

## **THE THIN LINE BETWEEN BUSINESS & BUSINESS GREED: OLD GUIDES FOR STRATEGISTS OF PRESENT ERA**

### **Relevance of Barnard's "Functions of Executives"**

In the management schools curriculum in India certain powerful works are gone into backyard, being branded as old era, dated literature. The somewhat cosmetic literature of present day often fails to provide the insights and philosophies expressed in simple but holistic manner in the management archives, which can still help and rescue the failing and falling organizations in business and non-business sectors, especially large organizations. It can be even useful for large, open system like government, bureaucracy and various political parties in guiding the country's and the economic prosperity of people in an equitable manner.

Chester Barnard's, "Functions of Executives" is one such work written by a practicing manager. It has lessons for all the managers in different segments, especially the senior and top level, but rarely his word of wisdom discussed in teaching and training programmes in management schools of the country. Written over eighty years ago key concepts of organization and techniques of management have remained relevant and can be brought to the notice of students and practicing managers at all levels. This note describes some key lessons.

### **Barnard's Concept of Organisation**

Barnard defined organizations as a *cooperative system*, with various stakeholders as members of the cooperative system, whose objectives may be at variance with the objective of the cooperative system<sup>1</sup>. Often some members dominate and demand greater share in the benefits arising out of the cooperative disproportionate to the contribution they are making to the cooperative system<sup>2</sup>, sometimes employees<sup>3</sup>, other times owners<sup>4</sup>, sometimes suppliers<sup>5</sup>, other times customers<sup>6</sup>, occasionally government and society at large<sup>7</sup>. Though Barnard's concept of cooperative system does not include passive, non-human elements in the organization, my personal experience shows that including physical assets<sup>8</sup> (such as Technology, plant, machinery, buildings and even land) can give higher benefits at least as much as can be expected from other active members who are vocal, can shout and open protest, language that we can understand easily.

The Barnard's concept of organization as a cooperative system, in which all the stakeholders are equally important, is useful in many ways. Firstly, it implies the need for a balance in treatment to be meted out in an equitable manner to all the stakeholders. The strategicist should not get swayed by demands of powerful stakeholders or consciously/unconsciously ignore some or the other quiet stakeholders' like physical assets<sup>9</sup>. In the long run such fallacies may prove costly or even lead to very demise of the organization<sup>10</sup>.

Secondly, it also helps in seeking help of another stake holder, when the existing set of stakeholders are not in a position to supply/contribute to one or the other among the broad categories of the assets<sup>11</sup> required for carrying over the businesses of the organization.

Thirdly or even more importantly, the Barnard's concept of the organization also helps in the working out proper description of the organizational Mission and key objectives for long term survival of every organization.

### **Concept of Mission**

As Bernard says, organizations' (cooperative system) objectives are different from members of cooperative system. How then cooperative systems objectives can be set? Every organization is created to serve some or other need of the society<sup>12</sup>. Satisfaction of one or more needs of society thus becomes the Mission of the organization. But there must be a missionary behind the mission one who has the passion<sup>13</sup> for the mission, with his heart behind it, to serve the society through meeting the identified need of the society. Successful organization have the leader<sup>14</sup> as a missionary, who as commander works towards that mission.

Clarity on Mission unifies all the elements of organization functioning, from setting of objectives, selection of strategies, committing / development of various resources and infrastructure, organization structure, systems, policies, skills and above all if it becomes a part of shared values<sup>15</sup>, it bridges all the gaps in formal organization structure through appropriate informal structure, which is necessary as one can't design a formal organization which takes care of all the decision situations<sup>16</sup>. On the other hand to a lack of clarity may lead to a very high level of incoherences among various elements, leading to terribly suboptimal performance of the organization<sup>17</sup>, including collapse<sup>18</sup> of it and penalties to leadership<sup>19</sup>.

## Setting the Objective: Effectiveness and Efficiency of Organisation

Objectives setting is an important exercise, as the targets of performance of the organization, its measurement and monitoring depends upon it. The first objective thus has to flow from the mission; how much the organization has served the need of society, reflected in terms of number of customers served or units of products or services sold. Multiplying it by price charged, one gets what is called revenue/ sales. Growth in revenue/ sales, therefore, becomes a measure of how *effective*<sup>20</sup> is the organization in achieving the purpose it was created for (typically described in its charter, called Memorandum of Association).

Barnard also very well elaborates the need for second objective. While the organisations must be effective, at the same time the organizations managers have to ensure that the outcome of sum total of the contributions made by various stakeholders is more than or at least equal to the sum of total of expectations of all the members are making, without which one or the other stakeholders will not get what he expected and withdraw cooperation, resulting in the collapse of the organization in the long run (at times even in short run), through cascading effect of other stakeholders withdrawing cooperation one by one<sup>21</sup>.

Generation of surplus through synergy of efforts of various stakeholders' contributions becomes thus imperative for the long run survival of organization. In a business profit becomes an indicator of surplus. Profit as a measure of *efficiency*<sup>22</sup> thus becomes the second, mandatory objective for long term survival and success of an organization. This clarity about "Profit" comes only from the Barnard conceptualization of organizations and is highlighted by Anthony.

Barnard's concept of organization, its objectives (different from those of members), is the only work that brings home the point that although profit/surplus is important for the long term survival of organizations, the organizations which are not careful and push profit or revenue generation as the first and or the sole objective, be they business organizations<sup>23</sup> academic institutions<sup>24</sup> or any other non-profit organization, tend to lose sight of the mission as they start playing on hiking price (profiteering), by failing to include whether their product/services are used by increasing number of users or units sold, in the target setting, performance monitoring and control. Even the latter measures may be rendered defective, if due care is not taken, as units sold may be by

trapping the customers for repeat buying by monopolistic position or market dominance by various means<sup>25</sup>, rather than willful, voluntary buying by the customer and thus qualifying on mission.

### **Point of Inflexion: From Need to Greed**

If the promoters, who are guardians of Mission are not careful and passionate about it (customer being close to their heart), a point comes when the success in monetary terms may push them to measures the performance of organization in monetary terms only. They may even start manipulating with some stakeholders and deceiving others<sup>26</sup>.

The chances of this are eventually higher if the owners assume the role of Top managers, and start assigning profit as the first objective<sup>27</sup> (to be achieved by manipulating the price) through which they thrive in the form of dividends, bonus shares and capital gains, to achieve the personal ambition of becoming richest<sup>28</sup> and biggest<sup>29</sup>, slowly losing sight mission and concern for customers (reducing emphasis on number of customers and units sold). In the long run they they may even lose concern for society (i.e., the country they do business) and start working against latter's larger interest<sup>30</sup>. In organizations, who start focusing on Profit and Revenue only as measure of performance, eventually the focus is lost on mission

### **Consequence of Loss Sight from Mission**

The consequences of loss of sight from mission are unfortunate and disastrous. Such organizations gradually move from using marketing concept for conducting business, to using sales concept<sup>31</sup>, totally negating the fundamentals of marketing. The focus shifts from identifying the important needs of the customer and designing new product and services to meet them, to selling the product or service already available elsewhere, through import of product / manufacturing technology. In the process, the pressure and concern for new Product Design reduce.

With first 'P' of marketing gone out of consideration and practice, the control over factors of production is partially or fully lost, especially if the product is imported one or manufactured through import of technology<sup>32</sup>, resulting in loss over the cost of product and thus on price. The company is thus reduced to play with 3<sup>rd</sup> 'P' promotion (at times outright deceptive) and the 4<sup>th</sup> 'P' i.e., distribution only.

## Loss of Global Business Leadership

Despite loss focus and control over two Ps, a large company can compete to some extent in the domestic market in a country as big as like India (with an array of customer segments), but can't emerge as a global player, who determine the rules of the game. The domestic giants, despite even world ranking in terms of size and richness *can become at the most as first or last rank global subcontractors/traders*, but not emerge as global leader<sup>33</sup>, despite being conferred awards after awards by fellow leaders and their associations. For example, RIL is a giant in India but can it be compared with British Petroleum (BP)? Can it explore or excavate oil/ gas without help of global leader like Niko? Or for that matter, can Infosys compete with Microsoft?

With loss of sense of 'mission' among many large Indian corporates i.e. concern for designing product and services to meet the growing and emerging need of the society, duly supported by government policies (reckless opening of Indian economy) with obsession for growth alone (leading to increasing adverse balance of trade<sup>34</sup> and forex rates, shortage of domestic resources for funding costly growth<sup>35</sup> **has made India a big global market**, than assuming a prominent position as a global leader (player).

Many of the key politicians and large and small corporates today seem to have lost concern for society (customer), and engage in managing growth through cornering licenses of public resources be it land acquisition<sup>36</sup>, 2G spectrum allocation, KG basin agreement or Coal block allocation. For politicians, individuals and parties winning election to come to power to exploit larger section of society is akin to large corporations/individuals vying to be rich and big, both working at the cost of larger interest of the society, bringing corruption, anarchy, dishonesty and lies as social evils, which are spreading like epidemic.

## Closing Comments

**Eighty years** old work of Barnard continues to excite me not only because it continues to be relevant to strategists, but because even today **it can be a powerful guide for long sustenance of corporate in India**; be they domestic private sector companies or public sector or even multinational companies in India and hold them from drifting too much from the fundamentals of business. Unethical politicians and bureaucrats cannot guard their long term survival and success.

**Bernard's work is equally relevant for management institutes' own administration and should be made an integral part of curriculum to lay conceptual foundations.**

1. See case Is Small Beautiful? (A) and (B) [www.smgi.in/cases/c30.pdf](http://www.smgi.in/cases/c30.pdf) and [www.smgi.in/cases/c31.pdf](http://www.smgi.in/cases/c31.pdf)
2. See [www.smgi.in/rpweb/p23ref.doc](http://www.smgi.in/rpweb/p23ref.doc)
3. Look at Datta Samant's demands that led to fall of many textile mills and other industries in Mumbai in 1970s or Indian Airlines Pilots demand for higher pay & perks, even when the Airline was bleeding with losses .
4. Look at number of companies distributing high dividends, bonus shares, venture capitalists asking for higher returns etc.
5. See Case study "Arla Chemicals Ltd." and Reliance Industries' Mukesh Ambani demanding higher and higher price for KG Basin gas supplies, from the gas based thermal power stations [The gas price conundrum - The Hindu](#) be it NTPC or his own brother's Reliance Power, even reducing supply resulting cascading losses to economy due to shut down of those power stations.
6. Fall of Kodak (world leaders in Camera) and Nokia, disappearance of Indian snacks from railway stalls.
7. Look at the case Zuari Agro- Ltd., IIMA, Gopal Krishnan and Sreenivas Rao, Enron Case or Union Carbide India- Bhopal Gas Tragedy Case.
8. Krishna Kumar, "Exit or Renaissance?", Paper presented in
9. Many organisations do not insurance method for depreciation accounting or earmark funds for maintenance, and fritter away depreciation money for other purposes, leading to problems of funds for renovation/ modernization as the machinery, buildings etc. start getting 5-10 years old and obsolete.
10. In late 1990, most state sugar/ textile mills had to close down on account of obsolescence.
11. See [www.smgi.in/rpweb/p23ref.doc](http://www.smgi.in/rpweb/p23ref.doc)
12. Philip Selznick, "Leadership in Administration"
13. Abad Ahmad and Chopra "Passion to win"
14. Philip Selznick, "Leadership in Administration"
15. See cases Case Apollo Hospital Enterprise Ltd. Or Parc Tauli Consortium Hospital (A), (B) and (C)
16. Hinning, C.R. Planning for Strategic Change
17. See case UPSTDC [www.smgi.in/cases/c](http://www.smgi.in/cases/c)

18. Scooters India Ltd. (A), (B), (C) [www.smgi.in/cases/c13.pdf](http://www.smgi.in/cases/c13.pdf), [www.smgi.in/cases/c14.pdf](http://www.smgi.in/cases/c14.pdf), [www.smgi.in/cases/c15.pdf](http://www.smgi.in/cases/c15.pdf)
19. Satyam Computers Fraud Grows to \$2.5 Billion, <http://content.time.com/time/business/article/0,8599,1943185,00.html>
20. Anthony, R.N., Govindrajan, V. "Management Control Systems; McGraw-Hill Education, 2007, 12<sup>th</sup> Ed.
21. Kumar, Krishna, "Exit or Renaissance?"; Paper presented in Seminar on "WTO: What People Must Know", IIML, Lucknow, Feb. 22-23, 2001
22. Anthony, R.N., Govindrajan, V. op.cit.
23. Look at Reliance pleading for being given International rates for domestic supply of gas to Power stations from domestic, K.G. Basin resource.
24. Many IIMs increasing fees despite having sufficient funds to grow and meet the growing and emerging requirements of the country.
25. Like cartridges sold by some companies in variety of models, price of printer being realized through sale of ink.
26. SEBI request SC to hear on all Sahara Cases  
2G, Spectrum allocations, Coal block allocations etc.
27. See [www.smgi.in/rpweb/p23ref.doc](http://www.smgi.in/rpweb/p23ref.doc)
28. Op.cit
29. Op.cit
30. 2G Spectrum allocations, Coal block allocations, interruption of KG Basin gas supply etc.
31. Theodore Levitt's classic article, "Marketing Myopia," Harvard Business Review, July–August 1960, pp. 45–56.  
Philip Kotler, Marketing Management
32. Foreign Collaborations in India: A Study of Patterns In the Pre and the Post- liberalisation Era, Presented in the *International Seminar on Management of R & D*, IIT, Delhi, January, 10-11, 2003  
New Product Development: Key challenge to Indian Firms in the Liberalised Era  
(Presented in the National Seminar on Prospects of Industrial R & D in India under Globalisation, Indian Institute of Technology, Kanpur, Feb.6-7, 2001)
33. Going global is key for emerging market giants, <http://www.imd.org/research/challenges/TC060-13-emerging-markets-stewart-black.cfm>
34. Kumar Krishna, Economic Emergency: Is it a Hoax Call?, Paper presented in SMF:16<sup>th</sup> Annual Convention, IIM, Kozhikode, May 23-25, 2013

35. Op.cit.
36. Supreme Court Speaks Up on Land Acquisition, Wall Street Journal India, Jun 28, 2011  
<http://blogs.wsj.com/indiarealtime/2011/06/28/supreme-court-raises-its-voice-on-land-acquisition/>