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**INDIAN INSTITUTE OF MANAGEMENT  
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MANAGEMENT IN OUR BACKYARD

By

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The main objective of the working paper series of the IIMA is to help faculty members to test out their research findings at the pre-publication stage.

INDIAN INSTITUTE OF MANAGEMENT  
AHMEDABAD

## MANAGEMENT IN OUR BACKYARD\*

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The models of management that are currently taught in our management schools are heavily American. Indigenous management tends to be ignored for being unprogressive, authoritarian, unscrupulous, and so on, and is often presented as a model of mismanagement in contrast to models of "professional" management. Such a state of affairs is unfortunate because (a) there is probably far greater variety to Indian management than its popular stereotype, (b) there may be great strengths in indigenous management, which if understood, could enrich management curricula; (c) indigenous management, or at least aspects of it, may be more appropriate to Indian conditions than a style and technology of management that grew out of a different socio-historical process and flourishes in a very different kind of a political economy. In view of these considerations, IIMA set up a research team to probe indigenous styles of management in the corporate sector.<sup>1</sup>

### Tentative Conclusions from Interviews

In the first leg of research a large number of managers, share brokers, management consultants, executives of management associations, and so forth were interviewed by the author. The annual

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\* Based partly on a paper presented at the Second Annual Conference of IIMA Society, Feb. 13-14, 1978.

<sup>1</sup> The team consists of Professors Uday Pareek, Praful Anubhai, and the author, with Mrs. Rita Moulik as research assistant.

statements of account of a number of companies were also analysed.

The tentative observations are:

- (a) Despite being far simpler, control systems utilised by some of the indigenous managements, notably the Birlas, are in some ways more effective than American control systems. In the padma system utilized by the Birlas, information on departures from targets of profits, production, sales, etc. are made available daily to the headquarters. This probably makes for much shorter response time than is the case with sophisticated control systems utilised by American managements. It also makes possible control of a number of disparate companies by one top level individual, and approximates what in professional management is known as management by exception.
- (b) There may be a surprising degree of altruism in Indian managements. Altruism is the motivation to work for the benefit of an entity beyond one's own self. This entity may be the family to which the individual belongs, one's caste or community, one's nation, or even society at large. While self-interest is certainly strong among Indian managers, concern for a group with which one identifies is also quite strong. The author noted many examples of altruism in the managements he interviewed. Concern was often expressed for the well being of the employees of the company, and of the family to which the enterprise belonged; occasionally concern for the nation was also expressed. Ruthlessness towards rivals seemed to be tempered by compassion for certain specific groups.
- (c) Many indigenous managements display surprisingly high levels of resourcefulness, speed in decision making and implementation of plans, and ability to arrive at intuitively right judgements. A Barwari company manufacturing cycle tyres took less than two years to think of the idea, plan the investment, set up the plant, and go into full production, approximately the time it took a multinational to examine the feasibility of a similar project.
- (d) A number of executives stressed the importance to them of non-formal sources of information. They relied heavily on contacts in the markets as well as

on political contacts and on information with their friends. Indian managers appear to be extra-ordinarily attuned to rumours. Several indicated that they gave parties or attended parties for picking up information on what was afoot, as part of their early warning system.

- e) In the non-professionally managed companies, one or a small group of family members is commonly in charge, even though sometimes his name does not even appear on the organizational chart. These individuals tend to see the sense of responsibility and accountability as a very great virtue of this form of management. Their feeling is that such managements tend to be very successful when there is family unity, but tend to fall apart when there is conflict among the family members, or the head of the family is incompetent.
- f) In the larger business groups intra-family competition seems to play quite a major role. Apparently there is quite active competition for status within such larger groups, and while resources of the group as a whole are available to its individual members, the competition for status induces into the younger members of the family a strong need to achieve success in terms of corporate performance. This competition is often abetted by the fathers of these younger members, who, in family gatherings quote with pride the corporate achievements of their sons.
- g) There is a distinct tendency for some managements to blame the environment for their stagnation, such as the MRTP or stagnation in the economy. In other managements there is a pronounced tendency to emphasise opportunities and getting rid of obstacles. In other words, some managements seem to be quite reactive; others quite proactive. There seems to be some tendency for the proactive managements to show substantially higher rates of growth and diversification than the reactive managements. Some of the proactive managements have responded to restrictive legislation by setting up plants abroad, by moving into the core sector of the economy in which restrictions are fewer, by moving into states that can help them get licences, and so on.
- h) While many of the non-professionally managed organizations have a formal structure, the top man commonly insists on a direct access to people at lower levels. He tends to encourage

employees to approach him and tell him about the goings on at their level of management. In other words, communication is often not through the formal channels, but direct. In terms of the communication network and authority structure, the organization resembles a many-rayed star, with the top boss as the bright nucleus and the personnel as so many rays. The form is in sharp contrast to the pyramid that most professionally managed and bureaucratic organizations are.

- i) In most of the non-professionally managed organizations there seems to be a strong results orientation and willingness to bend ethics to suit the situation. Many seem to operate in the great tradition of Kautilya: to secure objectives an administrator is entitled to use *sama* (conciliation), *dama* (bribery), *danda* (punishment), or *bhad* (conspiracy).
- j) There are some very interesting ways key personnel are recruited into the organization in the non-professional organizations. Quite often, the managers just below the family member/members in charge are people who have, so to speak, been brought up from their childhood by the founder. At other times they are recruited through a network of business friends, that is to say, on the strength of recommendations of close business associates. Sometimes when a young family member takes over an enterprise, he promotes some able younger individuals over the heads of several more senior individuals. This may be a way of building loyalty in such individuals and a way of signifying to the organization that ability counts, not seniority. Heads of these family operated firms were asked as to what they looked for in their immediate subordinates. Integrity and personal loyalty were usually mentioned but there were some interesting differences. Some of these chiefs mentioned ability and initiative more, others looked for reliability and even mediocrity. The recruitment of technical personnel seems, by and large, to be decentralized, and tends to be done by professionals.
- k) In some businesses the tendency is to pay the top subordinates very well, supplement their official earnings with some unofficial payments, pay the labour well if it is unionized, and relatively neglect the middle level executives. Collective power or indispensability tends to earn relatively high remuneration; dispensability, relatively low.

Over all, interpersonal trust tends to be highly emphasized at senior levels as also speed of decision making and aversion to paper work. The rise of the parallel economy seems to have increased the need for trustworthy managers and employees and simultaneously made the task of getting them or keeping them trustworthy more difficult. Some top executives admitted to informal surveillance over their purchase and sales executives through market channels; some even admitted that so long as cheating is not excessive, and the man produces results, they overlook kickbacks and under-the-table commissions. The need for trustworthy personnel seems to induce many managements to rely heavily on family members and members of the same community as sources of staff in preference to more qualified but unfamiliar individuals.

- m) Goals of business houses seem to vary substantially. Efficiency, cost control, growth and profitability seem to be emphasized by a number of Marwari business houses very strongly. Tatas on the other hand, seem to put a good deal of premium on an impeccable public image. Few business houses seem to emphasize innovation and high technology as much as I&T. Mafatlals seem to have evolved a distinctive group management style at the top with a good deal of operating decentralization at the level of units. Managements in South India are reportedly ~~more honest and~~ more honest and more conservative than those in Western and Eastern India, while Gujarati business houses, with a few exceptions, are reportedly more highly centralized in their decision making, not as risk taking as Marwari business houses, and seem to practice rather close supervision of subordinates.
- n) Professionalization is a painful process for many indigenous managements, especially those that stand in the twilight zone between bigness and smallness. If the force impelling professionalization is the ability to deal effectively with a complex technological, legal, and economic environment, the principal fears seem to be a runaway increase in high cost staffing and a loss of control to technocrats. Often a compromise is to have the appearance of professionalization by creating roles and hiring technocrats but without its operational content, that is, without the requisite delegation of authority to specialists in matters within their domain of expertise. Another solution of the dilemma is to delay

growth or diversification in order to keep the enterprise down to a level manageable by family members. A third is to send one or two family members abroad or to Indian management schools to find out more about professional management. Several such younger individuals who had been exposed to professional management and had returned to their family businesses reported that their greatest gain had been not the specific techniques they had learnt, which more often than not were not applicable to their business, as much as the kinds of question that they had learnt to ask.

- o) Apparently, a principal impetus to managerial professionalism is not so much expectations of higher profitability through it as the need to meet constraints imposed by the government through its various laws and policies. In other words, it is the growing level complexity of the environment that is a major force in professionalising management. Another major force may be the requirement to deal with foreign purveyors of capital or know-how in companies with foreign collaboration agreements. The questions these collaborators ask impel indigenous managements to instal modern management methods and to hire technocrats. This seems to account for the large differences one commonly finds in the management styles and structures of the enterprises of a business group. For example, the textile units of such groups tend to be far more traditionally managed than their engineering or petrochemicals units.



### Conclusions from the Study of Corporate Annual Reports

Some very interesting phenomena came to light in our study of the annual reports of companies listed on Indian stock exchanges. So far we have analysed the annual reports of 228 companies. Table 1 provides information on the number of companies studied in each of nine industries (engineering; textiles; dyes, chemicals, and pharmaceuticals; cable and electric goods; steel, metal, and alloys; sugar and breweries; cement; automobiles, cycles and accessories; and jute, tea, and coffee). It also shows for each industry the value added by the companies, the total number of employees earning over Rs.36,000/- per year ("elite staff"), elite staff per crore of value added ("elite intensity"), the percentage of elite staff earning over Rs.60,000/- per year ("elite stratification"), the percentage of elite staff with technical qualifications ("technocracy"), the percentage of elite staff with less than 15 years service with the company ("fresh blood orientation"), the percentage of elite staff with over 15 years work experience ("experience orientation"), debt/equity ratio or leverage, and growth in net block. The definitions of these variables are given in the Appendix.

- p) It is at once clear from Table 1 that there are significant inter-industry differences. Elite intensity (the number of employees earning over Rs.36,000/- per crore of value added) varies from lows of 1.32, 1.55 and 1.60 for the sugar, textiles, and cement industries respectively to highs of 3.32, 3.42, and 3.56 for cables and electric goods; engineering; and dyes, chemicals and pharmaceuticals. Evidently, these latter industries, because of their technological complexity, need relatively far larger number of highly paid staff than the former industries. Technocracy (% of elite staff with technical qualifications) varies substantially, too, from lows of 8%, 13%, and 16% for sugar; jute, tea, and coffee; and steel, metal, and alloys, to a high of 30% for the engineering industry. The interesting point, however, is that in this respect the textile and the cement industries both outscore steel, metal, and alloys, and cement outscore even cable and electric goods!

DISCOUNT GOODS	MILLOYS		VALUES		TYPES and accessories	
	16	12	8	8	5	8
138.00	395.31	39.00	184.87	39.50	146.63	
460	720	50	297	108	385	
3.32	2.00	1.30	1.50	2.73	2.62	
15%	13%	3%	12%	29%	27%	
23%	16%	8%	24%	20%	13%	
40%	40%	78%	40%	80%	65%	
70%	88%	74%	70%	72%	75%	
1.00	.66	1.41	0.53	1.67	1.42	
.10	5.00	.48	-.30	.57	1.70	

Fresh blood orientation (percentage of elite with less than 15 years service with the company) varies a great deal, too, ranging from 40% for cables and electric goods; steel, metal and alloys; and cement, to 73% for dyes, chemicals and pharmaceuticals, 78% for sugar and breweries, and 80% for automobiles, cycles, and accessories. Part of the explanation may be the greater incidence of relatively newer companies in the latter group of industries as compared to the former. But partly it may also reflect the necessity of fresh blood and fresh ideas either on account of prolonged stagnation and poor performance or on account of market dynamism. There appears to be much less of an inter-industry variation in experience orientation.

There are large variations in debt/equity ratios and growth rates of net block. The debt/equity ratio varies from a low of .63 and .66 for cement and steel, metal and alloys (both producer goods industries) to highs of 1.67 and 2.02 for automobiles and engineering. The annual growth in net block varies from lows of -.68, .10, .48, -.50, and .57 for dyes, chemicals and pharmaceuticals; cable and electric goods; sugar; cement; and automobiles, reflecting the stagnation in capacity in these industries, to highs of 2.13, 5.00, and 1.70 in engineering; steel and metals; and jute, tea, and coffee.

- (q) Interesting as the inter-industry variations are, there are interesting inter-firm variations within the same industry. Table 2 shows intra-industry contrasts and similarities between companies belonging to different business groups. The "A" companies (A1 and A2) are modest sized textile units, the "B" companies are larger textile units, the "C" companies are modest sized engineering companies, the "D" companies are somewhat larger engineering companies, and the "E" companies are much larger engineering companies. Consider the "B" companies consisting of 3 textiles units belonging respectively to the Jadia, the Khatau, and the Mafatlal groups. Within the B companies, elite intensity varies by a factor of 2, elite stratification (percentage of elite staff drawing over Rs.60,000/-) by a factor of 3, fresh blood orientation by a factor of 6, and annual growth rate in net block by a factor of 9!

3	4	5	6	7			
No. draw- ing over \$6,000 a '	Elite Staff to Co. size (elite inten- sity) 3 divided by 1)	% of Elite staff draw- ing over \$6,000 (elite stra- tification)	% of Elite staff with technical education (techno- cracy)	% of elite staff with under 15 years ser- vice with Co. (fresh blood ori- entation)	% of elite staff with over 15 years work Exp. (pre- mium on work expe- rience)	Debt/ equity ratio (leve- rage)	rate of growth in Net Block (Expan- sionism)
	1.4	5%	73%	50%	68%	2.1	12%
	2.1	30%	56%	91%	81%	0.8	1.4%
	2.0	11%	68%	53%	86%	1.0	6%
	1.5	33%	60%	13%	91%	0.6	0.7%
	1.1	28%	63%	73%	80%	0.9	3%
	3.0	-	90%	86%	79%	0.5	17%
	3.0	-	83%	94%	83%	1.5	18%
	4.8	-	83%	63%	96%	1.2	23%
	1.0	-	96%	62%	90%	3.4	0%
	7.4	-	47%	37%	65%	1.3	9.1%
	2.2	8%	78%	52%	77%	1.5	7%
	6.5	19%	86%	53%	80%	0.7	4%

The contrasts between the two "D" companies, one belonging to the Birlas, the other to the Mahindras, are also intriguing, as also the contrasts between the E companies (Telco and L and T). The elite intensity varies by a factor of over 7 in the D companies and by a factor of 3 in the E companies. Technocracy varies by a factor of 2 in the D companies while elite stratification varies by a similar factor in E companies. Interestingly, fresh blood orientation is substantially higher in Texaco as compared to Mahindra and Mahindra while experience orientation is also much higher in Texaco. Mahindra and Mahindra has a much lower debt/equity ratio and a much higher growth rate in net block, while both the debt/equity ratio and net block expansion is much higher for Telco vis-a-vis L and T.

- (r) Equally interesting as the above are intra-business group differences shown in Table 3. Table 3 shows a comparison between two Mahatma companies, two Tata companies and two Birla companies. In each comparison, there is one textile and one engineering unit. Elite intensity varies by a factor of 3 as between the two Mahatma companies but does not vary as between the two Tata and Birla companies! Elite stratification is about twice as high for the engineering unit vis-a-vis the textile unit for the Mahatma and the Tata groups, but is half for the Birlas!

The debt-equity ratios vary by a factor of nearly 2 for the Mahatma group and by a factor of 7 for the Birlas, while the growth rate of net block varies by a factor of 6 for Mahatma, 2 for the Tatas, and 3 for the Birlas. There is some indication that the Tata units may be managed in a relatively more uniform manner than the Mahatma or the Birla units. In any case, the data tend to question the belief of a uniform management style for the units of a business group.

## Conclusions

It needs to be emphasized that the generalizations from interviews and the study of annual reports are still very tentative and must be checked out by further, more rigorous, research. But tentative though they are, they indicate that Indian indigenous managements are richer and more variegated than hitherto suspected, and that despite various disabilities, they have evolved techniques of market research, personnel hiring and training, production planning, cost control, team building, public relations, human relations, industrial relations, and so forth that bear closer scrutiny. These are not well understood by management experts to-day and too often dismissed as traditional, intuitive, and ineffective. Instead, these indigenous techniques may be a more authentic response to conditions prevailing in India than American versions of these techniques, and while they can certainly be improved upon, and supplemented by western management know-how, they may have a tremendous contribution to make to effective management education and effective management practice in India.

The author suspects that contemporary Indian management needs the strengths of both the western and the indigenous approaches to management. There is little question that due to rapid industrialization, accent on exports and on import substitution, and the extensive social control of business, management needs to be more professionalized than it is now. In other words, it needs to have more formal planning, control and budgeting, more humane personnel management, more sophisticated industrial relations, more sophisticated marketing, and so on. Equally, we have an economy that is subject to the vagaries of weather and a fairly turbulent political system. To navigate in this political and economic turbulence, management needs to gather intelligence and to respond fast to information, as well as to take decisions that yield quick results. The trend in Indian management is therefore likely to be towards not only

INTRA-GROUP COMPARISONS

Elite staff size (elite retention)	% of elite staff drawing over \$50,000 (elite stratification)	% of elite staff with technical education (technical cracy)	% of elite staff with less than 15 years service with co. (fresh blood orientation)	% of elite staff with over 15 years work experience (premium on work experience)	Debt/Equity Ratio (leverage)	Annual rate of growth of Net Block (expansionism)
27%	65%	77%	80%	0.9	3%	
50%	83%	94%	83%	1.5	16%	
5%	72%	50%	68%	2.1	12%	
8%	78%	52%	77%	1.5	7%	
28%	82%	61%	53%	0.6	3%	
14%	96%	62%	90%	3.4	9%	

more westernised management but also towards smarter varieties of indigenous management. The possibilities of combining the western approaches with what may be called the indigenous entrepreneurial approaches into new patterns of professional management relevant to Indian conditions are intriguing. Further research is needed to uncover the practical relevance of both and the many effective fusions that have occurred in India.

Our future plans are quite ambitious. We would like to press on with our study of annual reports and study the management practices of some 500 public limited companies quoted on the stock exchanges. Besides this, we are gathering through interviews and questionnaires detailed information on the style of management, organizational structure, motivational climate in the organization, corporate growth strategy and so forth of a sample of companies.

Such information is indispensable for many reasons. First of all, systematic data are needed to stimulate valid theorizing. We certainly hope that management and organization theorizing will receive a strong fillip once our data are published. And as in the West, there is nothing so practical as a good theory, for a good theory explains and predicts, and so helps the manager to develop more and more effective modes of management.

Secondly, we expect our data to have substantial impact on management education. Our current management models are heavily western, particularly American. If we can discover effective Indian alternatives to American models of management control, or of planning, or of market research, or of personnel management, we would be able to work these into management curricula and so increase the student's repertoire of action alternatives once he or she becomes a manager. Often, management students find great



gaps between what they learn at management schools to be good management and what they find at work. These gaps sometimes lead to the disenchantment of management graduates with the companies they work for and vice versa. Our hope is that a better understanding on the part of management students (and faculty) of the strengths and the variety of indigenous management will cause less friction at their first jobs and also increase their mobility and acceptance in the non-westernized companies in India.

Thirdly, there may be some important fall-outs for public policy. One of our objects is to identify management styles and practices that are highly effective and the circumstances in which these are found. Let us suppose that we find that industries with a certain kind of competitive structure tend to have strong managements while industries with another kind of structure tend to have weak managements. One possibility then is for the government to try consciously to strive for a desirable market structure in each industry to improve the quality of its management, and therefore improve its productivity, profitability, export potential, industrial peace, tax paying ability and so forth.

Fourthly, there may be some important implications for more effective ways of managing Indian organizations. In the West, certain styles of management have been found to be generally more effective than other styles. For example, participative management and a planning orientation generally seem to improve the performance of an organization. What, however, is more significant is the finding that even antipathy to participative management or formal planning can be associated with high performance in specific business situations, and that participative management or a planning orientation in certain business

situations may either perform no useful function or may actually impede high organizational performance.<sup>2</sup> We hope to indicate, even if only tentatively, the circumstances under which different managerial orientations prevalent in indigenous managements can be especially effective. For example, we may be able to indicate the circumstances under which a paternalistic, an authoritarian, a non-formal, or even a conservative management orientation is especially effective, and the circumstances under which it is not. Or, to put it another way, we may be able to indicate the circumstances under which professional management of the American type is not especially suitable as well as the circumstances under which it is. An important fall-out of our research may be a more selective application of management models, both indigenous and foreign. In designing or re-designing organizations managements would have the knowledge base, not available today, to select a path of development that is uniquely suited to their particular external and internal situations rather than strive after some universalistic model of good management that may be neither within their practical grasp nor make sense in their particular circumstances.

<sup>2</sup>See Pradip N. Khandualia, "The chemistry of effective management", Vikalpa, Vol.2, No.2, April 1977.

## APPENDIX

Definitions of variables pertinent to the analysis of annual report of companies:

1. **Value added:** Company sales plus closing stock minus outside purchases and opening stock.
2. **Elite staff:** Number of individuals reported to be earning Rs.36,000/- or over as shown in the particulars of employees exhibited in the company's annual report.
3. **Elite intensity (elite staff per crore of value added):** 2 above divided by 1 above.
4. **Elite stratification:** The number of individuals earning Rs.60,000 or above divided by the elite staff (2 above).
5. **Technocracy:** The percentage of 2 above with an engineering, science, commerce or other technical qualification.
6. **Fresh blood orientation:** The percentage of 2 above who have been in service with the company for less than 15 years.
7. **Experience orientation:** The percentage of 2 above who have had over 15 years work experience whether in the company or outside.
8. **Debt/equity ratios:** The total of secured and unsecured loans taken by the company to the shareholders' funds (capital plus reserves and surplus). The ratio was calculated for each of the past 3 completed years and then averaged.
9. **Growth in net block:** The average annual increase/decrease in net block for past 4 years divided by value added by the company (1 above). The base of value added rather than some base period net block was taken to minimise the distortion effects of inflation.