the colonial times which had its impact in the post-colonial times too. The colonial era make the Indian ideas and principles rigid.

A region of historic trade routes and vast empires, the Indian subcontinent was identified with its commercial and cultural wealth for much of its long history. Gradually annexed by the British East India Company from the early eighteenth century and colonized by the United Kingdom from the mid-nineteenth century, India became an independent nation in 1947 after a struggle for independence that was marked by widespread nonviolent resistance. It has the world's twelfth largest economy at market exchange rates and the fourth largest in purchasing power. Economic reforms since 1991 have transformed it into one of the fastest growing economies however, it still suffers from high levels of poverty, illiteracy, and malnutrition. For an entire generation from the 1950s until the 1980s, India followed socialist-inspired policies. The economy was shackled by extensive regulation, protectionism, and public ownership, leading to pervasive corruption and slow growth. Since 1991, the nation has moved towards a market-based system.

As stated earlier, the term entrepreneurship is generally associated with the establishment of a small business. There is no doubt that in a country like India, Capable persons with dynamic confidence and vision usually launch small enterprises instead of going in for employment. Entrepreneurship offers an independent way of life for the young persons who want to be masters of their own destiny. Many authors believe, lack of entrepreneurship is one of the causes of the slow growth of Indian economy although we have abundance of natural resources and manpower. This fact has been duly recognised by the government which

provides many facilities and incentives to entrepreneurs. Hence, the industrial polices and five-year plans of the government have encouraged entrepreneurs to increase the tempo of industrialisation. The government now provides various incentives and concessions, which include capital subsidy, technical know-how, marketing facilities, providing industrial sheds and other infrastructure facilities. After the establishment of Industrial Financial Corporation of India (IFCI) by the Central Government, several state governments have started their own financial corporations to help entrepreneurs in raising finance and providing technical facility. Further, institutions like Industrial Development Bank of India (IDBI), Small Industrial Development Bank India (SIDBI), Small Industries Development Organisation (SIDO), National Small Industries Corporations (NSIC), Small Industries Service Institutes (SISIs), State Small Industries Development Corporations (SSIDC), Directorate of Industries, District Industries Centres (DICs) have helped towards proliferation of entrepreneurship in our country. Some of these financial institutions have also started providing venture capital to young and upcoming entrepreneurs. The sustained efforts of the government and these institutions have started yielding results. The results are more prominent in the post liberalisation period (1990). Mr. N.R. Narayana Murthy of Infosys technologies and Mr. Shiv Nadar of HCL technologies are the best examples. However, a vast majority of entrepreneurs are engaged in tiny and small-scale units. The usual problems faced by such business establishments include shortage of material, capital and power, lack of training facilities, lack of quality control, inadequate marketing faculties and so on. The government has to address these problems permanently so that entrepreneurship in India could reach new heights.

12.7 INSTITUTIONAL SUPPORT TO ENTREPRENEURS:

Governments-both Central and State, have in the past taken a number of measures for the development of small and medium enterprises. Government has set up a number of development institutions to support entrepreneurs. Some of the institutions assisting entrepreneurs include District Industries Centres (DICs) and Industrial Estate, Small Industries Development Organisation (SIDO), Small Industries Service Institutes (SISI), Small Industry Development Corporation (SIDCO), Entrepreneurial Guidance Bureau (EGB), National Alliance of Young Entrepreneurs (NAYE), National Productivity Council (NPC) and Venture capital funds (VCF). In addition, all India financial institutions-IDBI, IFCI, ICICI-have promoted/sponsored a number of Technical Consultance Organisations (TCOs) to assist small entrepreneurs in different ways. Recently, the Small Industries

Development Bank of India (SIDBI) has been established to help small scale units. Besides, agencies like Khadi and Village Industries Commission, Commercial Banks, Cooperative Banks, EXIM Bank and National Science and Technology Entrepreneurship Board undertake promotional activities aiming at support in entrepreneurship development. Now, what follows in the subsequent pages is the various kinds of support provided by aforesaid institutions to the entrepreneurs to help them establish industries.

12.7.1 Small Scale Industries Board (SSIB):

The Government of India constituted a Board, namely, Small Scale Industries Board (SSIB) in 1954 to advise on the development of small scale industries in the country. The SSIB is also known as Central Small Industries Board. The range of developmental work in small scale industries involves several departments/ministries and several organs of the Central/State Governments. Hence, to facilitate co-ordination and inter-institutional1inkages, the Small Scale Industries Board has been constituted. It is an apex advisory body constituted to render advice to the Government on all issues pertaining to the development of small-scale industries.

The Industries Minister of the Government of India is the Chairman of the SSIB. The SSIB comprises of 50 members including State Industry Minister, some Members of Parliament, and Secretaries of various Departments of Government of India, financial institutions, public sector undertakings, industry associations and eminent experts in the field.

12.7.2 State Small Industries Corporations:

Many State Governments have set up Small Industries Corporations in order to undertake a number of commercial activities. The most important of these activities are distribution of scarce raw materials, supply of machinery on hire purchase basis, constitution and management of industrial estates, procurement of orders from Government Departments, assistance in export marketing and in certain cases provision of financial, technical and managerial assistance to small enterprises.

12.7.3 Small Industries Development Corporation (SIDCO):

In Tamilnadu SIDCO is the state small industries corporation. It plays a lead role in developing small scale sector. It provides the following facilities to small scale units:

(a) It makes provision of constructed sheds/plots in industrial estates. These are sold to entrepreneurs on hire-purchase basis or given on rental basis.

(b) Assistance in procuring some scarce key raw materials like iron and steel, paraffin wax, potassium chlorate, Fatty Acids, etc., through its various distribution centres.

(c) Financial assistance in the form of subsidies to industrial units in backward areas like Central Investment subsidy, state capital subsidy. Interest-Free sales tax loans, power tariff subsidy and margin money assistance for the rehabilitation of the sick small scale industries.

(d) Marketing assistance to small entrepreneurs.

12.7.4. Small Industries Service Institutes (SISIs):

The Small Industries Services Institutes (SISIs) are set up to provide consultancy and training to small entrepreneurs-both existing and prospective. The activities of SISIs are coordinated by the Industrial Management Training division of the DCSSI's office. There are 28 SISIs and 30 branch SISIs set up in State capital and other places all over the country. The main functions of SISIs include:

1. To serve as interface between Central and State Governments.
2. To render technical support services.
3. To conduct Entrepreneurship Development Programmes.
4. To initiate promotional programmes.

The SISIs also render assistance in the following areas:

(i) Economic Consultancy/Information/EDP Consultancy.

(ii) Trade and market information's.

(iii) Project profiles.

(iv) State industrial potential survey.

(v) District industrial potential surveys.

(vi) Modernisation and inplant studies.

(vii) Workshop facilities.

(viii) Training in various trade/activities.

12.7.5 District Industries Centres (DICs):

The District Industries Centres were established in May 1978 with a view to provide integrated administrative framework at the district level for promotion of small-scare industries in rural areas. The DICs are envisaged as a single window interacting agency with the entrepreneur at the district level. Services and support to small entrepreneurs are provided under a single roof through the DICs. They are the implementing arm, of the Central and State Governments for various schemes and programmes. Registration of small industries is done at the district industries

centres. The organisational structure of DICs consists of General Manager, four Functional Managers and three Project Managers to provide technical service in the area relevant to the needs of district concerned. Management of the DIC's is done by the State Governments. The scheme has now been transferred to the states and from the year 1993-94, funds will not be provided by the Central Government to the States for running the DICs.

Functions

The DICs role is mainly promotional and developmental. To attain this, they have to perform the following main functions:

1. To conduct industrial potential surveys keeping in view the availability of resources in terms of material and human skill, infrastructure, demand for product, etc. To prepare techno-economic surveys and identify product lines and then to provide investment advice to entrepreneurs.
2. To prepare an action plan to effectively implement the schemes identified.
3. To guide entrepreneurs in matters relating to selecting the most appropriate machinery and equipment, sources of its supply and procedure for procuring imported machinery, if needed, assessing requirements for raw materials etc.
4. To appraise the worthiness of the various proposals received from entrepreneurs.
5. To assist the entrepreneurs in marketing their products and assess the possibilities of ancillarisation and export promotion of their products.
6. To undertake product development work appropriate to small industries.
7. To conduct artisan training programmes.
8. To function as the technical arms of DRDA in administering IRD and TRYSEM programmes.

12.7.6 Industrial Estates:

Developing countries require institutional arrangements for their rapid industrialisation and balanced growth. One such institutional measure is industrial estates. The term 'industrial estate' is called by different names, e.g., industrial park, industrial zone, industrial region, industrial city, industrial area, Industrial Township, etc. An industrial estate has been defined as a method of "organising, housing and servicing industry, a planned clustering of industrial enterprises offering standard factory building erected in advance of demand and a variety of services and facilities to the occupants". In other words, an industrial estate is a tract of land sub-divided and developed according to a comprehensive plan for the use of a community of industrial enterprises. It is a planned clustering of industrial units

offering standard factory buildings and a variety of services and facilities to entrepreneurs.

Types of Industrial Estates

Industrial estates are classified on various bases. The prominent ones are:

1. Classification on the basis of Functions: On the basis of functions industrial estates are broadly classified into two types: (i) General type industrial estates, and (ii) Special type industrial estates.

General Type Industrial Estates: These are also called as conventional or composite industrial estates. These provide accommodation to a wide variety and range of industrial concerns. The Indian industrial estates are mainly of this type.

Special Type Industrial Estates: This type of industrial estates is constructed for specific industrial units, which are vertically or horizontally interdependent.

2. Classification on the basis of Organisational Set-up: On this basis, industrial estates are classified into following four types:

  (i) Government Industrial Estates,

  (ii) Private Industrial Estates,

  (iii) Co-operative Industrial Estates, and

  (iv) Municipal Industrial Estates.

3. Other Classifications:

(i) Ancillary Industrial Estates: In such industrial estates, only those small-scale units are housed which are ancillary to a particular large industry. Examples of such units are like one attached to the HMT, Bangalore.

(ii) Functional Industrial Estates: Industrial units manufacturing the same product are usually housed in these industrial estates. These industrial estates also serve as a base for expansion of small units into larger units.

(iii) The Workshop-bay: Such types of industrial estates are constructed mainly for very small firms engaged in repair work.

Objectives of Industrial Estates

  The main objectives of the establishment of industrial estates are:

(i) To provide infrastructure and accommodation facilities to the entrepreneurs;

(ii) To encourage the development of small-scale industries in the country;

(iii) To decentralise industries to the rural and backward areas;

(iv) To encourage ancillarisation in surrounding major industrial units; and

(v) To develop entrepreneurship by creating a congenial climate to run the industries in these estates.

Industrial Estates in India

One of the handicaps faced by small scale industries in India has been the lack of well-developed space with the necessary infrastructure for carrying on their manufacturing operations. In order to overcome this problem, the Government of India launched the programme of setting up industrial estates in 1955. The responsibility for planning, developing, constructing and managing industrial estates lies with the respective State Governments. They are free to run the estates through corporations or any other agencies of their choice. The Central Government provides financial assistance to the State Governments for the development of industrial estates. Such financial assistance is provided in the form of loans, grants and subsidies. Industrial estates as a tool of rapid and balanced economic development, occupy a prominent place in the scheme of planned growth in India. These estates are expected to foster the growth of small scale industries, help in rural industrialisation, and decentralisation of industrial location. Therefore, increasingly more funds have been allocated under successive five year plans for the development of industrial estates. Such allocation of funds increased from Rs. 58 lakhs under the First Five Year Plan to more than Rs. 90 crores in the Eighth Five Year Plan. The programme of industrial estates in India is designed to achieve the following objectives:

(i) To encourage the development of small-scale and medium sized industrial units for balanced regional development;

(ii) To remove concentration or congestion of industries in big cities by facilitating the movement of industrial units to suburban and rural areas;

(iii) To secure decentralisation of industry by diverting new industrial units to underdeveloped regions;

(iv) To encourage the growth of ancillary units in the townships surrounding major industrial undertakings, both in public and private sectors. No developing country has launched such a massive programme of industrial estates as India.

Over the years there has been a remarkable growth in industrial estates. However, a sizeable portion of capacity in industrial estates remains unutilised. Experience reveals that urban industrial estates have been more successful than semi-urban and rural estates. Rural estates have not been much successful due to lack of sound infrastructural facilities. Therefore, efforts should be made to develop sound infrastructure in rural and suburban industrial estates.

Small industry certainly needs a boost through industrial estates. But industrial estates should not simply become a housing colony for small units,

irrespective of their merits. Encouraging the small units that do hot fit into the nation's needs and the national priorities is pointless. Identification of the product, manufacturing of which results in the promotion of labour - intensive industry and choosing the techniques that help promote the labour - and intensive manufacturing should be the objectives of the industrial estates.

12.7.7 National Small Industries Corporation Ltd. (NSIC):

The National Small Industries Corporation Ltd. (NSIC), an enterprise under the Union Ministry of Industries, was set up in 1955 to promote, and foster the growth of small scale industries in the country. NSIC provides a wide range of services, predominantly promotional in character to small scale industries. Its main functions are:

1. To provide machinery on hire-purchase scheme to small scale industries.
2. To provide equipment leasing facility.
3. To help in export marketing of the products of small scale industries.
4. To develop proto-type of machines and equipments to pass on to small scale industries for commercial production.
5. To distribute basic raw material among small scale industries through raw material depots.
6. To help in the development and upgradation of technology and implementation of modernisation programmes of small scale industries.
7. To impart training in various industrial trades.
8. To undertake the construction of industrial estates.

12.7.8 Small Industries Development Organisation (SIDO):

Small Industries Development Organisation (SIDO) is a subordinate office of the Department of SSI & ARI. It is an apex body and nodal agency for formulating, coordinating and monitoring the policies and programmes for promotion and development of small-scale industries. Development Commissioner is the head of the SIDO. He is assisted by various directors and advisers in evolving and implementing various programmes of training and management consultancy, industrial investigation, possibilities for development of different types of small scale industries, development of industrial estates, etc. The main functions of SIDO are classified into (i) co-ordination, (ii) industrial development and (iii) extension. These functions are performed through a national network of institutions and associated agencies. All small-scale industries except those falling within the

specialised boards and agencies like KVIC, Coir Boards, Central Silk Board, etc. fall under the purview of the SIDO.

Following are the main tasks performed by the SIDO in each of its three categories of functions.

Functions Relating to Co-ordination:
i.   To evolve a national policy for the development of small scale industries,
ii.   To co-ordinate the policies and programmes of various State Governments,
iii.   To maintain a proper liasion with the related Central Ministries, Planning commission, State Governments, Financial Institutions, etc., and
iv.   To co-ordinate the programmes for the development of industrial estates.

Functions Relating to Industrial Development:
i.   To reserve items for production by small-scale industries,
ii.   To collect data on consumer items imported and then, encourage the setting of industrial units to produce these items by giving coordinated assistance,
iii.   To render required support for the development of ancillary units, and
iv.   To encourage small scale industries to actively participate in Government Stores Purchase Programme by giving them necessary guidance, market advice and assistance.

Functions Relating to Extension:
i.   To make provision of technical services for improving technical process, production planning, selecting appropriate machinery, preparing factory layout and design.
ii.   To provide consultancy and training services to strengthen the competitive ability of small-scale industries.
iii.   To render marketing assistance to small-scale industries to effectively sell their products, and
iv.   To provide assistance in economic investigation and information to small scale industries.

12.7.9 Entrepreneurial Guidance Bureau (EGB):

The EGB has, been set up to guide entrepreneurs in identifying investment opportunities, assisting them in selecting locations or the projects, preparing project profiles, assisting them to get financial assistance.

EGB has been supplying information pertaining to the products that offer scope for manufacture, statistical details relating to demand, capacity production,

sources of raw materials, types of equipments required, investment involved, sources of finance, etc. Information of procedures pertaining to obtaining letters of intent, import of capital equipment, and export of finished products is also furnished. EGB also renders assistance from banks/financial institutions or for submitting proposals for the letter of intent, etc. EGB also establishes direct contact with engineering graduates, technically qualified personnel and small entrepreneurs to promote entrepreneurship development.

12.7.10 National Alliance of Young Entrepreneurs (NAYE):

National Alliance of Young Entrepreneurs (NAYE) sponsored an Entrepreneurial Development Scheme with Bank of India in August 1972 on pilot basis. This scheme, known as BINEDS, is operative in the States of Punjab, Rajasthan, Himachal Pradesh, Jammu and Kashmir and Union Territories of Chandigarh and Delhi. NAYE entered into similar arrangements with a few other banks as are discussed below.

1. Dena Bank - NAYE: For Promoting ancillary units and small scale enterprises in Madras.

2. Punjab National Bank- NAYE: Entrepreneurship Assistance Programme launched in the States of West Bengal and Bihar in March 1973.

3. Central Bank of India - NAYE: Entrepreneurship Development Programme being implemented in Maharashtra.

4. Union Bank of India - NAYE: Entrepreneurship Development Programme inaugurated in June 1975 in Tamilnadu with an intention to adopt 200 entrepreneurs.

The main objective of the scheme is to help young entrepreneurs in identifying investment and self-employment opportunities; securing proper arrangements for their training including development of their manufacturing capabilities; providing necessary financial assistance on the basis of properly prepared reports; securing package of consultancy services on appropriate terms and arranging for all possible assistance, facilities and incentives being extended to young entrepreneurs by Government and other institutions.

12.7.11 Small Industry Extension Training Institute (SIETI):

SIET entered the field of consultancy on abhoc basis mainly to support the activities of State Governments and development corporations. SIETI's consultancy services have recently become broad-based in terms of both the types of assignments

undertaken and area covered. The activities have been operative in Jammu and Kashmir, Karnataka, Nagaland, Meghalaya, Manipur, Assam, Maharashtra and Andhra Pradesh. The assignments in the earlier-years pertained to **(1)** identification of industrial opportunities, **(2)** identification of growth centres, **(3)** preparation' of regional development plans, **(4)** industrial profiles, **(5)** feasibility studies, **(6)** organisational development, and **(7)** designing information system. They now include entrepreneurial development; training and counselling of the educated unemployed; management counselling for sick industrial units; and training of trainers and consultants for entrepreneurial development. Particular attention is given to industrialisation of backward areas.

12.7.12 Khadi and Village Industries Commission (KVlC):

KVIC was set up in 1953. The primary objective of establishing KVIC is to develop Khadi and Village industries and improving rural employment opportunities. Its wide range of activities include training of artisans, extension of assistance for procurement of raw materials, marketing of finished products and arrangement for manufacturing and/ distribution of improved tools, equipment and machinery to producers on concessional terms. KVIC provides assistance to Khadi and Village industries which are characterised by low capital intensity and ideally suited to manufacturing utility goods by using locally available resources. There are about 26 specified-village industries such as processing of cereals and pulses, leather, cottage matches, gur and khandsari, palm gur, non-edible oils and soaps, village pottery, carpentry, gobargas, household aluminium utensils, etc. KVIC's policies and programmes are executed through 30 State Khadi and Village Industries Boards, 2320 institutions registerd under the Societies Registration Act, 1960 and about 30,600 Industrial Cooperative Societies registered under State Cooperative Societies Act. Activities involving pioneering types of work, such as developing new industries in hilly, backward and inaccessible areas are undertaken by KVIC directly.

12.7.13 National Institute of Entrepreneurship and Small Business Development (NISEBUD), New Delhi:

It is an apex national level institute of its kind set up at New Delhi in 1983. Its main functions are to coordinate research and training in entrepreneurship development and to impart specialised training to various categories of entrepreneurs. Besides, it also serves as a forum for interaction and exchange of views between various agencies engaged in activities relating to entrepreneurial development.

12.7.14 Technical Consultancy Organisations (TCOs):

A network of Technical Consultancy Organisations (TCOs) was established by the all India financial institutions in the seventies and the eighties in collaboration with state level financial/development institutions and commercial banks to cater to the consultancy needs of small industries and new entrepreneurs. At present, there are 17 TCOs operating in various states, some of them covering more than one state. These 17 TCOs are:

1. Andhra Pradesh Industrial and Technical Consultancy Organisation Ltd. (APITCO).

2. Bihar Industrial and Technical Consultancy Organisation Ltd. (BITCO).

3. Gujarat Industrial and Technical Consultancy Organisation Ltd. (GITCO).

4. Haryana-Delhi Industrial Consultants Ltd. (HARDICON).

5. Himachal Consultancy Organisation Ltd. (HIMCO).

6. Industrial and Technical Consultancy Organisation of Tamil Nadu Ltd. (ITCOT).

7. Jammu and Kashmir Industrial and Technical Consultancy Organisation Ltd. (J&KITCO).

8. Karnataka Industrial and Technical Consultancy Organisation Ltd. (KITCO).

9. Madhya Pradesh Consultancy Organisation Ltd. (MPCON).

10. Mahrashtra Industrial and Technical Consultancy Organisation. Ltd. (MITCON).

11. North-Eastern Industrial Consultants Ltd. (NECON).

12. North-Eastern Industrial and Technical Consultancy Organisation Ltd. (NEITCO).

13. North-India Technical Consultancy Organisation Ltd. (NITCON).

14. Orissa Industrial and Technical Consultancy Organisation Ltd. (ORITCON).

15. Rajasthan Consultancy Organisation Ltd. (RAJCON).

16. U.P. Industrial Consultants Ltd. (UPICO).

17. West Bengal Consultancy Organisation Ltd. (WEBCON).

Functions:

Initially, TCOs' functions were focused on pre-investment studies for small and medium scale enterprises. Over the years, they have diversified their functions to include the following:

    a. To prepare project profiles and feasibility profiles.

    b. To undertake industrial potential surveys.

c. To identify potential entrepreneurs and provide them with technical and management assistance.

d. To undertake market research and surveys for specific products.

e. To supervise the project and where necessary, render technical and administrative assistance.

f. To undertake export consultancy for export-oriented projects based on modern technology.

g. To conduct entrepreneurship development programmes.

h. To offer merchant banking services.

i. A summary view of the progress/performance of TCOs.

12.8 CHECK YOUR PROGRESS: 2

Fill in the blanks:

1. The Government of India constituted a Board ....in 1954 to advice on the development of small scale industries in the country.

2. The Small Industries Services Institutes (SISIs) are set up to provide ....to small entrepreneurs.

3. ....were established in May 1978 to provide integrated administrative framework at district level for promotion of small-scare industries in rural areas.

4. One of the handicaps faced by small scale industries in India has been the lack of ....with the necessary infrastructure for carrying on their manufacturing operations.

5. NSIC, an enterprise under the Union Ministry of Industries to promote, and foster the growth of small scale industries in the country stands for...........................

6. ....was set up to guide entrepreneurs in identifying investment opportunities, assisting them in selecting locations or the projects, preparing project profiles, assisting them to get financial assistance.

12.9 SUMMARY:

In this chapter we have discussed the meaning of entrepreneur, entrepreneurship. It is widely acknowledged that the field of entrepreneurship lacks a single unified and accepted definition for the term "entrepreneurship".

The entrepreneurship is very a old concept according to which anyone who runs business is called an entrepreneur. The more precise meaning of entrepreneur is; one who perceives a need and then brings together manpower, material and capital required to meet that need. Governments-both Central and State, have in the

past taken a number of measures for the development of small and medium enterprises. Government has set up a number of development institutions to support entrepreneurs.

12.10 GLOSSARY:

- **Barter** Direct exchange of merchandise and/or services between businesses.
- **Business Valuation** An estimate of the worth of a business entity and its assets.
- **Entrepreneur**: A person who organizes, operates, and assumes the risk for a business venture.
- **Inventory**: Finished goods, work in process of manufacture, and raw materials owned by a company.
- **Social entrepreneur**: Someone who recognizes a social problem and uses entrepreneurial principles to organize, create, and manage a venture to make social change.

12. 11 ANSWERS TO CHECK YOUR PROGRESS:

CHECK YOUR PROGRESS-1
Fill In The Blanks:
1. Entrepreneurship
2. Enterprise
3. gap-fillers
4. spontaneous learning and alertness

CHECK YOUR PROGRESS-2
Fill in the blanks:
1. Small Scale Industries Board
2. Consultancy and training
3. District Industries Centres
4. Well-developed space.
5. National Small Industries Corporation Ltd.
6. Entrepreneurial Guidance Bureau

12.12 REFERENCE:

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12. 13 SUGGESTED READING:

1. Dynamics of entrepreneurship development management: Vasant Desai
2. Entrepreneurship development: S S Kanka
3. Entrepreneurship Development: S Taneja. And S L Gupta
4. Fundamentals of Entrepreneurship: S K Mohanty

12.14 TERMINAL QUESTIONS:

1. Describe the institutional set up for entrepreneurial development in India.
2. Explain the various competing theories of entrepreneurship. What is the significance of these theories?
3. Discuss the need for institutional support to small-scale industries.
4. Discuss the support provided by the National Small Industries Corporation Ltd. (NSIC) to small-scale industries in the country.
5. What are the functions performed by the Small Industries Development Corporation (SIDCO) to boost the growth of small-scale industries in the country?
6. Describe the role that State Small Industries Development Corporations (SSIDC) play in developing small enterprises in the country.
7. What are District Industries Centres (DICs)? Explain the functions of the DICs?

UNIT 13: ENTREPRENEURIAL BEHAVIOURS AND ENTREPRENEURIAL MOTIVATION; INNOVATION AND ENTREPRENEURSHIP

<u>STRUCTURE</u>

13.1 Introduction

13.2 Objectives

13.3 Meaning of Entrepreneurship Behaviour

13.4 Check Your Progress 1

13.5 Entrepreneurial Motivation

13.6 Theories of Motivation

13.7 Innovation and Entrepreneurship

13.8 Answers to check your progress 1 & 2

13.9 Summary

13.10 Glossary

13.10 Answers to Check Your Progress

13.11 References

13.12 Suggested Readings

13.13 Terminal Questions

13.1 INTRODUCTION:

You are already aware of the roles and functions that the entrepreneurs play in relation to the process of economic development and in relation to the enterprise. In the previous chapter, you have learnt about various Theories of Entrepreneurship given by different peoples and followed in today's era .Institutional Role in the Entrepreneurship Development at central level, state level, and at district level. Governments - both Central and State, have in the past taken a number of measures for the development of small and medium enterprises. Government has set up a number of development institutions to support entrepreneurs. It is hoped that after reading this chapter you will actually see the potential of a career in entrepreneurship, and experience a desire to start a venture of your own.

13.2 OBJECTIVES:

After studying this unit, you will be able to:

1. Describe entrepreneurship behaviour.
2. Define Entrepreneurial Motivation.
3. Describe various theories of motivation.
4. Describe how innovation can help an entrepreneur.

13.3 MEANING OF ENTREPRENEURSHIP BEHVIOUR:

Entrepreneurship is the process of wealth creation and individuals referred to as entrepreneurs create this wealth by being innovative operating competitive businesses. They assume the major risks in terms of equity, time, and/or career commitment of providing value for some product or service. The product may not be new or unique, but entrepreneurs add value into it to make it more competitive.

A preference for changing the status quo over maintaining it based on relatively greater satisfaction generated by novel information over redundant information. Entrepreneurial behaviour underlies the inclination to undertake invention and innovation, including the creation of something new as well as the distribution and adoption of the new throughout society. It is the behaviour most likely exhibited by entrepreneurship. An alternative is managerial behaviour, which is a preference for maintaining the status quo over changing it.

Entrepreneurial behavioural is one of two behavioural alternatives underlying the desire to undertake innovations and to change the status quo. The other is managerial behaviour. Entrepreneurial behaviour embraces innovation, is motivated to seek changes in the status quo, and draws satisfaction from institutional changes. In contrast, managerial behavior is a preference for maintaining the status quo.

The underlying source of entrepreneurial behaviour is a relative preference for novel information over redundant information. Both types of information are important to the fight or flight response to a threat. Novel information reveals potential threats that result in automatic physiological responses, which is more satisfying to some than it is to others.

Entrepreneurial behaviour is a preference for innovation and a change in existing institutions and the status quo. It can be as simple as the willingness to buy a new electronic gadget or as involved as rebelling against the existing political regime and starting a new nation. It often surfaces in the form of an entrepreneur undertaking the risk of organizing production and launching a new business venture.

13.3.1 Fight or Flight:

An understanding of entrepreneurial behaviour requires a look at the fundamental, physiological response to potential threat, what is called fight or flight. The human body automatically prepares itself to fight off a potential threat to flee away from it. Respiration increases, pupils dilate, brain wave activity increases, adrenalin is pumped through the body, heart rate increases. The human body is primed and ready to recognize the threat and to respond.

The key to this automatic response is achieved by distinguishing between what's new and different and what's old and familiar. The old and familiar is less threatening that the new and different. The human brain sorts between two different types of information that comes through the five senses (sight, hearing, touch, taste, and smell), attempting to discern the potential for danger -- novel information and redundant information.

i.   **Novel:** This is new information. An unusual sight. A strange sound. An unexpected touch. A bizarre taste. An uncommon smell. The human brain takes immediate note of this information. Because it is unfamiliar, it might be threatening. This is information that needs to be identified quickly. It needs to stand out from the ordinary and familiar. A self-preservation reaction (fight or flight) might be needed.

ii. **Redundant:** This is familiar information. A common sight. A routine sound. A ordinary touch. A recognized taste. An everyday smell. The human brain is wired to largely ignore this information. Because it is familiar, it is not threatening. It is the background canvas upon which novel information is displayed.

Redundant and novel information are both intrinsically satisfying. A little bit of excitement is satisfying (think a roller coaster ride). But so too is a little bit of piece and quiet (think resting after a hectic vacation). However, nothing but redundant information is incredibly boring and not particularly satisfying. And nothing but novel information is anxiety inducing, and also not very satisfying. Too much of one or the other is not a pleasant situation. A combination of the two is most enjoyable. It can maximize satisfaction.

However, different people have different preferences over the proper mix of novel and redundant information. Some prefer relatively more new and less old. Others prefer relatively more old and less new.

These individual differences give rise to entrepreneurial and managerial behaviour. Those who prefer relatively more redundant information and relatively less novel information tend to pursue managerial behaviour. Others who prefer

relatively more novel information and relatively less redundant information tend to pursue entrepreneurial (and innovative) behaviour.

13.3.2 A Preference for Change:

Entrepreneurial behaviour is a preference for changing the status quo over maintaining it. Entrepreneurial types embrace innovation. A change in institutions generates satisfaction for the entrepreneurially inclined. Keeping things structured and orderly is not nearly as satisfying. Entrepreneurial behaviour has a relative preference for novel information over redundant information. Entrepreneurial behaviour surfaces in a number of ways throughout society:

i. **Entrepreneurship:** One notable manifestation of entrepreneurial behaviour is entrepreneurship, the scarce resource that undertakes the risk of organizing production. In many cases, not all but many, entrepreneurs are motivated by the desire to produce something new, to change the status quo. Entrepreneurship might be engaged in the innovation of a new product. It might be utilizing a different method of production or marketing. However, it's also possible that the entrepreneur is doing nothing more than launching a new business to sell an existing product using existing production techniques. Nothing new, nothing novel, no change in the status quo.

ii. **Innovation:** Entrepreneurial behaviour is also key to innovation, the process of applying and disseminating new products, ideas, and institutional changes throughout society. The entrepreneurial desire for change goes hand in hand with the innovation process. It's seen both with those who initially launch the innovations (the sellers) as well as those who are first to adopt the innovations (the buyers). Both sides need the inclination to change the status quo to be part of the innovation process.

iii. **Invention and Creation:** The starting point for most innovation is invention, the act of creating the something new. The invention is perhaps the purest form of entrepreneurial behaviour. Creating something new just for the sake of creating something new. The act of invention includes the standard creation of a new product (think a device that automatically ties your shoe strings), as well as the creation of a new idea, scientific theory, painting, poem, song, novel, computer program, or video game. Many artists, writers, musicians, and computer programmers have a strong entrepreneurial inclination.

iv. **Fashion Trendsetters:** Another common example of entrepreneurial behaviour is those at the forefront of the latest fashions and fads. Trendsetters are commonly motivated by the desire for change, the need to be different, the

inclination to break away from the status quo. The fashion in question is not just clothing, but also includes home furnishings, automobiles, electronic gadgets, and entertainment, to name a few.

v. **Political Revolution:** Changes in existing social and political orders are perhaps among the most historical manifestations of entrepreneurial behaviour. The creation of the United States in the late 1700s is a prime example. So too is the Russian revolution of the early 1900s. The revolutionaries behind both, and many others, exhibited a significant amount of entrepreneurial behaviour.

vi. **Life:** Entrepreneurial behaviour also surfaces in assorted nonspecific actions that make up daily life. The desire to periodically take a new route to work is an example. Another is the compunction to rearrange furniture. A third example is to occasionally try a different restaurant or sample a new cuisine. The changes can be seemingly trivial parts of an otherwise unchanging status quo life.

13.3.3 The Managerial Alternative:

The alternative to entrepreneurial behaviour is managerial behaviour. Managerial behaviour is a preference for maintaining the status quo over changing it. Managerial types resist innovation. A change in institutions does not generate satisfaction. On the contrary, satisfaction is best achieved from keeping things structured and orderly. Managerial behaviour displays a relative preference for redundant information over novel information.

This behavioural alternative is well suited for keeping an existing business running smoothly and efficiently. As the name suggests, managerial types are inclined to manage, to administer, to apply existing rules and procedures. They are not absolutely opposed to change, but the change needs to be orderly and within the rules.

While managerial behaviour is not conducive to creating an invention or launching an innovation throughout society, once the innovation has taken hold and becomes part of the fabric of society, it takes hold. It promotes the now "old" innovation, getting the most benefit possible. Those who are managerial inclined might not favour product innovations (new products), but process innovations (new ways of making existing products) are acceptable.

13.3.5 A Continuum:

Like much of life, the inclination toward managerial or entrepreneurial behaviour is seldom one or the other. Most people have a combination of each and

few exhibit either in the extreme or in all aspects of their lives. One person might be entrepreneurial in business, but managerial at home. Another person might be just the opposite. Each might fulfil the desire for in one activity, and then be satisfy with the status quo in other activities.

13.4 CHECK YOUR PROGRESS: 1

Fill in The Blanks:

1. The product may not be.........................., but entrepreneurs add value into it to make it more competitive.
2. .... is a preference for innovation and a change in existing institutions and the status quo.
3. The entrepreneurial desire for change goes hand in hand with the .... process.
4. .... are commonly motivated by the desire for change.

13.5 ENTREPRENEURIAL MOTIVATION:

According to McFarland. "Motivation refers to the way in which urges drives. Desires, strivings, aspirations or needs direct control or explain the behaviour of human beings". Thus motivation may be defined as the process that motivates a person into action and induces him to follow the course of action till the goals are finally achieved.

Motivation has close relationship with the behaviour of human beings. It explains how and why the human behaviour is caused. MacFarland considers the terms used in his definition in general sense as forms of tension occurring within individuals, with resulting behaviour aimed at reducing, eliminating or diverting the tension. Understanding the needs and drives and their resulting tensions helps to explain and predict human behaviour, ultimately providing a sound basis for managerial decision and action. According to Vasant Desai motivation consists of three elements and these are.

(i) The urges, drives, desires, aspirations, strivings or needs of human beings influence human behaviour.

(ii) The factors influencing human behaviour are psychological, sociological economic or managerial.

(iii) The efficiency of such behaviour may be tested by the resultant action. Whether this behaviour has directed, controlled or implemented the desired action.

A motivated entrepreneur will bring about the requisite action for the satisfaction of desired goal. The unsatisfied needs are the starting point in the

motivation process. The unsatisfied need result in tension within the individual and motivate him to search for ways to relieve the tension. He sets certain goals for himself. If he is successful in achieving the goals, certain other needs will emerge which will lead to setting a new goal. On the other hand if the goal is not achieved the individual will engage himself in either constructive or destructive behaviour. This process never stops and keeps on working within an individual. Motivation thus, includes motives behaviour and goals and relationship.

13.5.1 Definition:

Various Definitions of motive and motivation are:

According to **Bernard and Steiner** "A motive is an inner state that energies, activates or moves and that directs behaviour towards goals."

According to **D.D. Eisenhower**, "Motivation is getting people to do. What you want them to do, because they want to do it".

According to **C.B. Memoria** "A willingness to expend energy to achieve a goal or reward. It is a force that activates dormant energies and sets in motion the action of the people. It is the function that kindles a burning passion for action among the human beings of an organisation".

According to **Vitiles** "Motivation represents an unsatisfied need which creates a state of tension or disequilibrium, causing the individual to make a goal directed pattern towards restoring a state of equilibrium by satisfying the need".

13.5.2 Nature of Motivation:

Based on above definitions the following points of nature of motivation emerge:

1. Motivation refers to internal feelings of an individual or individual's motives.

2. These emotions, feelings or desires of a person prompt him to work more.

3. Unsatisfied needs of an individual disturb his equilibrium, forcing an individual to resort to a goal directed approach.

4. Motivation activates and channelises dormant energies of an individual towards productive action.

5. Motivation is linked to satisfaction. Satisfaction is the feeling of contentment a person experiences out of need fulfilment.

6. An individual is motivated in totality and not in parts.

13.5.3 Types of Motivation:

In order to extract more out of his subordinates a manager will be required to motivate them for performing better. This can be done either by offering them

reward for more work or by instilling fear amongst them in the form of punishment. Motivation can be of two types and these are.

i. **Positive Motivation:** Workers are tempted to put in their best for achieving the desired objectives. These temptations, rewards or incentives can be in the shape of extra pay, promotion, recognition etc. Positive motivation will result in willing cooperation workers for the attainment of organisational goals.

ii. **Negative Motivation:** Negative motivation creates fear or deterrent amongst workers. Fear forces workers to behave in the way the owner wants them to behave.

Workers are coerced to behave in a certain manner, failing which they are threatened with layoffs, demotions, pay cuts etc. Workers work not willingly but out of fear. Out of the two Positive motivations should be preferred as it leads to willing rather than forced cooperation of workers towards the realisation of organisational goals.

13.5.5 Importance of Motivation:

Motivation is necessary for performance. Management tries to utilise various factors of production, at its disposal, in the best possible manner for achieving the desired goals. Efforts of management will bear fruits only when employees are motivated to put in their best. Motivation has become all the more important due to the following reasons.

i. **Improved Morale**: Motivation acts as morale booster for employees. Motivated workers are tempted to put in their best for the realisation of organisational goals High morale will result in more interest in work and higher productivity. It will enable the organisation to produce more at lower costs. It will have overall positive impact on the interests of the various parties linked with the business.

ii. **Lower labour turnover**: Motivated employees will never feel like leaving the organisation and as such the firm will be able to utilise the services of trained committed and loyal workers for longer period of time. Organisation will be saved from the botheration of making fresh, recruitment, selection, training and placement of workers Lower labour turnover will result in saving of time, effort and money of the organisation. Rate of absenteeism will be reduced and workers will try to promote organisational interests.

iii. **Improved goodwill**: Motivated employees can help the organisation in improving its goodwill or image. A reputed organisation is in a position to

attract best possible talent from the market. Existing employees won't leave the organisation and outsiders will be keen to join.

iv.   **Cordial Industrial Relations:** A sound motivational system will promote job satisfaction amongst workers. Workers will start identifying their interests with the interests of organisation due to positive motivation. The feeling of distrust, conflict or clash of interest will be removed amongst motivated workers. There won't be any strikes or lockout in the organisation and motivation will ensure cordial industrial relations.

v.   **Quality Orientation:** A motivated employee is generally more quality oriented. Ever gone from bottom to top or top to bottom takes extra care while performing the assigned work. It leads to overall improvement in the working and people start recognising the organisation as a quality conscious organisation**.**

vi.   **Acceptability of Change**: An organisation is required to remain in touch with the changing scenario and at the same time take effective steps for making adjustments according to changes. Its survival and future depends upon its ability to cope up with the changes. Motivated employees rather than opposing changes welcome these. They help the owners in converting these changes into opportunities to be exploited in the best possible manner for the promotion of business interests.

13.6 THEORIES OF MOTIVATION:

Need is the starting point of motivation. A satisfied need does not motivate an individual. It is only the unsatisfied need which creates tension and stimulates drives within the individuals for the satisfaction of the need and reduction of tension. The efforts or actions initiated by the individual will yield results which will lead to satisfaction of need or removal of tension. Classical theorists and scientific management thinkers were of the opinion that people were mainly interested in maximising economic gains as they were primarily concerned with satisfying their basic needs of food, water, air, shelter etc. Thus they tried to link up performance and productivity with monetary rewards or incentives.

F.W. Taylor, father of Scientific Management proposed Differential Piece rate system for motivating workers to work at their level best. The traditional thinkers were mainly concerned with the monetary reward and were treating human beings as mere machines, which do not have any inner feelings or emotions.

Under **Hawthorne Experiments** it was proved that there was no direct relationship between productivity and economic rewards. Money is an essential

condition but not a sufficient one for motivating people to work. Human beings are not machines and they have also social and psychological needs.

Various researchers are actively engaged in finding answer to one basic question i.e. what motivates people? or what makes them work? Various theories have been propounded by different experts to focus attention on this basic issue. Prominent and relatively more relevant to entrepreneurship are as under:-

13.6.1. Maslow's Need Hierarchy Theory:

Maslow's theory is based on human needs. He developed a conceptual framework for understanding human motivation. He was of the opinion that every individual has a complex set of exceptionally strong needs and the behaviour of an individual at a particular moment of time is usually determined by his strongest need. He defined a person's effectiveness as a function of matching man's opportunity with the appropriate position of hierarchy of needs. Process of motivation begins with the assumption that the behaviour, atleast in part, is directed towards the achievement or the satisfaction of needs. Maslow felt that the 'needs have a definite sequence of domination' Second need does not dominate till first need is reasonably satisfied and third need does not dominate until first two needs have been reasonably satisfied. Man is never fully satisfied, if one need is satisfied the other will arise and so on. Once a need or certain order of needs is satisfied, it ceases to be a motivating factor. Maslow stated that human beings have five basic levels of needs, which they tend to satisfy in a hierarchical manner. He proposed that human needs can be arranged in a particular order from the lower level needs to the highest level needs. These five needs can be discussed as follows:

(i) **Physiological Needs:** These needs are basic and are related to survival and maintenance of life. These needs comprise of food water, air, shelter, clothing and _ necessities of life. The first priority of human beings is to acquire these basic necessities of life and then move to second level of needs.

(ii) **Safety and Security Needs:** After satisfying physiological needs, human beings aim at satisfying safety and security needs. Human beings are not content with just satisfying present physiological needs, they want to make provision for the same for future also. They want job security, personal body security, security of source of income, provision for old age, insurance against risks etc. Entrepreneurs just like other human beings are guided by all these factors.

(iii) **Social Needs:** Man is a social animal and wants to belong to a social group where his social and emotional needs for love, affection, warmth and friendship are satisfied. An entrepreneur too is interested in conversation, exchange

of feelings and grievances with fellow entrepreneurs, his employees and others. He wants to belong to others and expects that others should belong to him i.e. the feeling of belongingness.

(iv) Esteem Needs: These needs include self respect, self confidence, recognition appreciation, prestige, power & control. These are also known as egoistic needs and affect prestige and status of individuals. Entrepreneurs derive status and respect through their ownership and control over their business.

(v) Self-actualisation or Self fulfilment needs: This is the ultimate goal and involves realising one's potentialities for continued self development. After other needs are fulfilled a man has the desire for personal achievement. He wants to do something which is challenging and since this challenge gives him enough push and initiative to work. It is beneficial to him and the society. The sense of achievement gives him psychological satisfaction. An entrepreneur can achieve self actualisation in being a successful entrepreneur.

Though the impulse to realise one's potential is natural and necessary, only a few usually the gifted ever do so. Maslow himself estimated that less than one percent of the people realise the need for self actualisation. Maslow states three reasons for it.

(i) People are invariably blind to their own potentialities.

(ii) Social environment often stifles development towards self fulfilment.

(iii) The strong negative influence is exercised by the safety needs. The growth process demands a constant willingness to take risks, make mistakes and to break old habits. All these result in breaking the safety barriers.

Maslow's need hierarchy has been highly appreciated. Maslow felt that the needs have a definite sequence of domination. Second need does not dominate until first need is reasonably satisfied and third need does not dominate until first two have been reasonably satisfied and so on. The other side of the need hierarchy is that man is a wanting animal, he continues to aspire for something or the other. He is never fully satisfied. If one need is satisfied the other arises.

Maslow stated that needs arise in certain order of preference and not randomly. Thus if one's lower level needs (physiological and security) are unsatisfied, he can be motivated by satisfying only his lower level needs and not his higher level needs. Another conclusion is that once a need or a certain order of needs is satisfied, it ceases to be motivating factor. The physiological and security needs are finite, but the needs of higher order are sufficiently infinite and are likely to be dominant in persons at higher levels in the organisation.

Maslow, however, admits that his hierarchy of needs is not as rigid as he may have implied. There have been a number of exceptions and these are.

(i) For some people self esteem seems to be more important that love. They may be deprived of their lower level needs and yet may strive for self actualisation needs. Certain people may attach more importance to esteem needs than social needs.

(ii) Some creative people, though lacking in basic needs, may attain self actualisation.

(iii) Need and satisfaction of need is a psychological feeling. Sometimes a person may not be aware of his own needs.

(iv) There are many other determinants of behaviour other than needs and desires. Thus the behaviour of a person may not be wholly linked with his needs and desires.

Despite its limitations the Maslow theory offers guidelines for understanding and moulding human behaviour.

For the development of entrepreneurship last three in the hierarchy i.e. social, esteem and self actualisation are more important.

13.6.2 Mcclelland's Three Need Model:

According to David McClelland, "a person acquires three types of needs as a result of one's life experience. He tends to develop certain motivational drives as a result of his interaction with the environment in which he lives. There three needs

i. Need for achievement: It is a drive to excel advance and grow. This refers to one's desire to achieve something with own efforts. People with a high need for achievement derive satisfaction from achieving goals. These people are often wealthy and their wealth comes from their ability to achieve goals. High achievers want immediate feedback on their performance and they generally undertake tasks of moderate difficulty rather than those which are either very easy or very difficult. These people prefer to work independently so that successful task performance can be linked to their own efforts rather than to someone else's **McClelland** and his associates made specific suggestions for the development of achievement need and these are.

a) Give employees periodic feedback on performance. This will provide information that will enable them to modify or correct their performance.
b) Provide good models of achievement. Employees who are successful should be made available for others to emulate.

c) Arrange tasks so that employees can pursue moderate challenges and responsibilities. Avoid tasks that are either very difficult or very easy.

d) As much as possible employees should be able to control their own destiny and imagination. They should be trained to think realistically and positively about how they will accomplish goals.

ii. Need for power: A drive to influence others and situations. It refers to one's desire to influence and dominate others through use of authority. Achievement of goals is less important than the means by which goals are achieved. **Alfred Adler** was leading advocate of power motive. He propounded the concept of inferiority complex and compensation. According to him the individual's life style is characterised by striving to compensate for the feeling of inferiority which are combined with innate drive for power. As such there arises need to manipulate others or there is drive for superiority over others. McClelland and his associates have found that people with high power need have a great concern for exercising influence and control. Such types of people generally seek positions of leadership and are forceful, outspoken, hard headed and demanding.

iii. Need for affiliation: A drive for friendly and close interpersonal relationships. It refers to one's desire to establish and maintain friendly relationship with others. People with affiliation need derive satisfaction from social and inter personal activities. Affiliation plays a very vital role in human behaviour. McClelland has suggested that people with high need for affiliation usually derive pleasure from being loved and tend to avoid pain of being rejected. These individuals are concerned with maintaining pleasant social relationship, enjoying a sense of intimacy and understanding and enjoy assisting or helping others in trouble.

People possess the above needs in varying degrees and these needs may be simultaneously acting on an individual, In case of Entrepreneurs need for achievement is more dominating. McClelland is of the opinion that people with high need for achievement are characterised by the following:

(i) They set moderate, realistic and attainable goals for them.

(ii) They take calculated risks and look for challenging tasks.

(iii) They prefer situations where in they can take personal responsibility for solving problems.

(iv) They need concrete feedback on how well they are doing.

(v) Their need for achievement exists not merely for the sake of economic rewards or social recognition rather personal accomplishment is intrinsically more satisfying to them.

As a result of his extensive research in various cultures, McClelland has been able to establish the desirability of high need for achievement for entrepreneurial success in the economic development of a country, but the demands of managerial success are somewhat different. A manager instead of being a doer himself has to get the things done and therefore team work is needed.

A manager cannot perform all the tasks himself. Managerial success calls for a goal directed group efforts. But if a manager is fired with achievement motive, he is at times, unable to delegate effectively. Managers concern for maintaining good interpersonal relationships makes them focus more on the happiness of their subordinates than work performance. Various researches have proved that the most successful managers combine power orientation, especially institutionalised power with achievement orientation for leading both more productive and more satisfied employees or subordinates. In studies of over 500 managers it was concluded that the most effective managers have a high need for power, a moderate need for achievement and a low need for affiliation. These managers have a tendency to use their power in a participative manner for the good of the organisation. People with high needs for both power and achievement have high managerial motivation, but they are not the best managers.

McClelland theory is not free from criticism. Firstly the critics question whether motives can be taught to adults: Psychological literature points out that acquisition of motives normally occurs in childhood and it is very difficult to change once it has been established. McClelland on the other hand states that there is strong evidence to indicate from politics and religion that adult behaviour can be moulded or drastically altered in a relatively short time. Another point of criticism of this theory is the contention that the, needs are permanently acquired. McClelland states that needs can be socially changed through education or training whereas the critics say that the change may be only temporary.

Inspite of these controversies McClelland theory highlights the importance of matching the individual and the job. People with high achievement needs thrive on work that is challenging, satisfying, stimulating and complex.

On the other hand people with low achievement needs prefer situations of stability, security and predictability. They respond better to considerate than to

impersonal high pressure supervision and look to work place and co-workers for social satisfaction.

McClelland has also highlighted the fact that managers can to some extent raise the achievement need level of subordinates by creating the proper work environment, permitting their subordinates a measure of independence, increasing responsibility and autonomy, gradually making tasks more challenging, praising and rewarding better performance. Thus it can be concluded that McClelland theory has numerous practical implications.

13.6.3. Alderfer's ERG Theory:

Clayton Alderfer reformulated Maslow's need hierarchy theory. According to Alderfer, Maslow's five levels of needs can be regrouped under three heads namely *Existence, Relatedness and Growth (ERG).*

i.   **Existence Needs:** These existences needs combine the physiological and safety needs of Maslow. These existence needs can be satisfied by material or financial incentives and include survival needs, physical & psychological safety etc.

ii. **Relatedness Needs:** These include Maslow's social and esteem needs, which are derived from other people. These needs are satisfied by personal relations & social interactions.

iii. **Growth Needs:** These include Maslow's self actualisation needs. These needs will be satisfied only if an individual involves himself in activities of the organisation and is always on the lookout for new challenges and opportunities. Through creative efforts individual can realise his potential by making best use of the available opportunities.

For the proper development of entrepreneurship, Relatedness and Growth needs are more important. Alderfer theory assumes that different types of needs can operate simultaneously whereas Maslow's Theory follows a rigid need hierarchical order.

Very little research exists on the ERG theory of motivation. Still there seems to be some support for the theory over the need priority model or the two factor theory of motivation. ERG theory seems to take some of the strong points of the earlier theories, but is less restricting and limiting.

Besides disagreement over the exact number of categories of needs persist. Satisfying needs is an important part of motivating employees. If a manager finds that a subordinate's growth needs are blocked, for whatever reasons, he may

attempt to redirect employees' behaviour towards satisfying relatedness or growth needs.

13.6.4 The Motivating Factors:

Several studies have been undertaken to identify the factors that motivate people to start their own enterprises. P.N. Sharma has identified nine motivating factors which are as under

1. Educational background.

2. Occupational experience.

3. Desire to do work independently.

4. Desire to branch out to manufacturing.

5. Family background.

6. Assistance from government.

7. Assistance from financial institutions.

8. Availability of technology/raw material.

9. Other factors demand of the particular product, utilisation of excess money earned from contractual estate business started manufacturing to facilitate trading/distribution business since the product was in short supply, unstable policy of the foreign government for non residents and no chance for further promotion.

The above nine factors were grouped into two major categories—internal and external. First five motivating factors were termed as internal and the last four factors as external. The internal motivating factors like education, occupational experience, family background, the desire to do something independently together make the personality of the entrepreneur. These factors generate an inclination to adopt entrepreneurial activity. The presence of internal factor is a necessary condition for the entrepreneurial activity to take place. But entrepreneurial ideas cannot fructify or take real shape without a proper or conducive environment which provides support in terms of financial assistance, technology and raw material and infrastructural facilities. These facilities form external motivating factors and serve as a spark in igniting the entrepreneurial idea. These factors give a boost to the entrepreneurial activities.

The study by P.N. Sharma revealed occupational experience as the most significant internal motivating factor. This experience was accumulated by entrepreneurs either as business executives in industrial concern or as traders/merchants, consultants etc. in the related fields. Occupational experience shows that the entrepreneur had knowledge about the product, industry and

technology applied before promoting the present unit. Moreover occupational experience provides confidence to the entrepreneurs which help reduce the element of uncertainty regarding demand of the product, technology, raw material etc. Technically and professionally qualified entrepreneurs had established enterprises in the fields of their specialisation which amply proves that they were prompted by their qualification or specialisation to initiate industrial activity. Desire to work independently in manufacturing line was another motivating factor. There were certain other persons desirous of changing their occupation as they were of the opinion that there is greater respect in manufacturing. Assistance from financial institutions and the government has emerged as the most important external motivating factor. Most of the entrepreneurs believe that their projects would not have seen light of the day in the absence of adequate financial assistance, infrastructural facilities etc. Availability of appropriate technology either from indigenous sources or from foreign collaboration can be another motivating factor for a few entrepreneurs.

13.7 INNOVATION AND ENTREPRENEURSHIP:

Wikipedia defines innovation as simply, "a new way of doing something." It may refer to incremental, radical and revolutionary changes in thinking, products, processes or organizations. A distinction is typically made between invention, an idea made manifest, and innovation, ideas applied successfully.

Governments around the world see innovative entrepreneurship as the key component to robust economic growth and have pledged to shape their public policies accordingly. The creation of technology-based start-ups is emerging as the bedrock of economic growth and better living standards around the world, as countries shift from an industrial to an information age. Promoting innovative entrepreneurship is thus a central concern for policy makers.

Innovative entrepreneurship is becoming the cornerstone of economic growth in the developed world. It is the source of jobs and high living standards for individuals, as well as great benefits for society in the form of technical progress and economic development.

As the industrial age gathered steam, government supported business and broader society through new infrastructure: railroads, electrification, telephony, media, aviation, etc. Sometimes, it was done though public utilities or regulation; other times through favourable laws or financial subsidies. The result was economic growth. And the commercial firms that cropped up at this time embodied the same sort of big-is-beautiful ethos: vertically-integrated structures that vied for market

dominance; hierarchical management to oversee the human capital. Innovation catalyzes entrepreneurship by providing ideas that can be converted into wealth (through goods and services). Innovation helps reveal market opportunities for entrepreneurship to develop and flourish. Innovations are not limited to those involving high-end technology alone. Any new idea that generates commercial value is by itself the spur for a new entrepreneur to plan a venture. Innovation and Entrepreneurship is a two-way relationship. In one sense, in innovation, someone finds something but that somebody may not be equipped to translate that something into a commercial proposition. That is where entrepreneurship comes in.

13.7.1 Features of innovation:

i. Innovations are the harbingers of change.
ii. Innovations can take place at the spark of light or can take a generation of experiments.
iii. Innovations can be both revolutionary as well as an extension to the existing products.
iv. Innovations provide a USP to a business.
v. Innovations are action oriented i.e. active and searching new ideas.
vi. Innovations help in making the product, services or process simple and understandable.
vii. Innovations help in making the product, services or process customer based.
viii. Innovations is all about trying, testing and revising.
ix. Thus Innovations refers to a process of creation of a product that can solve existing problems or tap opportunities.

13.7.2 Sources of Innovations:

i. Present and potential customer
ii. Existing companies
iii. Raw material provider
iv. Distributors and retailers
v. Research and development
vi. Existing employees

Innovation and problem solving capabilities are expected to be the core of the entrepreneurial capability of an entrepreneur the vast majority of entrepreneurs studied were characterised by sensation-thinking problem solving styles. Such individuals were shown to be short-term oriented dealing with immediate problems. Entrepreneurs are faced with a number of challenges as they try to implement new ideas "innovation is one of the activities is most active during

periods of upheaval: economic, social, or political. This is usually when traditional systems and ways of doing business are no longer affective. Those who survive the changes will be the businesses that act entrepreneurially.

13.8. CHECK YOUR PROGRESS: 2

Fill In The Blanks:

1. ....refers to the way in which urges drives. Desires, strivings, aspirations or needs direct control or explain the behaviour of human beings.
2. Maslow's theory is based on........................
3. Three need model is given by...........................
4. ERG theory is given by...........................
5. ....is simply a new way of doing something.

13.9 SUMMARY:

An entrepreneur is a creative person. Need for self actualisation as manifested in the need for achievement forces him to create something new a new product, a new way of doing things, a new source of raw material, a new market etc. Human behaviour is goal directed or is directed towards satisfaction of needs. Whenever a person feels any need, he feels uneasy and tension starts building in his mind. This tension provokes him to initiate some action which may lead to the satisfaction of the need. It that need is not satisfied that individual is required to resort to some alternate action for the satisfaction of the need.

Motivation may be defined as the process that provokes a person into action and induces him to follow the course of action till the goals are finally achieved. Unsatisfied need creates tension and stimulate within the individual for the satisfaction of need and reduction of tension. Various theories of motivation more relevant to entrepreneurship are given by Maslow's Need Hierarchy Theory, McClelland. Three Need Model, Alderfer's ERG Theory.

In this chapter you have studied about entrepreneurship behaviour and how it effects a decision of an entrepreneur. How motivation can lifts an entrepreneur's decision in achieving its goals.

13.10 GLOSSARY:

• **Behaviour Modification:** A type of behavioural therapy in which the principles of Operant Conditioning (reinforcement, punishments, etc.) are used to eliminate some type of unwanted, maladaptive, behaviour.

- **Idea:** A new, creative approach to specifically addressing a perceived opportunity (a need, want, problem or challenge).
- **Innovation:** The use of a new technology, item, or process to change what goods and services are provided, the way they are produced, or the way they are distributed.
- **Invention:** The creation of a new technology, item, or process, as opposed to its application in widespread use.
- **Opportunity:** A need, want, problem, or challenge that can potentially be addressed by an entrepreneurial idea and an entrepreneurial venture.
- **Self-motivation:** A person may be naturally gifted or intellectual and yet may find himself as consistently **unmotivated t**o do something about his life.
- *Situational leadership:* This view of leadership emphasizes the interaction between the leadership style of an individual and the features of the environment he or she is operating in.
- **Venture:** Any initiative that entails the mobilization of resources to establish a good, service, program, and so forth to address needs, wants, problems, and challenges.

13.11 ANSWERS TO CHECK YOUR PROGRESS:

CHECK YOUR PROGRESS-1

Fill in the blanks:
1. New or unique.
2. Entrepreneurial behaviour.
3. Innovation.
4. Trendsetters.

CHECK YOUR PROGRESS-2

Fill in the blanks:
1. Motivation
2. human needs
3. David McClelland
4. Clayton Alderfer
5. Innovation

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13.12 SUGGESTED READINGS:

1. Dynamics of entrepreneurship development management: Vasant Desai
2. Entrepreneurship development: S S Kanka
3. Entrepreneurship and economic development: J.V.Prabhakara
4. Fundamentals of Entrepreneurship: S K Mohanty

13.13 TERMINAL QUESTIONS

1. Write short notes on the following:
    i. Entrepreneurial Behaviour.
    ii. Motivation.
    iii. Physiological and Safety needs.

2. What is entrepreneurial Motivation? Discuss.

3. What do you mean by achievement motivation? How can it be developed?

4. "Entrepreneurial behaviour is the result of interaction of several internal and external factors." Comment.

5. Discuss briefly various theories of motivation.

6. Explain in detail how innovation helps entrepreneurs.

BLOCK 4:
DEVELOPMENT OF TOURISM ENTREPRENEURSHIP

UNIT 14: ESTABLISHING ENTREPRENEUR SYSTEM: SEARCH FOR BUSINESS IDEA; SOURCES OF IDEAS, IDEA PROCESSING AND PREPARATION OF BUSINESS PLAN

STRUCTURE

14.1 Introduction

14.2 Objectives

14.3 Business Ideas Concept

14.4 Source of Idea Generation

14.5 Idea Processing

14.6 Check Your Progress 1

14.7 Develop a Business Plan

14.8 What Financers / Lenders / Investors Look For In a Business Plan?

14.9 Tourism as an Entrepreneurship Venture

14.10 Check Your Progress 2

14.11 Summary

14.12 Glossary

14.13 Answers to Check Your Progress 1 & 2

14.14 Reference

14.15 Further Reading

14.16 Terminal Questions

14.1 INTRODUCTION:

Once an individual decides to take up entrepreneurship as a career path, to be a job provider instead of a job seeker, he has to establish an enterprise. It is very important to take utmost care in identifying the product or service to be launched by the entrepreneur otherwise it might prove to be a very costly affair. An entrepreneur must develop sensitivity to changes around him, which can provide business opportunities and then carefully scan his environment to generate ideas. After initially temporarily searching for four to five ideas he should go in for detailed assessment and feasibility study. This will help him to crystallise one idea

in an objective and systematic manner, which will greatly enhance his chances of success as an entrepreneur.

14.2 OBJECTIVES:

After studying this unit, you will be able to explain:

- The source of ideas that an entrepreneur can use to start a new venture.
- How a business plans is established.
- The essentials of business plans.
- What is required by financers in financing a new venture?

14.3 BUSINESS IDEAS CONCEPT:

To set up an enterprise the entrepreneur has to undergo the entrepreneurial experience. Once having done that, he has to concentrate on the management of his business. The entrepreneurial experience begins with the idea for starting a new venture. The idea has to be sifted and refined so that he can identify a new product or service to be produced or offered. Usually there is a triggering factor, which makes the entrepreneur take the plunge to start his business. However one has to systematically make a business plan and study the feasibility of the proposed venture before doing so.

14.4 SOURCE OF IDEA GENERATION:

The starting point for any successful new venture is the basic product/service to be offered. This idea can be either generated internally or externally .For a new entrepreneur it becomes very difficult to filter information from the business environment, identify opportunities, evaluate them and then crystallise one specific idea. Developing a hobby, difficulty in obtaining a satisfactory product or service, evaluating new products being offered in the market and active engagement in Research and Development can help in generating a number of ideas. A reading of the Economic Times, business magazines, watching special business programmes on the television, discussions with professionals, friends, even teachers, surfing the internet all help to provide valuable inputs. A study of government policies for example tax incentives and holidays for setting up projects in backward area can help an entrepreneur to arrive at some decision. Attending an Entrepreneurial Development Programme can provide him with a sound understanding of all the steps one has to take to initiate and run a venture. Business consultants can also help him to identify a product or service and develop a business plan.

The sources of idea generation are listed below:

1. Formal sources includes:

➢ Banks,

➢ Govt. Agencies,

➢ EDPs,

➢ Business Consultants,

➢ Trade Meets,

➢ Exhibitions.

2. Informal sources include personal and others.

    a. Personal sources includes :

➢ Family,

➢ Friends,

➢ Colleagues.

    b. Other sources includes:

➢ Newspapers,

➢ Magazines,

➢ Books,

➢ Journals,

➢ Catalogues,

➢ Internet.

Once the idea or group of ideas is generated it has to screened or evaluated to determine whether it is appropriate for further development or not. Ideas showing the most potential are subjected to a feasibility analysis and a Project Appraisal is then made.

14.5 IDEA PROCESSING:

Once business ideas are discovered, screening and testing of these ideas is done. The following considerations are significantly in the evaluation & testing of business idea. A number of ideas and solutions are generated depending upon the personal knowledge, experience, insight etc. of the potential entrepreneur. Each idea that is generated is verified to test its usefulness, and application.

14.6 CHECK YOUR PROGRESS 1:

Fill in the Blanks:

1. To set up an enterprise ....the entrepreneur has to undergo the entrepreneurial experience.

2. One has to systematically make a ....and study the feasibility of the proposed venture before doing so.

3. The starting point for any successful new venture is the basic ....to be offered.

4. .... Can also help him to identify a product or service and develop a business plan.

14.7 DEVELOP A BUSINESS PLAN:

Smart entrepreneurs recognize that every business plan is unique and must be tailor-made. They avoid the off-the-shelf, "cookie-cutter" approach that produces look-alike plans. The elements of a business plan may be standard, but the way entrepreneurs tell their stories should be unique and reflect their enthusiasm for the new venture. If this is a first attempt at writing a business plan, it may be very helpful to seek the advice of individuals with experience in this process. Any entrepreneur who is in business or is about to launch a business needs a well conceived and factually based business plan to increase the likelihood of success. Initially, the prospect of writing a business plan may appear to be overwhelming. Many entrepreneurs would rather launch their companies and "see what happens" than invest the necessary time and energy defining and researching their target markets, defining their strategies, and mapping out their finances. After all, building a plan is hard work! However, it is hard work that pays many dividends, not all of which are immediately apparent. Entrepreneurs who invest their time and energy in building plans are better prepared to face the hostile environment in which their companies will compete than those who do not. Many entrepreneurs never take the time to develop plans for their businesses; unfortunately, the implications of the lack of planning are all too evident in the high failure rates that small companies experience.

A good business plan must be developed in order to exploit the defined opportunity. This is a very time-consuming phase of the entrepreneurial process. An entrepreneur usually has not prepared a business plan before and does not have the resources available to do a good job. A good business plan is essential to developing the opportunity and determining the resources required, obtaining those resources, and successfully managing the resulting venture.

A comprehensive business plan is crucial for a start-up business. It defines the entrepreneur's vision and serves as the firm's resume. A business plan can help an entrepreneur to allocate resources appropriately, handle unexpected problems, and make good business decisions.

A well-organized plan is an essential part of any loan application. It should specify how the business would repay any borrowed money. The entrepreneur also

should take into account all start-up expenses and potential risks so as not to appear immature.

14.7.1 General Guidelines for writing plan:

As much as your plan represents your dream and is very important to you, it may not be as high on the agendas of the people who read it. When you sit down to write your plan, think of who will be reading it and put yourself into their shoes as much as possible. In most cases, the people who will read your plan are going to be potential investors, bankers, and/or potential partners. Your readers have likely seen dozens, and perhaps even hundreds, of plans. These people do not often have a great deal of time, so prepare your plan accordingly. In general you should:

➢ Write the plan yourself. Get help if you need it, but do not let your accountant, bookkeeper, or other professional write your plan for you. You may let them help you with the financial plan, for example, but you need to know your plan inside and out-and the best way to ensure that is to write it yourself.

➢ Back up every claim you make with supporting evidence. Include surveys and detailed market research as an addendum or appendix to your plan.

➢ Write clearly and to the point, keeping your prose to a minimum.

➢ Avoid hyperbole: don't overstate your case. Similarly, avoid unnecessary adjectives such as "fantastic," "amazing," "astounding," "irresistible," and so on. Let the reader form his or her own opinion.

➢ Ensure that your writing is error-free and edited for proper form and syntax.

➢ Choose a simple, common font such as Times New Roman, and stick with it throughout the document.

➢ Bind the pages simply. Cerlox or its equivalent is likely sufficient.

➢ Use professionally produced drawings, photographs, and graphs. Unless you are a professional, your own attempts at art will look amateurish. The same is true for videos, if you're using them, or a computer-based demo.

➢ Make sure you include your contact information right on the cover. This is one of the most common mistakes entrepreneurs make.

It should use good visual formatting, such as bulleted lists and short paragraphs. The language should be free of terminology and easy to understand. The tone should be business-like and enthusiastic. It should be strong on facts in order to convince people to invest money or time in the new venture. The basic elements of a standard business plan include.

14.7.2 Elements of the business plan:

The basic elements of a standard business plan include:.

1. Title Page
2. Table of Contents
3. Executive Summary
4. Your Planned Venture
5. Market Research
6. Background and History
7. Management Team
8. Start-up Plan
9. Operational Plan
10. Marketing Plan
11. Financial Plan
12. Appendix

1. Executive Summary: This is by far the most important part of your plan. It should be no more than two pages in length, or less. State the idea, the opportunity, how much money you need, where you hope to get it, how it will be spent, and how you will pay it back. Readers who are interested may then go on to read the rest of your plan. Be warned, if your executive summary is more than three pages long, it will likely not be read.

2. Your Planned Venture: Describe your idea as clearly as possible, with diagrams, photographs or any other medium necessary to communicate it to the reader. Back up the idea with a description of the target market, tell why the opportunity exists, and why your idea will capture that market.

3. Market Research: Explain how you determined the product or service was appropriate to the market. Include explanations of the "four P's" (price, product, promotion, and placement).

4. Background and History: Tell who you are, what experience and skills you bring to this venture, and whether or not you've run your own businesses in the past. Describe and explain their successes or failures. Include your own, short, biography here. The company description highlights the entrepreneur's dream, strategy, and goals.

5. Management Team: Provide the names, and short bios, of the people you will use to fill the key positions in the business.

6. Start-up Plan: Tell when and where you plan to start the business and why you chose this time frame and location.

7. Operational Plan: Describe, in detail, how your business will operate. Include diagrams of production or service areas if appropriate.

8. Marketing Plan: Describe, in detail, how you will attract customers or clients and how you will deliver your product or service to them.

9. Financial Plan: Provide a detailed financial plan, including a cash-flow projection, that accounts for the money you will need (borrow) and the repayment plan and return on investment to investors.

10. Appendix: Include your own and your team's detailed biographies here as well as additional market research and any other information that is too detailed to be included in the body of the plan.

Writing a business plan may seem overwhelming. However, there are ways to make the process more manageable. First, there are many computer software packages for producing a standard business plan. Numerous books on entrepreneurship have detailed instructions, and many universities sponsor programs for new businesses. It should use good visual formatting, such as bulleted lists and short paragraphs. The language should be free of jargon and easy to understand. The tone should be business - like and enthusiastic. It should be strong on facts in order to convince people to invest money or time in the new venture.

14.8 WHAT FINANCERS / LENDERS / INVESTORS LOOK FOR IN A BUSINESS PLAN?

Banks usually are not a new venture's sole source of capital because a bank's return is limited by the interest rate it negotiates, but its risk could be the entire amount of the loan if the new business fails. Once a business is operational and has established a financial track record, however, banks become a regular source of financing.

For this reason the small business owner needs to be aware of the criteria lenders and investors use when evaluating the creditworthiness of entrepreneurs seeking financing.

14.8.1 Capital:

A small business must have a stable capital base before any lender is willing to grant a loan. Otherwise the lender would be making, in effect, a capital investment in the business. Most banks refuse to make loans that are capital investments because the potential for return on the investment is limited strictly to the interest on the loan, and the potential loss would probably exceed the reward. In fact, the most common reasons that banks give for rejecting small business loan applications

are undercapitalization and too much debt. Financers' Lenders and investors see capital as a risk sharing strategy with entrepreneurs.

14.8.2Flow of cash:

Lenders and investors must be convinced of the firm's ability to meet its regular financial obligations and to repay loans, and that takes cash. It is possible for a company to be showing a profit and still have no cash that is, to be technically bankrupt. Lenders expect small businesses to pass the test of liquidity, especially for short-term loans. Potential financers/ lenders/ investors examine closely a small company's cash flow position to decide whether it has the capacity necessary to survive until it can sustain itself.

14.8.3 Collateral security:

Collateral security includes any assets an entrepreneur pledges to a financers/ lender as security for repayment of a loan. If the company defaults on the loan, the lender has the right to sell the collateral and use the proceeds to satisfy the loan. Typically, banks make very few unsecured loans (those not backed by collateral) to business start-ups. Bankers view the entrepreneurs' willingness to pledge collateral (personal or business assets) as an indication of their dedication to making the venture a success. A sound business plan can improve a banker's attitude toward a venture.

14.8.4 Character:

Before extending a loan to or making an investment in a small business, lenders and investors must be satisfied with an entrepreneur's character. The evaluation of character frequently is based on intangible factors such as honesty, integrity, competence, polish, determination, intelligence, and ability. Although the qualities judged are abstract, this evaluation plays a critical role in the decision to put money into a business or not.

Lenders and investors know that most small businesses fail because of incompetent management, and they try to avoid extending loans to high-risk entrepreneurs. A solid business plan and a polished presentation by the entrepreneur can go far in convincing the banker of the owner's capability.

14.8.5 Conditions:

The conditions surrounding a funding request also affect an entrepreneur's chances of receiving financing. Lenders and investors consider factors relating to a business's operation such as potential growth in the market, competition, location,

strengths, weaknesses, opportunities, and threats. Again, the best way to provide this relevant information is in a business plan. Another important condition influencing the banker's decision is the shape of the overall economy, including interest rate levels, inflation rate, and demand for money. Although these factors are beyond an entrepreneur's control, they still are an important component in a banker's decision.

14.9 TOURISM AS AN ENTREPRENEURSHIP VENTURES:

Tourism is amongst the fastest growing industries the world over, highest foreign exchange earning sectors for India and offers tremendous opportunity for entrepreneurship and employment. It includes any business connected with the activities of tourists: -

➢ Travel arrangement (rail, road, air or sea)
➢ Accommodation (hotels, motels, guest houses)
➢ Food
➢ Entertainment

Apart from the potential in providing these direct services, tourists use many indirect services also for example they hire taxis for local site seeing, buy all kind of souvenirs, they need guides and interpreters. There is an acute shortage of service providers in all these areas. The Commonwealth Games to be hosted by India in the year 2010 and cricket world cup hosted by India Pakistan, Sri Lanka and Bangladesh in the year 2011. In a developing industry like tourism there is no dearth of entrepreneurial opportunities. However, one has to be a keen observer of the customer's tastes, needs and choices i.e. full profiling of the tourists and the intermediary agencies has to be undertaken.

14.10 CHECK YOUR PROGRESS 2:

Fill in the blanks

1. Smart entrepreneurs recognize that every business plan is unique and must be....................

2. A good.................... must be developed in order to exploit the defined opportunity

3. .... Describe, in detail, how your business will operate.

4. .... Explains how entrepreneur determined the product or service was appropriate for the market.

5. .... Includes any assets an entrepreneur pledges to a financers / lender as security for repayment of a loan.

6. In a developing industry like .... there is no dearth of entrepreneurial opportunities.

14.11 SUMMARY:

The process of setting up a venture begins with searching for an opportunity. Identifying a good opportunity is a difficult task and involves scanning the environment and the use of creativity and innovation. The process involves both market identification as well as product/service identification. Rarely can one hit upon an idea straight away. One has to be very sensitive to the changes in the business environment. Although there is no guarantee of success when launching a business, the best way to insure against failure is create a business plan. A good plan serves as an entrepreneurial strategic compass that keeps a business on course as it travels into an uncertain future. In addition, a solid plan is essential to raising the capital needed to start a business; lenders and investors demand it. It is absolutely essential for the business plan to be built on facts and realistic assumptions.

14.12 GLOSSARY:

- **Asset:** Anything of worth that is owned by the business. The assets of a business are money in the bank, accounts receivable, securities held in the name of the business.
- **Capital:** This has several meanings, but usually refers to the amount of money in the business belonging to the owner.
- **Cash flow:** A detailed outline of estimates for the receipt of revenue and the payments to be made over a period of time such as six months to a year.
- **Demand:** The combined desire, ability and willingness on the part of individuals to acquire or make use of a good or service.
- **Idea:** A new, creative approach to specifically addressing a perceived opportunity.
- **Opportunity:** A need, want, problem, or challenge that can potentially be addressed by an entrepreneurial idea and an entrepreneurial venture.
- **Risk:** The likelihood of undesirable, unforeseen, or uncontrollable events occurring.

14.13 ANSWERS TO CHECK YOUR PROGRESS1 & 2:

CHECK YOUR PROGRESS-1

1. Enterprise
2. Business plan
3. Product/service

    4. Business consultants

CHECK YOUR PROGRESS-2

    1. Tailor-made

    2. Business plan

    3. Operational Plan

    4. Market Research

    5. Collateral security

    6. Tourism

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14.15 SUGGESTED READING:

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- Essentials of Entrepreneurship & Small Business Management: Zimmerman, T.W., Scarborough N.M
- Entrepreneurship & Small Business Management: Gupta C.B., Khanka S.S.
- Entrepreneurship, Strategies and Resources: Dollinger,

14.16 TERMINAL QUESTIONS:

1. What are the different sources of idea generation? Explain in detail the primary and secondary sources.
2. Why a business plan is developed?
3. What are different guidelines and elements of business plan?
4. What investors look before investing in new entrepreneurial venture?
5. Describe different business ventures available in tourism sector.

UNIT 15: INPUT REQUIREMENTS – MONEY, MEN, MACHINE, MATERIAL, SPACE AND TIME FRAME

STRUCTURE

15.1 Introduction

15.2 Objectives

15.3 Meaning of Input Requirement

15.4 Financial Assistance

15.5 Managing Your Materials Requirements

15.6 Human Resource Management (Men)

15.7 Timing for the Launch of Product

15.8 Availability of Land

15.9 Buy the Necessary Equipments

15.9 Check Your Progress

15.10 Summary

15.11 Glossary

15.12 Answers to Check Your Progress

15.13 Suggested readings

15.14 Reference

15.15 Terminal Questions

15.1 INTRODUCTION:

In the previous chapters you have studied about the establishing entrepreneur system: search for business idea; sources of ideas, idea processing and preparation of business plan, and how all these activities are going to help an entrepreneur in maximizing the profit and achieve his goals. In this chapter you will be going to learn what are the inputs required by an entrepreneur and how to arrange these inputs to achieve the desired result.

15.2 OBJECTIVES:

After studying this unit, you will be able to define various inputs required by an entrepreneur like:

1. Finance or money

    2. Human resource or men

    3. Material

    4. Space and time frame.

15.3 MEANING OF INPUT REQUIREMENT:

Input requirement means what are the essentials required by an entrepreneur to establish an entrepreneurial venture and how to manage these inputs to achieve maximum profit and desired goals. The following major inputs are required for setting up an entrepreneur venture:

- Financial assistance
- Land, building or shed
- Machinery and equipments
- Raw Materials
- Power and Water
- Skilled manpower

15.3.1 Projects suitable for non-technical and inexperienced entrepreneurs:

There are many projects, which are suitable for non-technical and inexperienced entrepreneurs. Skilled manpower and technical personnel can be hired according to needs.

Entrepreneurs can also join special short term training programmes. MSMEDI's, DIC's, NSIC etc. provide intensive consultancy to such first generation entrepreneurs.

15.3.2 New entrepreneur compete with the existing manufacturers:

A prospective entrepreneur can take the advantage of opting for the latest technology and production process and operate at higher volume of operation. This leads to reduced production cost and production of quality goods and services. A new entrepreneur can thus provide improved quality goods and services at lower cost and further tap the market with innovative marketing approach.

15.4 FINANCIAL ASSISTANCE:

15.4.1 Agencies providing financial assistance:

Financial assistance is available from institutions such as Nationalised Banks, Small Industries Development Bank of India, Regional Rural Banks, National Small Industries Corporation, State Financial Corporations etc. depending upon the project requirement and promoters background. Financial assistance has two

components. Loan for fixed capital is used to acquire Plant and Machinery, land and building. Working capital loan is used to meet day to day operational cost of the production.

State Financial Corporation and National Small Industries Corporation generally provide working capital. However under package assistance, State Financial Corporations also provide a composite loan covering plant and machinery and working capital.

15.4.2 Choose the most suitable source of funding:

Any of the financial institutions can be approached to get funds keeping in view their specific schemes. Evaluate and compare the terms and conditions, including rate of interest and repayment period of loan offered by the different financial institutions. Select the financial institution, which offers funds at minimum interest rate as per your repayment plan to suit your project. Choose the Institution which is in close proximity to the project site if other terms and conditions are similar.

15.4.3 Eligibility criteria for getting a loan:

The major eligibility criteria are return on the investment and profitability of the project proposed to be set up. Any financial institution will support the project if repayment is assured.

15.3.4 Money required by the entrepreneur to invest out of his own resources:

Some portion of total investment has to be contributed by the Entrepreneur out of own sources. This is called margin money. Financial Institutions insist on 10 to 25 per cent margin money depending upon the category of the entrepreneur, risk factor and existing scheme under which the project will be financed.

15.4.5 What if an entrepreneur does not have any money of his own?

It is simple. One can arrange for loan for margin money under the scheme being operated by the State Commissioner / Directorate of Industries or SBI. But this scheme is generally offered to professionally qualified entrepreneurs. Alternately you may have to prune down the size of your project in tune with available margin money. The financial institutions will prefer to support an entrepreneur, who is willing to put his/her own stake to some extent.

15.4.6 Procedure for getting a loan:

An entrepreneur should approach the concerned financial institution viz. State Financial Corporation, NSIC, Bank branches etc. Application in prescribed

performa has to be submitted along with project report including proof of ownership/availability of land/building, proof of residence, collateral securities (wherever applicable) etc. The loan is given by the institution if the application meets the norms.

15.4.7 Can the loan be used to cover all types of investment in the project?

The amount of loan can be used to cover all types of investment required in the project, such as machinery & equipment, and working capital, land and building. The lending agency for each component of loan may be same or different.

15.4.8 Agency for funding the land and building costs:

The Banks and State Financial Corporations offer assistance for land/building/shed to certain extent. However, some qualifying parameters have been laid down by these institutions. In addition, Housing Development Corporation also provides funds for land /building.

15.4.9 General conditions for availing financial assistance:

The general conditions for getting financial assistance are:
  ➢ Eligibility criteria
  ➢ Technical /Economic viability
  ➢ Promoters contribution
  ➢ Capacity to repay loan
  ➢ Collateral securities / guarantee

15.5 MANAGING YOUR MATERIALS REQUIREMENT:

The importance of raw materials in establishing any industrial activity needs no emphasis. In the absence of raw materials, neither an enterprise can be up and nor an entrepreneur can be emerged.

A raw material or feedstock is the basic material from which a good product is manufactured or made, frequently used with an extended meaning. For example, the term is used to denote material that came from nature and is in an unprocessed or minimally processed state.

With the advent of technology, manufacturing entrepreneurs have found themselves in stiffer competitive grounds competing in terms of reduced costs and better quality. One cost item that companies continuously try to reduce its inventory cost. Several manufacturing techniques have been introduced to address this, one of which is the concept Materials Requirements Planning (MRP). The implementation of MRP became popular in the 1970s and the 1980s and is slowly being implemented

by manufacturing companies even in the developing countries. Recent developments showed even the possibility of implementing this side by side with the Just-in-Time manufacturing philosophy.

15.6 HUMAN RESOURCE MANAGEMENT:

If you will need to hire employees apart from yourself and other owner/operators, then describe what your personnel needs will be. Have job descriptions (including job responsibilities and authorities, compensation, and qualifications) for relevant positions, and describe how you will find and manage the right people. It is not possible in a book of this type to detail the different features of successful personnel management, but an outline of the principles on which an owner or manager can provide fair and reasonable working conditions for staff is described below.

One aim of a manager should be to ensure that all staff understand the nature of the business and are active in working towards its success. This is particularly important in relation to quality assurance (below) which requires all staff to agree quality management procedures and as individuals, to routinely monitor product quality.

If it is accepted that most people wish to have the following aspects in their job, the manager can arrange work to meet these needs:

➢ a reasonable wage
➢ security of employment
➢ a feeling of belonging to the company
➢ respect for their skills and knowledge
➢ good relationships with other staff
➢ opportunity to develop new capabilities
➢ reasonable working conditions.

The level of salaries that are paid to processing staff in the majority of small enterprises is usually slightly higher than equivalent work in the Public Sector, to take account of the lack of job security compared to government jobs. However, in many areas where there is substantial unemployment, wage levels are forced down. While any entrepreneur may wish to reduce production costs as much as possible, paying staff below the market rate for a particular job is short-sighted. Trained and experienced process workers are an asset to a small enterprise because they are able to produce products efficiently and to a consistently high quality with minimum supervision. If salaries are too low, workers will seek alternative employment as

soon as the opportunity arises, and the expenditure on training and developing their skills will be lost.

The terms and conditions under which staff are employed vary widely in developing countries and in many cases they are employed on a casual basis with no formal contracts or even letters of appointment. In small enterprises, this situation is not likely to change unless governments or other agencies press for changes. However, it is in the entrepreneurs' own interests to create a working environment in which staff members feel that they have security of employment, because they are then more likely to actively work to improve and develop the business. One example of the way that staff feelings of belonging to and sharing in a business could be encouraged is a simple outline of the benefits that they can expect in terms of breaks for meals, amount of pay for sickness or holidays, terms under which absence from work is acceptable (for example for bereavement) etc.

The majority of people wish to have their skills and knowledge recognised and to be able to develop these further in their work. Managers of small enterprises have the opportunity to know the relatively few staff better than in large companies and it is their responsibility to find out what are the skills and aspirations of each worker. Again, it is in the managers' own interests to do this because each worker's skills can then be used most effectively for the benefit of the enterprise. In practice, this may mean allocating specific areas of responsibility, such as record keeping, labelling of products, raw material inspection etc. to those staff that have an aptitude for that type of work. However, it is also necessary to train staff in every aspect of production, regardless of their main area of expertise. When all staff knows how to do every job in a production unit, there are opportunities for people to do different work during the day leading to greater job satisfaction and greater flexibility in job allocation to cover for staff absences.

The entrepreneur or manager is responsible for providing reasonable working conditions for employees. This is covered by law in some countries, although it may be infrequently enforced. As a minimum, the requirements for hand washing and toilet facilities should be met for both workers' benefits and to maintain hygienic production. Preparation tables should be high enough for staff to work comfortably and where repetitive work is carried out for long periods, as for example in manual packaging and labelling, seats and good lighting should be provided. The owner may also consider providing a rest area with cold water and seating, to prevent workers sitting on stocks of packaging or finished product as the

only comfortable place to take a break. These benefits are important to retain experienced staff and contribute to the overall efficiency of production.

15.7 TIMING FOR THE LAUNCH OF PRODUCT:

Market opportunities tend to fluctuate, meaning that a new service or product may have a specific window of opportunity in which to build market share. Releasing a product prematurely can mean a lack of consumer demand, while waiting too long can result in an excess of competition with more well-established brands. Identifying an opportune time to launch can thus mean the difference between a flourishing new product and a quickly forgotten one.

Although it may seem advantageous to be the first to market with a new product, it's also important to evaluate what can be gained by waiting.

The optimal time of entry depends on the hostility of the learning environment since the latter has an impact on dimensions of performance, such as profit potential and mortality risk.

In other words, waiting can allow an entrepreneur to learn about market conditions by observing the performance of other products, but it also carries the risk of losing certain competitive advantages. It is better to wait in non-hostile learning environments in which "the information to be learned is abundant and when learning from others is relatively more effective at increasing performance than learning from participation.

If you enter early, you are more of a pioneer. You can have a competitive advantage. If you cannot do any of this, then it may not be a good strategy, because there is always a cost to being a pioneer.

15.8 AVAILABILITY OF LAND:

The Government is committed to provide international standard infrastructure and facilities in the industrial areas and estates managed by the Industrial Area Development Authorities. Existing infrastructure shall be upgraded and maintained efficiently. Supporting facilities in these industrial areas in terms of access to information, transportation linkages, housing facilities, telecommunication, health, education, sports etc. would further be strengthened and new facilities wherever required would be provided.

Steps would be taken to revamp the Industrial Area Development Authorities and bring them under unified control to ensure uniform application of procedures, facilities and benefits to the entrepreneurs.

Land / Sheds in growth centres, Industrial areas, etc. would be allotted to entrepreneurs for setting their industrial units on lease of 30 years on annual rent with the facility of renewal. The rent payable for land so allotted would be subjected to revision. The land/sheds allotted for the purpose of setting up of Industrial unit shall not be allowed to be used for any other purpose other than the purpose for which the land has been leased. It would also be ensured that land is allotted as per the actual requirement.

Waste land / Degraded forest land may be made available by the State Government on long term lease basis after taking prior approval from the Government of India under section '2'of Forest (Conservation) Act,1980 wherever required , for plantation development / tourism purposes which will encourage forest based / tourism industries.

15.9 BUY THE NECESSARY EQUIPMENTS:

Only standard office equipment is needed. A computer with internet connection, a fax machine, and at least two telephones. Proper use of information technology saves time, reduces costs and thus contributes to the profitability of the agency. Having trained staff for operating them and regular maintenance of the equipment are other managerial tasks. Not only should this but the staff be trained for maintaining records (Activity Report) of the messages and notes thus exchanged.

Tourism in today's world is a very big economic and social activity, generating a large amount of income, employment and foreign currency and investment opportunities.

Though, currently, the developed nations are getting the lion's share of the benefit of tourism, there is a promising future for the developing nations also. The paramount use of IT in tourism business activity by itself does not mean anything, unless it advances the idea of human development. It should contribute to the overall development of a country.

15.10 CHECK YOUR PROGRESS:

Fill in the blank:
1. Skilled manpower and technical …………can be hired according to needs.
2. ……………is available from institutions such as Nationalised Banks, Small Industries Development Bank of India, Regional Rural Banks.
3. The financial institutions will prefer to support a…………, who is willing to put his / her own stake to some extent.

4. Aim of a manager should be to ensure that all ……………. understand the nature of the business and are active in working towards its success.

5. The entrepreneur or manager is responsible for providing reasonable working conditions for…………...

6. ……………….. an opportune time to launch can thus mean the difference between a flourishing new product.

15.11 SUMMARY:

There are so many institutes and organizations which are involved in entrepreneurship development activities and there are people who join these programmes as a stepping stone to become entrepreneur. An entrepreneur is one who manages all the resources to match with the organizational needs. In the managerial role resources are allocated to solve problems and improve the administrative efficiency. Once the promoter is convinced of the feasibility and profitability of the project he assembles the necessary resources to launch the enterprise. He has to choose partners/collaborates, collect the required finance and acquire land and building, plant and machinery, furniture and fixtures, patents, employees etc. decision have to made about the size , location and layout etc of the enterprise. The form of ownership organisation has to select. In this chapter you had studied about the various inputs required by an entrepreneur to make his venture profitable and achieve desired goals.

15.12 GLOSSARY:

- **Capital:** Fixed capital: machinery, technology, buildings + Working capital: i.e. stocks of raw materials and components
- **Labour:** Workers employed directly in the car industry; engineers, designers, paint sprayers, testers, management staff, transport & distribution workers etc.
- **Land:** Natural resources used in manufacturer, land for plant and equipment
- **Travel Agent:** A person that helps businesses and individuals find and process tickets, plans, and information on travel destinations.

15.13 ANSWERS TO CHECK YOUR PROGRESS

Fill in the blanks:

1. Personnel
2. Financial assistance
3. Entrepreneur
4. Staff
5. Employees

6. Identifying

15. 14 SUGGESTED READINGS:

- Dynamics of entrepreneurship development management: Vasant Desai
- Entrepreneurship development: S S Kanka
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15.16 TERMINAL QUESTIONS:

1. What are various inputs required by an entrepreneur?

2. Explain in detail what are various ways of getting finances by an entrepreneur?

3. Describe the importance of managing material and available human resource?

4. Why is it necessary for an entrepreneur to launch a product on time? Explain.

5. Why it is necessary for an entrepreneur have sufficient land and office equipment to survive in the market?

UNIT 16: PROJECT FEASIBILITY RESEARCH

<u>**STRUCTURE**</u>

16.1 Introduction

16.2 Objectives

16.3 Project Feasibility Concept

16.4 Project Pre-Feasibility Assessment

16.5 Market Feasibility

16.6 Financial Feasibility

16.7 Technical Feasibility

16.8 Environmental Feasibility

16.9 Economic Feasibility

16.10 Legal and Administrative

16.11 Check Your Progress

16.12 Summary

16.13 Glossary

16.14 Answers to Check Your Progress

16.15 Reference

16.16 Suggested Readings

16.17 Terminal Questions

16.1 INTRODUCTION:

In this unit we will discuss the context and mechanics of conducting feasibility studies for projects. The process of setting up a business is preceded by the decision to choose entrepreneurship as a career and identification of promising business ideas upon a careful examination of the entrepreneurial opportunities. Generation of ideas is not enough; the business ideas must stand the scrutiny from

techno-economic, financial and legal perspectives. Some investment proposals pass through the stage of checking out the feasibility. Large projects usually need a feasibility test to be carried out before a handsome amount is committed.

16.2 OBJECTIVES:

After studying this unit, you will be able to:

- Understand what is meant by feasibility studies in the context of selection & evaluation of projects
- Explain in general how feasibility studies are conducted, and what parameters are considered
- Define market feasibility, financial feasibility, and technical feasibility.
- Define environmental, economic and legal feasibilities of the projects.

16.3 PROJECT FEASIBILITY CONCEPT:

Project feasibility is a test where the prima facia viability of the investment is evaluated. Evaluation is based on secondary but comprehensive data. Rough estimates based on others' experience form the basis of the viability check in the project feasibility report. There are basically three types of feasibilities evaluated in the project feasibility report, namely, (a) market feasibility, (b) technical feasibility, and (c) financial feasibility. When projects are evaluated by government or government agencies, economic and social feasibility is also considered. Market feasibility is carried out in detail at this stage. Technical feasibility and financial feasibility are less emphasised at this stage.

16.4 PROJECT PRE-FEASIBILITY ASSESSMENT:

Having identified projects and opportunities, undertaken a brief assessment and determined a list of priority projects, the next stage is to undertake a pre-feasibility assessment of each project to see if it will stack up.

A pre-feasibility assessment is an action that could be included in the organisation's Operational Plan to be completed during the year. Some components of pre-feasibility assessment will generally be outside the expertise of the organisation.

For each project all available information should be gathered into a standard layout project document template. Information consolidated for each project would typically include:

- ➢ Project title.
- ➢ Description - outlining the intent of the project.
- ➢ Rationale - local context.

> ➢ Project type/linkages - broader context.
> ➢ Resources required - skills, finance, and knowledge.
> ➢ Benefits/effects - economic, social, environmental.
> ➢ Limitations/risks- economic, political.
> ➢ Potential implementation task force.

Through this process some projects may appear to be unfeasible or unrealistic. In this case they should be shelved in favour of more feasible or realistic projects. The output will be a series of project information sheets used for internal/external action planning or could be made available to prospective investors. In some cases this will result in investment attraction briefs and marketing material, whilst others may result in an internal signoff that the project is viable and worth pursuing.

16.5 MARKET FEASIBILITY:

Products whose sales potential is high are less risky to invest in. A market feasibility study aims at assessing the sales potential of a proposed product. The approach for conducting market feasibility study will vary depending upon the type of proposed product. In the case of a novel product idea (a product a novel, if the same or similar product or not available in the market anywhere in the world), the market feasibility check has to be based on creative judgement and wishful thinking. At the most, indicators of buyer behaviour (in terms of their response to 'new' or 'dream' product) are taken into account for estimating the potential demand for the product.

If a proposed product is new in an economy, but has been successfully marketed in some other economy, then its market feasibility assessed through a meaningful comparison of some broad economic and cultural indicators in the two economies. Each economy is likely to experience an almost identical buying pattern and preference for products, if the economic indicators are comparable. Cultural differences should be adjusted before drawing conclusions about the demand potential. The per-capita incomes, income disparity levels, the pattern indicating shifts in choice for consumption, literacy levels and other economic factors can indicate the potential of demand for a particular proposed product.

If the proposed project is for an addition to the capacity existing in the economy, then the task of the market feasibility study will be different. A historical data analysis and study of factors, which influence consumption trends, become essential in such cases.

A market, whether a place or not, is the arena for interaction among buyers and sellers. From seller's point of view, market analysis is primarily concerned with the aggregate demand of the proposed product/service in future and the market share expected to be captured. Success of the proposed project clearly hinges on the continuing support of the customers. However, it is very difficult to identify the market for one's product/service. After all, the whole universe cannot be your market. You have to carefully segment the market according to some criteria such as geographic scope, demographic and psychological profile of the potential customers etc. It is a study of knowing who all comprise your customers, for this you require information on:

➢ Consumption trends.

➢ Past and present supply position.

➢ Production possibilities and constraints.

➢ Imports and Exports.

➢ Competition.

➢ Cost structure.

➢ Elasticity of demand.

➢ Consumer behaviour, intentions, motivations, attitudes, preferences and requirements.

➢ Distribution channels and marketing policies in use.

➢ Administrative, technical and legal constraints impinging on the marketing of the product.

16.6 FINANCIAL FEASIBILITY:

Demand and price estimates are derived from the market feasibility study. Project costs and operating costs are derived from the technical feasibility study. The estimates need to be supplemented with (a) tax implications depending upon the prevailing tax laws, and (b) financial costs emanating from the financing alternative are considered for the project. That provides enough information for the financial bottom-line of the project. The financial feasibility check involves a detailed financial analysis. The financial analysis includes quite a few assumptions, workings and calculations. Some are briefly described below:

1) Projections are made for prices of products, the cost of various resources required for manufacturing goods, and capacity utilisation. Use of the thumb rule or actual data of some comparable projects are generally included in the estimates.

2) The period of estimation is determined, and the value of the project at the terminal period of estimation is forecast. The period of estimation should be justified

by factors like the product life cycle, business cycle, ability to forecast, period of debt funds, etc.

3) Financing alternatives are considered and a tentative choice of financing mix is made together with assumptions regarding the cost of funds and repayment schedules.

4) Basic workings are shown in different statements. Some of the schedules made for this purpose include,

a) An interest and repayment schedule

b) The working capital schedule

c) The working capital loan, interest and repayment schedule

d) The depreciation schedule for income tax purposes

e) The depreciation schedule for the purpose of reporting under Companies Act, 1956 (if depreciation policy is different than income tax rules).

5) Some financial statements are prepared in the project feasibility report. They include,

a) Profit and Loss accounts of the company

b) Balance-Sheets of the company

c) Cash Flow statements for the proposed project

6) Financial indicators are calculated using data derived in various financial statements. Two basic financial parameters are used for judging the viability of the project:

a) Debt-service coverage ratio (DSCR)

b) Net present value (NPV) or internal rate of return (IRR).

The objective of financial analysis is to ascertain whether the proposed project will be financially viable in the sense of being able to meet the burden of servicing debt and whether the proposed project will satisfy the return expectations of those who provide the capital.

16.7 TECHNICAL FEASIBILITY:

Various factors are analysed in checking the technical feasibility of a proposed project. They are listed below;

1) Availability of commercially exploited technology and its alternatives.

2) The translatability of technology into the local environment. The suitability of the technology involved must be assessed in the light of the available quality of material, quality of power, skilled personnel, atmospheric conditions, quality of water and other factors.

3) Technological innovation rate in the product.

4) Production processes.

5) Capacity utilization rate and its justification.

6) Availability of raw material and other resources like power, gas water, compressed air, labour, etc.

7) Requirement of plant and equipment and fabrication facilities.

8) A feasible product mix with possibilities joint and by-products.

9) Facilities for affluent disposal.

A broad-based evaluation of the technical aspects of projects is carried out at the project feasibility stage along the lines listed above. The commercial side of technical details is also studied simultaneously so that the commercial exploitability of technology can be evaluated.

The important questions to be asked include: Is the technology available as a technical know-how, or through a technical collaboration, or a joint venture? Are patents, trademarks, or licensing involved? At what terms and with what legal obligations'? Will it tie down the investor to procure equipment(s) as well from a specific country or company?

16.8 ENVIRONMENTAL FEASIBILITY:

In recent years, environmental concerns have assumed a great deal of significance especially for projects, which have significant ecological implications like power plants and irrigation schemes, and for environment polluting industries (like bulk drugs, chemicals and leather processing). The concerns that are usually addressed include the following:

1. What is the likely damage caused by the project to the environment?
2. What is the cost of restoration measures required to ensure that the damage to the environment is contained within acceptable limits?

16.9 ECONOMIC FEASIBILITY:

The term economic viability and financial viability are not different for companies. However, from the national angle and from the viewpoint of the economy as a whole, economic feasibility and financial feasibility are not considered to be same. Cost and benefits to the nation due to the proposed project are considered in the economic feasibility test. Tax revenue, generation of employment, saving of foreign reserve and such other factors, differentiate economic viability from financial viability. The government and government agencies calculate the economic indicators of a project before permitting a project or financing it.

Economics is the study of costs- and- benefits. In regard to the feasibility of the study the entrepreneur is concerned whether the capital cost as well as the cost of the product is justifiable vis-à-vis the price at which it will sell at the market place. For example, technically, silver can be extracted from silver bromide, (a chemical used for processing the X-ray and photo films); but, the cost of extraction is so high that it would not be economically feasible to do so. Likewise, until recently cost of harnessing solar power was prohibitively high. This cost-benefit analysis goes into financial calculations for profitability analysis that we discussed under financial analysis. At this stage it is also useful to distinguish between the economic and commercial feasibility; whereas economic feasibility leads one to the unit cost of the product, commercial feasibility informs whether enough units would sell.

Apart from the cost-benefit analysis as above, which we also refer to as private cost-benefit analysis, it is also useful to do what is known as social- cost-benefit- analysis (SCBA). For example, the entrepreneur may be getting subsidized electricity in which case private cost would be less than social cost. Likewise, exporting units earn precious foreign exchange resulting into social benefits being more than private earnings. Many a time, a project that is worthy on SCBA may find greater favour with the support agencies.

16.10 LEGAL AND ADMINISTRATIVE:

Think of the plight of the entrepreneur who worked on the idea of a dry cleaning to cater to hotels and hospitals, finds it eminently feasible only to learn subsequently that 'dry cleaning' does not figure as an industry within the administrative definition of SSI as applicable on that date. What is implied from this example is that the entrepreneur has to be sure also of the administrative and legal issues involved in the project. These include, choice of the form of business organisation, registration and clearances and approvals from the diverse authorities.

16.10.1 Forms of Organisation

1. **Sole Proprietor**: A sole proprietorship, also known as the sole trader or simply a proprietorship, is a type of business entity that is owned and run by one individual and in which there is no legal distinction between the owner and the business. The owner receives all profits (subject to taxation specific to the business) and has unlimited responsibility for all losses and debts. Every asset of the business is owned by the proprietor and all debts of the business are the proprietor's. As a result the vast majority of new businesses start as sole

proprietors. This form has the added merit of being free from formalities regarding incorporation or maintenance of accounts or auditing etc.

2. **Partnership:** The limitations of sole proprietorship form of organisation led to the formation of another form of organization known as partnership. A type of unincorporated business organization in which multiple individuals, called general partners, manage the business and are equallyliable for its debts; other individuals called limited partners may invest but not be directly involved in management and are liable only to the extent of their investments. Unlike a Limited Liability Company or a corporation, in a partnership each partner shares equal responsibility for the company'sprofits and losses, and its debts and liabilities. This form also makes for pooling of skills and responsibilities and spread of risk.

3. **Company:** A company is a business organization. It is an association or collection of individual real persons and/or other companies, who each provide some form of capital. This group has a common purpose or focus and an aim of gaining profits. This collection, group or association of persons can be made to exist in law and then a company is itself considered a "legal person". The Companies Act of 1956 governs the companies.

4. **Co-operative:** A co-operative is an enterprise owned and controlled by people working in it. Generally they are formed for some specific purpose like a housing cooperative society.

16.11 CHECK YOUR PROGRESS:

Fill in the blank:

1. ....is a test where the prima facia viability of the investment is evaluated.
2. The ....check has to be based on creative judgement and wishful thinking.
3. .... estimates are derived from the market feasibility study.
4. The financial feasibility check involves a detailed.......................... analysis.
5. Tax revenue, generation of employment, saving of foreign reserve and such other factors, differentiate............................... from financial viability.

16.12 SUMMARY:

The project feasibility report is prepared for the initial assessment of the commercial worth of a proposed project. Market feasibility, technical feasibility and financial feasibility are the three main parts of the project feasibility report, although

market feasibility is mainly emphasized in it. The focus of the market feasibility study is on estimating the demand-supply gap. Past trends of demand and supply are studied and the future is forecast. The forecast demand and supply is adjusted with additional information related to changes in economic indicators, government policy, etc. Markets are defined in end-user segments and geographic limits. Export potential is also assessed for getting the true picture of the demand and supply gap. Technical feasibility is essentially concerned with the assessment of technology, processes, know-how, their indigenisation and so on. Market and technical feasibilities are jointly used for indicating the ideal location of the proposed plant, and its capacity.

Financial feasibility primarily includes the calculation of costs and benefits in terms of financial numbers. It is preceded by the selection of the sources of funds and estimation of project costs and operating costs. Assessment of tax implication is also vital. Financial workings would include the preparation of many schedules; namely, the depreciation schedule, working capital schedule, loan repayment schedule, etc. Balance sheets, profit and loss accounts, and cash flow statements are also prepared. Then the entrepreneur can go for environmental, economic and legal feasibility of the projects.

16.13 GLOSSARY:

- **Aggregate Demand:** Is the flow of money and expenditures for goods and services during a given time period. The expectations of aggregate demand influence the aggregate supply.
- **Cash Flows:** In investments, it represents earnings before depreciation amortization and non-cash charges. Sometimes called cash earnings.
- **Elasticity of Demand:** Demand is considered elastic when a decrease in price results in an increase in total revenue.
- **Income Statement:** Also, earnings report, operating statement, profit and loss statement. It is a summary of the revenues and expenses of a business firm or other organisation for a particular period of time, generally one year.
- **Share Capital**: It is the contributed capital of a company that reckons investors' interests in terms of shares.

16.14 ANSWERS TO CHECK YOUR PROGRESS:

Fill in the blanks:
1. Project feasibility

2. Market feasibility
3. Demand and price
4. Financial
5. economic viability

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16.16 SUGGESTED READINGS:

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2. Fundamentals of project management: James. P. Lewis
3. Project planning and control: G David Carmichael
4. Project planning, analysis, selection, financing, implementation and review: Prasanna Chandra
5. Project Management: S Chaudhary

16.17 TERMINAL QUESTIONS:

1. What are the important facets of a project feasibility study?
2. What factors are to be kept in mind while deciding on product/service?
3. Explain in detail about the importance of financial feasibility for any project?
4. Explain legal considerations in the establishment of an enterprise.
5. Define:
   a. Market feasibility.
   b. Economic feasibility.
   c. Environmental feasibility

UNIT 17: OPPORTUNITIES AND ENVIRONMENT FOR DEVELOPMENT OF TOURISM ENTREPRENEURSHIP IN INDIA

STRUCTURE

17.1 Introduction

17. 2 Objectives

17.3 Entrepreneurship and New Venture Creation

17.4 The Role of Government in Supporting Entrepreneurship

17.5 State Governments Incentives for Investors

17.6 Tourism Related Entrepreneurship Opportunities

17.7 Challenges for New Ventures in Tourism Industry

17.8 Check Your Progress 1

17.9 Summary

17.10 Glossary

17. 11 Answers to Check Your Progress

17.12 References

17.13. Suggested Readings

17.14. Terminal questions

17.1 INTRODUCTION:

Once an individual decides to take up entrepreneurship as a career path, to be a job provider instead of a job seeker, he has to establish an enterprise. It is extremely important to take utmost care in identifying the product or service to be launched by the entrepreneur otherwise it might prove to be a very costly mistake. He must develop sensitivity to changes around him, which can provide business opportunities and then carefully scan his environment to generate ideas. After tentatively identifying four to five ideas he should go in for detailed assessment and feasibility study. This will help him to crystallise one idea in an objective and systematic manner, which will greatly enhance his chances of success.

17. 2 OBJECTIVES:

After going through this lesson you should be able to:
- Familiarise yourself with the process of establishing an enterprise,
- Understand with the role of government in establishing a new venture.
- Use your creativity and innovativeness in identifying business ideas in tourism industry.
- The various challenges and opportunities in tourism industry.

17.3 ENTREPRENEURSHIP AND NEW VENTURE CREATION:

Even to a most casual observer it will appear that India is moving on a growth path. The roads are choked with cars, scooters and buses and now in Delhi we have a brand new Metro also. Most people are well dressed and carry cell phones. The sale of TVs, washing machines and other white goods are booming. There is a spurt in travel both domestic and international as well as in the number of people dining out. All these are signs of economic development and it is the entrepreneur who is the driving force behind economic growth and rejuvenation. This is true not only in India but also all across the globe. Development of entrepreneurship helps to accelerate the pace of economic growth, solve problems of unemployment, and check concentration of wealth in the hands of a few individuals or business families. It also helps to achieve balanced growth of all regions of the nation.

Entrepreneur is the one who makes things happen by perceiving an opportunity and organizing the resources needed to exploit this opportunity. He creates a new business in face of risk and uncertainty for the purpose of achieving profit and growth. Entrepreneurs look ahead to see what can be done in future rather than concentrating on the past. Where others see problems and shortcomings they see opportunities for starting a business.

To set up an enterprise the entrepreneur has to undergo the entrepreneurial experience. Once having done that, he has to concentrate on the management of his business. The entrepreneurial experience begins with the idea for starting a new venture. The idea has to be sifted and refined so that he can identify a new product or service to be produced or offered. Usually there is a triggering factor, which makes the entrepreneur take the plunge to start his business. However one has to systematically make a business plan and study the feasibility of the proposed venture before doing so.

17.4 THE ROLE OF GOVERNMENT IN SUPPORTING ENTREPRENEURSHIP:

Small and Medium-sized Enterprises (SMEs) in market economies are the engine of economic development. Owing to their private ownership, entrepreneurial spirit, their flexibility and adaptability as well as their potential to react to challenges and changing environments, SMEs contribute to sustainable growth and employment generation in a significant manner. SMEs have strategic importance for each national economy due a wide range of reasons. Logically, the government shows such an interest in supporting entrepreneurship and SMEs. There is no simpler way to create new job positions, increasing GDP and rising standard of population than supporting entrepreneurship and encouraging and supporting people who dare to start their own business. Every surviving and successful business means new jobs and growth of GDP.

Therefore, designing a comprehensive, coherent and consistent approach of Council of Ministers and entity governments to entrepreneurship and SMEs in the form of government support strategy to entrepreneurship and SMEs is an absolute priority. A comprehensive government approach to entrepreneurship and SMEs would provide for a full coordination of activities of numerous governmental institutions (chambers of commerce, employment bureaus, etc.) and NGOs dealing with entrepreneurship and SMEs. With no pretension of defining the role of government in supporting entrepreneurship and SMEs, we believe that apart from designing a comprehensive entrepreneurship and SMEs strategy, the development of national SME support institutions and networks is one of key condition for

success. There are no doubts that governments should create different types of support institutions:

To provide information on regulations, standards, taxation, customs duties, marketing issues; ii) To advise on business planning, marketing and accountancy, quality control and assurance; iii) To create incubator units providing the space and infrastructure for business beginners and innovative companies, and helping them to solve technological problems, and to search for know-how and promote innovation; and iv) To help in looking for partners. In order to stimulate entrepreneurship and improve the business environment for small enterprises.

17.4.1 Training:

Basic training differs from product to product but will necessary involve sharpening of entrepreneurial skills. Need based technical training is provided by the Govt. & State Govt. technical Institutions. There are a number of Government organisations as well as NGOs who conduct EDPs and MDPs. These EDPs and MDPs and are conducted by MSME's, NIESBUD, NSIC, IIE, NISIET, Entrepreneurship Development Institutes and other state government developmental agencies.

17.4.2 Marketing Assistance:

There are Governmental and non-governmental specialised agencies which provide marketing assistance. Besides promotion of MSME products through exhibitions, NSIC directly market the MSME produce in the domestic and overseas market. NSIC also manages a single point registration scheme for manufacturers for Govt. purchase. Units registered under this scheme get the benefits of free tender documents and exemption from earnest money deposit and performance guarantee.

17.4.3 Promotional Schemes:

Government accords the highest preference to development of MSME by framing and implementing suitable policies and promotional schemes. Besides providing developed land and sheds to the entrepreneurs on actual cost basis with appropriate infrastructure, special schemes have been designed for specific purposes like quality upgradation, common facilities, entrepreneurship development and consultancy services at nominal charges. Government of India has been executing the incentive scheme for providing reimbursement of charges for acquiring ISO 9000 certification to the extent of 75% of the cost subject to a maximum

of Rs. 75,000/- in each case. ISO 9000 is a mechanism to facilitate adoption of consistent management practices and production technique as decided by the entrepreneur himself. This facilitates achievement of desired level of quality while keeping check on production process and management of the enterprise.

17.4.4 Concession on Excise Duty:

MSME units with a turnover of Rs. 1 crore or less per year have been exempted from payment of Excise Duty. Moreover there is a general scheme of excise exemption for MSME brought out by the Ministry of Finance which covers most of the items. Under this, units having turnover of less than Rs. 3 crores are eligible for concessional rate of Excise Duty. Moreover, there is an exemption from Excise Duty for MSME units producing branded goods in rural areas

17.4.5 Credit Facility to MSME:

Credit to micro, small and medium scale sector has been covered under priority sector lending by banks. Small Industries Development Bank of India (SIDBI) has been established as the apex institution for financing the MSME. Specific schemes have been designed for implementation through SIDBI, SFCs, Scheduled Banks, SIDCs and NSIC etc. Loans upto Rs. 5 lakhs are made available by the banks without insisting on collaterals. Further Credit Guarantee Fund for micro, small and medium enterprises has been set up to provide guarantee for loans to MSME up to Rs. 25 lakhs extended by Commercial Banks and some Regional Rural Bank.

Government of India runs a scheme for giving National Awards to micro, small and medium scale entrepreneurs providing quality products in 11 selected industry groups of consumer interest. The winners are given trophy, certificate and a cash price of Rs. 25000/- each. Government accords the highest preference to development of MSME by framing and implementing suitable policies and promotional schemes like policies and promotional schemes, providing incentives for quality upgradation, concession on excise duty and provides technical supportive services. Thus Government play supportive role in developing entrepreneurs.

17.5 STATE GOVERNMENTS INCENTIVES FOR INVESTORS:

Many state governments are offering incentives to attract investment in their states. Many state governments in India offer attractive incentive packages.

Policies and Schemes for Promotion of MSME Implemented by State Governments: All the State Governments provide technical and other support services to small units through their Directorates of Industries, and District

Industries Centres. Although the details of the scheme vary from state to state, the following are the common areas of support.

> ➢ Development and management of industrial estates
> ➢ Suspension/deferment of Sales Tax
> ➢ Power subsidies
> ➢ Capital investment subsidies for new units set up in a particular district
> ➢ Seed Capital/Margin Money Assistance Scheme
> ➢ Priority in allotment of power connection, water connection.
> ➢ Consultancy and technical support
> ➢ Loans and subsidies at very attractive rates of interest.

17.6 TOURISM RELATED ENTREPRENEURSHIP OPPORTUNITIES:

Travel and tour operators: Tour operators are businesses that combine two or more travel services (e.g., transport, accommodation, meals, entertainment, sight seeing) and sell them through travel agencies or directly to final consumers as a single product (called a package tour) for a global price. The components of a package tour might be pre-established or can result from an "a la carte" procedure, in which the visitor decides the combination of services he/she wishes to acquire.

Hotels : A commercial establishment providing lodging, meals, and other guest services. In general, to be called a hotel, an establishment must have a minimum of six letting bedrooms, at least three of which must have attached private bathroom facilities. Although hotels are classified into 'Star' categories (1-Star to 7-Star), there is no standard method of assigning these ratings, and compliance with customary requirements is voluntary.

Motels: Motor hotel. In general, roadside overnight accommodation facility that offers little or no amenities (such as attached bathroom or room service) other than parking space.

Guest houses: Larger than 'bed and breakfast' accommodation, typically offering breakfast included in room rate but not licensed to serve alcoholic beverages. Guest houses range from low-budget rooms to luxury apartments, and tend to be like small hotels in larger cities. They are rated from one to four stars.

Tour guide: A tourist guide is someone who possesses an area-specific tourist guide qualification issued and/or recognised by the appropriate public authority. The role of the tourist guide is to guide visitors from abroad or the home country, in the language(s) of their choice, interpreting the natural and cultural heritage of the area of qualification.

Transport/ transfer services for tourists: Transport infrastructure consists of the fixed installations necessary for transport, and may be roads, railways, airways, waterways, canals and pipelines, and terminals such as airports, railway stations, bus stations, warehouses, trucking terminals, refueling depots (including fueling docks and fuel stations), and seaports. Terminals may be used both for interchange of passengers and cargo and for maintenance.

Vehicles traveling on these networks may include automobiles, bicycles, buses, trains, trucks, people, helicopters, and aircraft. Operations deal with the way the vehicles are operated, and the procedures set for this purpose including financing, legalities and policies. In the transport industry, operations and ownership of infrastructure can be either public or private.

Tourist campsites/picnic sites: Camping is often referred as a recreational activity at affordable prices. As nice as this is having a picnic along with it can enhance the experience. When you really think about it, the two "would be" different ideas are a perfect combination

Picnics are more than just about eating when you are with your family, friends or significant other. Depending on your location, you can do some boating, swimming, perhaps some fishing and maybe even some hiking. These are things you also do for camping. Some campgrounds and some state park sites offer a swimming area such as a pool, lake or other bodies of water.

Houseboats: A houseboat is a boat that has been designed or modified to be used primarily as a human dwelling. Some houseboats are not motorized, because they are usually moored, kept stationary at a fixed point and often tethered to land to provide utilities.

Boat station: A ship's passenger's assigned space during lifeboat drills or an actual emergency.

Cultural centres: A cultural center or cultural centre is an organization, building or complex that promotes culture and arts. Cultural centres can be neighbourhood community arts organizations, private facilities, government-sponsored, or activist-run

17.7 CHALLENGES FOR NEW VENTURES IN TOURISM INDUSTRY:

Potential for the travel and tourism industry in India is enormous. However, at the same time, the industry faces numerous challenges, of which the most critical is lack of proper infrastructure. Various challenges/issues faced by the domestic travel and tourism industry in India:

Lack of proper infrastructure: Infrastructure needs for the travel and tourism industry range from physical infrastructure such as ports of entry to modes of transport to urban infrastructure such as access roads, electricity, water supply, sewerage and telecommunication. The sectors related to the travel and tourism industry include airlines, surface transport, accommodation (hotels), and infrastructure and facilitation systems, among others.

Access and connectivity: To harness India's tourism potential, several efforts are being taken for opening new destinations and exploring niche segments. However, infrastructure facilities such as air, rail, road connectivity, and hospitality services at these destinations and the connecting cities are inadequate. This remains a major hurdle for development of tourism. Roadways form a vital network in the tourist industry with almost 70% tourists in India travelling by road. Moreover, many tourist circuits depend on roads. Despite numerous efforts to improve road infrastructure, connectivity remains a major problem. There is a greater need for strengthened road and rail network, development of more expressways, and tourist-specific routes to improve connectivity to various locations across different regions.

Aviation infrastructure is also critical since it is a major mode of entry for inbound tourism. Passenger traffic is expected to increase in the coming years; however infrastructure facilities at airports are cause for concern. Expansion and development of airports at major gateway cities is underway to cater to the increasing passenger traffic. However, in addition, airport facilities at important secondary cities and tourist destinations also need to be improved to be able to handle greater passenger traffic.

Amenities: Amenities available at various tourist locations and en route need to be improved. These include basic amenities such as drinking water, well maintained and clean waiting rooms and toilets, first aid and wayside amenities (to meet the requirement of the tourists travelling to tourist destinations) such as lounge, cafeteria, and parking facilities, among others.

India scores poorly in terms of availability of these infrastructure facilities. Inadequate infrastructure facilities affect inbound tourism and also could lead to an increase in the outflow of domestic tourists from India to other competitive neighbouring countries. Hence, for the industry to register healthy growth, issues concerning all the related sectors need to be addressed.

Human resource: Availability of skilled manpower is a major challenge faced by the travel and tourism industry, one of the largest employment generators in the country. To sustain growth in the travel and tourism industry, trained manpower/

workforce is required at every level — managerial, supervisory, skilled or semi-skilled. Challenges faced at each level are different. At mid and senior management levels, the industry faces talent crunch and at the front-line staff level, although human resources are adequate, a boom in other service industries such as banking, retail, airline and BPO have resulted in shortage of manpower at this level for the travel and tourism industry. Thus, we have a demand-supply mismatch with respect to manpower in the travel & tourism and hospitality sector in India. A study conducted by Ministry of Tourism suggests that existing supply of human resources do not cater to even 40% of the demand. Thus, the industry has no alternative but to fill the void with untrained resources. Such a high proportion of untrained manpower would adversely affect quality of services offered to the tourists.

Attrition, shortage of tourism training infrastructure, qualified trainers, and lack of proper strategies and policies for human resource development also affect the industry. The industry needs to address these problems at the earliest.

Service level: In addition to tour operators and hotel staff, tourists interact with persons from different backgrounds, occupations and experience. Such people include staff at bus/railway station, immigration staff at airports, taxi/coach operators, ticketing/ travel agencies, small hotels, dhabas/roadside eateries, staff at heritage sites, and tour guides, among others. The degree of service offered by these various stakeholders has a significant impact on determining the tourist's overall experience of India as a tourist destination. The government has taken initiatives to promote responsible tourism by sensitising key stakeholders of the tourism industry through training and orientation, to develop a sense of responsibility towards tourists and inspire confidence of foreign tourists in India as a preferred destination. One such major initiative is the "Atithi Devo Bhava" campaign. More such efforts are required to improve the degree of service across various operators.

Marketing and promotion: Marketing and promotion of India as a major tourist destination is critical for the industry to achieve its potential. Lack of adequate budgetary support for promotion and marketing, compared with competing tourist destinations, is a major reason for India lagging behind as a tourist destination. Marketing under the "Incredible India" campaign helped place India as a good tourist destination on the global tourism map. Indian tourism products are promoted primarily by the Ministry of Tourism with the involvement of state governments through the State Tourism Development Corporations. Newer tourism concepts, which include cruise tourism, adventure tourism, agri tourism or rural tourism, are emerging in India and these require support to develop and flourish.

Hence, greater marketing push for these different products is required. To remain competitive in the fiercely competitive field, India needs to change its traditional marketing approach to a more competitive and modern approach. There is a need to develop a unique market position and the brand positioning statement should capture the essence of the country's tourism products: i.e., they should be able to convey an image of the product to a potential customer.

Taxation: Travel and tourism in India is a high-taxed industry, which makes India expensive as a tourist destination. This is affecting the growth of the industry in India and India is losing out to other low-cost destinations. Inbound tourism is the one most affected. Various taxes are levied across the entire industry right from tour operators, transporters, airline industry to hotels and these include service tax, luxury tax, tax on transportation, tax on aviation turbine fuel (airline industry), and various taxes on transportation. In addition, these tax rates tend to vary across different states in the country.

Security: Security has been a major problem as well for growth of tourism for a number of years. Terrorist attacks or political unrest in different parts of the country have adversely affected sentiments of foreign tourists. Terror attacks at Mumbai in November 2008 dealt a strong blow to tourism in the country. The terror attacks raised concerns of safety. In addition, insurgency in different parts of the country also mars India's image as a safe destination. Following the terror attacks in Mumbai, security at tourist spots, airports and hotels has been beefed up to regain confidence of tourists. However, the government needs to take a proactive approach in addressing these issues and in averting the potential impact on the industry.

Cyber crime is another major challenge the travel industry faces. Use of Internet in the travel and tourism industry has increased rapidly in recent years and has emerged as one of major segments for online spends. However, some of the biggest frauds have been detected in this segment and the issue of online security has assumed significant importance. While the online travel industry has registered robust growth, major concerns relating to security of online transactions persist. The industry needs to take measures to make the process of online bookings more secure and transparent and also needs to create awareness regarding this.

Regulatory issues: For inbound international tourists, visa procedures are seen as a hindrance. A number of countries competing with India for tourists provide visa on arrival. India should provide visa on arrival for more countries or for certain categories of tourists for a specific duration.

A number of projects in the tourism infrastructure segment and in the hotels industry are delayed due to non-attainment of licenses and approvals on time. The government recently cleared the long-standing proposal for single window clearance for hotel projects to hasten the process of infrastructure development. Implementation of this proposal would help development of tourism and hospitality infrastructure in the country. There is a greater need for speedier clearances and approvals for all projects related to the industry.

Prospects: Healthy economic growth recorded in past few years, especially in the services industry, has led to increase in business travel. Higher disposable income and affordability have increased domestic leisure travel in India. Foreign tourist arrivals in India have also grown. The industry's performance was hit in 2009 due to the global economic slowdown, terror attacks in Mumbai (November 2008) and H1N1 virus. However, the industry has shown signs of recovery in the first half of 2010. This is a clear indicator that the long-term prospects for the Indian travel and tourism industry are bright. India is expected to witness increased tourist activity both in the business and leisure segments in the coming years. International inbound traffic is expected to grow rapidly with increasing investment and trade activity. India has been identified as one of the fastest-growing countries in terms of tourism demand.

17.8 CHECK YOUR PROGRESS: 1

Fill In The Blank:

1. Where others see problems and shortcomings ………………………… see opportunities for starting a business.
2. Small and Medium-sized Enterprises (SMEs) in market economies are the engine of …………………...
3. Basic training differs from product to product but will necessary involve sharpening of ………………….
4. ……………… are businesses that combine two or more travel services.
5. A ……………is someone who possesses an area-specific tourist guide qualification issued and/or recognised by the appropriate public authority.
6. A cultural center or cultural centre is an organization, building or complex that promotes ……………
7. India's greatest ………………assets are Himalayas and its mighty rivers.

17.9 SUMMARY:

In this Unit we attempted to give you an idea about the characteristics of an entrepreneur and the process of entrepreneurship. There are ample opportunities for those planning to enter the tourism sector. You have these opportunities right in your own location if your area is a tourist destination. But to use these opportunities you ought to have entrepreneurial qualities and must be familiar with the entrepreneurial process. It is essential that you have a professional approach with an understanding of management concepts and functions. Environmental cautiousness, respect for local customs, involvement of local population and job opportunities for them will add to your success. Here you must take note of the various government schemes for motivating, financing and training entrepreneurs and make use of them. Tourism industry is one of the major segments of our economy, it contributes major part of foreign exchange and generates employment and helps infrastructure development.

17.10 GLOSSARY:

- **Business plan:** an action plan that entrepreneurs draw up for the purpose of starting a business; a guide to running one's business.
- **Carrier:** Transportation Company such as an airline, motor coach, cruise line, or railroad which carries passengers and/or cargo carrying capacity: the amount of tourism a destination can handle.
- **Culture:** A set of shared norms and values which establish a sense of identity for those who share them. Typically applied at the level of nation and/or race.
- **Ecotourism:** Defined by The International Ecotourism Society as 'responsible travel to natural areas that conserves the environment and sustains the well-being of local people'
- **Opportunity:** A need, want, problem, or challenge that can potentially be addressed by an entrepreneurial idea and an entrepreneurial venture.
- **SME(s):** Small and Medium Enterprises.
- **Themed tour:** A tour designed around a specific theme such as fall foliage, also a special interest tour
- **Venture:** Any initiative that entails the mobilization of resources to establish a good, service, program, and so forth to address needs, wants, problems, and challenges.

17. 11 ANSWERS TO CHECK YOUR PROGRESS:

Fill in the blanks:

1. Entrepreneur.
2. Economic development
3. Entrepreneurial skills.
4. Tour operators
5. Tourist guide
6. Culture and arts
7. Adventure tourism

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17. 13. SUGGESTED READINGS:

1. Creating And Launching Superior New Product, Product Leadership: Robert Cooper

2. Entrepreneurship and economic development: J.V.Prabhakara

3. Tourism and Entrepreneurship international perspective: J. ATE ljivic & S. G. page

17. 14. TERMINAL QUESTIONS:

1. Discuss the various incentives for investors provided by state government.

2. Critically examine the role of government in establishing an entrepreneurial venture.

3. What are the various opportunities prevailing in the filed of tourism?

4. Give a detailed account of problems faced by tourism industry in India.

5. Write short note on:

        A: Entrepreneurship.

        B: Marketing Assistance.

        C: Promotional Schemes.

        D: Tourist campsites/picnic sites.