CHAPTER - II

STATEMENT OF PROBLEM AND CONCEPTUAL FRAMEWORK
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INTRODUCTION:

In any business organization it is essential that the performance of the managerial team is properly evaluated and examined. This performance of the management group can be appraised on the following fronts.

(a) Organizational and administrative efficiency.
(b) Financial performance.
(c) Performance in personnel management.

In the previous chapter, the organization, working and role of ONGC have been discussed. This chapter is devoted to present the problems of research to be undertaken in this study. It will also review the literature suitable on the subject. The chapter will also focus on the objective of the work and methodology adopted in this study.

Last but not the least the chapter will also discuss the scheme of research design and the framework of the chapter of the study.

a) ORGANIZATIONAL & ADMINISTRATIVE EFFICIENCY:

Organization is a mechanism or a basic framework enabling persons to work together effectively and achieve the
set goals through integrated group efforts. It is a medium for the management to exercise managerial functions.\textsuperscript{1} Generally, organization means a form of human association for the achievement of common goals. Organisation is the backbone of the management and without its proper care at higher, middle and lower levels of administration, it would be very difficult for management to manage the organization. Good management therefore, always concentrates on organization directing the cooperative efforts of human beings so as to achieve the best possible results.

Organization refers to the relationship of various factors present in a given endeavour. Generally, economic activities involve the use of such factors of production as land, labour, capital and entrepreneurship. A business concern, like any other association can achieve its objectives successfully only when the persons operating it take systematic steps in this direction. In other words, business activity has to be conscious and well co-ordinated if output is to be maximized at the minimum expense of resources. Such coordination of the individual efforts and their use for the attainment of desired ends is possible only through organization.\textsuperscript{2}

\begin{itemize}
  \item[2.] Mehta & Murthy, Business Organization & Management, Premier Book Co., 1972, p.3.
\end{itemize}
Organization has been defined in many ways. according to Allen, "as the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives." Eyre defines organization, "The framework of responsibilities, authority and duties through which all the resources of an enterprise are brought together and coordinated for the achievement of management objectives." Lundy puts it, "In a dynamic sense, organization is a process of welding together a framework of positions which can be used as management tool for the most effective pursuit of the goals of an enterprise."

Organization structure has been playing a very important role in every walk of life. Development of human resources is possible through it. Determination and grouping of activities allocation of responsibility and delegation of authority and division of labour are possible through organization which are very important for the smooth functioning of the enterprise as well as the society.

3. Mehta & Murthy, op. cit., p.3.
Strauss and Sayles have defined organizational structure as more than a series of inter-connected boxes and lines on a chart. Organization is performed to assemble and arrange necessary resources viz., men, money, materials, machines, methods. So that the objectives of the enterprise can be easily achieved. Organization lays the basis for other managerial functions. Such as planning, co-ordinating, direction and control. Organization can meet any kind of human needs, social, emotional, spiritual, intellectual and economic. Argyris describes the importance of organization saying that organization are usually formed to meet objectives that can best be met collectively.

b) FINANCIAL EFFICIENCY:

It is the most talked about and polemic question as to how efficiency of an organization is to be judged. Whether the concept of "profit" for measuring efficiency fits into the concept of public enterprises objectives in view of incurrence of heavy losses by them. If the "profit" is taken for granted as an appropriate measure, then an idea of return is essential to be considered. Return must be in relation to

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capital employed in an undertaking. Here, it is also necessary to take into consideration various in-vogue concepts of capital employed. The concept of profit for measurement of efficiency now seems more suitable as it is high time to protect the industry from capital erosion and also to the best of economic advantage followed by social advantage to the community at large. Bakul, M. Dholakia has rightly remarked that, "to examine the performance of an enterprise from the viewpoint of its financial viability, the specific performance indicator that is conventionally used is the net profit reported in its profit and loss account."

Several distinguished authorities on the subject have favoured financial viability as the test of measuring efficiency. Prof. P. Sargant Florence and Prof. Gilbert Walker remark that the capitalist test of the efficiency of an undertaking is profit. Stated in skeleton outline profit is the difference between aggregate revenue and aggregate costs. In state trading, a surplus or avoidance of loss when substracting aggregate costs from the aggregate of prices

(i.e. covering costs 'or' break even) seems to use the primary test of efficiency."

The complexity in measurement of the operational efficiency of Oil and Natural Gas Commission has also been critically elucidated at length by D.N. Chaster. He opines that the concept of measurement of the operational efficiency is not a simple task. He further explained that there "were some simple economic criteria available, the task would be simpler. But the fact that most of these industries are complete monopolies, greatly reduces the value of the normal economic tests of profits or of receipts and expenditure break-even. Can a board which does not make a loss be graded automatically as efficient or should other test be applied out and if so, what other tests? Though many feel that other tests are necessary no body has the simple answer."2

According to P. Sargent Florence and Gilbert Walker, "the significant tests of appraising efficiency of Nationalized Industries are as follows."3

(1) The growth of productivity.
(2) Growth of Staff employed.
(3) Industrial Morale and goodwill, and
(4) Keeping out of the trouble.

In view of the analysis of literature review for adoption of a particular criterion for measuring the efficiency of the commission, it is obviously felt that there is still great deal of controversy regarding the set criteria for performance evaluation. As a matter of fact, the whole question of adopting suitable criteria for assessment of the commission has to be examined from objective academic point of view. The appropriateness of the criteria for examining the performance of the commission, depends upon the approach adopted for assessing the performance itself.

Dr. Om Prakash, suggested following approaches keeping in view the wider social and commercial angles:

1. Profit and Loss Account Approach: (A conventional approach which takes into consideration profits and dividends).

2. Balance Sheet Approach: (It contemplates a comparative study of balance sheet of a corporation at two dates to determine the progress of that corporation during the intervening period.

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3. Fiscal Approach: It includes aggregation of contribution made by each unit to the State exchequer in the form of dividend on shares, interest on loans, taxes, etc.

4. Employment Approach: It studies employment provision by an enterprise, enforcing reasonable standard of wages providing better working and being conditions and arranging for a higher standard of welfare facilities.

5. Productivity Approach: It signifies increase in output which are not accountable by increase in the quantity of inputs.

6. Cost Accounting Approach: It indicates cost per unit in various departments of a unit.

7. Development and Stability Approach: It implies fulfillment of various requisite statutory obligations of developing a particular industry or service to the best of society.

According to another important study in the field conducted by Professor Galbraith, it has been suggested that, "the most successful firm will be the one which by its efficiency, drive funds, the earnings that allow it the greatest growth. Perhaps there are other goals that right be urged but what is vital that the goal whatever it is, be
specific measurable, known to all and firmly enforced."\(^1\)

In similar context, Dr. Om Prakash\(^2\) suggested the following to broad ways:

(1) Quantitative Evaluation

(2) Qualitative Evaluation

For quantitative evaluation, he has advocated to work out financial resources utilization, market product development, diversification. For qualitative evaluation he has favoured to work out, level of customer satisfaction, level of employees satisfaction, level of public satisfaction, acquisition of talent technology/R & D, environment/Social, organization change and the pattern of economic growth.

After having surveyed available literature in the particular context, it may be concluded that there are a great number of complex problems and limitations to evolve specific concept. There, now arises the need to evaluate the performance of Oil and Natural Gas Commission from the viewpoint of commercial viability. In this regard profit is an appropriate test.

The present study provides a multitude of different parameters to appraise the performance. They have been

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classified under two broad parameters, viz. Financial performance and physical performance. The financial performance comprises various conventional ratios for measuring profitability that is profitability ratios, liquidity ratios, turnover ratios, leverage capital structure ratios, growth of sales volume to capital employed. The physical performance includes capacity utilization, inventories and exports earnings. Capacity utilization is an important index for performance evaluation of an enterprise, low utilization of capacity depresses profit and raises the cost unnecessarily. Successful management must attain optimum capacity to produce goods at minimum cost and maximum revenues.

c) PERFORMANCE IN PERSONNEL MANAGEMENT:

Every organization, whether it is a business or an industrial enterprise, needs for its growth further development, continuance and survival, four important factors viz. money, material, machinery and men of all the factors of production. Man is by and far the most important. The success or failure of an organization depends on its human elements. In the words of Oliver Sheldon, "No industry can be rendered efficient so long as the basic facts remains unrecognized that it is principally human. It is not a mass of machines and technical process, but a body of men. It is not a complex of matter, but a complex of humanity. It
fulfills its function not by virtue of some impersonal force, but by human energy. Its body is not an intricate maze of mechanical devices but a magnified nervous system.\(^1\)

According to Flippo, "The personnel function is concerned with the procurement, development, compensation, integration and maintenance of the personnel of an organization for the purpose of contributing towards the accomplishment of that organization's major goals or objectives. Therefore, personnel management is the planning, organizing, directing and controlling of the performance of those operative functions."\(^2\)

Pigors and Myres, have defined as, "Personnel Administration is a method of developing the potentialities of employees so that they get maximum satisfaction out of their work and give their best efforts to the organization."\(^3\) In the words of Brech, "Personnel Management is that part of management process which is primarily concerned with the human constituents of an organization."\(^4\)

According to M.S. Jucius, "Personnel Management is that field of management which has to do with planning, organizing and controlling various operative activities of procuring, developing, maintaining and utilizing a labour force in order that the objective and interest for which the company is established are attained as effectively and economically as possible and the objectives and interest of all levels of personnel of community are served to the highest degree."

Lawrence Appley, a former President of the American Management Association, has perhaps given the best possible definition of personnel management. According to him, "It is a function of guiding human resources into a dynamic organization the attains its objectives with a high degree of morale and to the satisfaction of those concerned. It is concerned with getting results through people." According to him, "all management is 'personnel management' as it deals with human beings, its development can best be discussed in terms of human development, philosophical, psychological, spiritual and physical."

CHARACTERISTICS OF PERSONNEL MANAGEMENT:

A few basic facts and characteristics of personnel management may be noted on the basis of various definitions given above.1 Firstly personnel management is concerned with employees both as a group as well as individuals which aims at getting better results with their collaboration. Secondly it is concerned with helping the employees to develop their potentialities and capacities to the full, so that they may drive the greatest satisfaction from their work. Thirdly the management of personnel does not simply refer to labour personnel. It covers all level of personnel. Fourthly, since recruitment, selection, development and utilisation of, an accommodation to, people are an integral part of any organized effort, personnel management is inherent in all organizations. It is not confined to industry alone, it is equally useful and effective in government departments, military organization, and non-profit institutions. It is a major part of the general management function and has roots and branches extending throughout and beyond each organization. Finally, personnel management attempts at getting the willing cooperation of the people for the attainment of the desired goals.

From the above characteristics it may be observed that personnel management is an approach, a new technique of thinking and a philosophy of management which concerned not only with managing people but also with solving the human problems of an organization and in a manner which ensures that the employees' potential is properly developed, that maximum satisfaction is derived by them from their work.

FUNCTION OF PERSONNEL MANAGEMENT:

Personnel Management involves two categories of functions:

(1) Managerial Functions; and
(2) Operative Functions.

1) Managerial Functions:

Managerial functions involve planning, organizing, staffing, directing, co-ordinating, reporting and budgeting the work of those who are entrusted with the performance of operative functions.

(a) Planning: Planning is a hard job, for it involves the ability to think, to predict, to analyse, and to come to decisions, to control the actions of its personnel and to cope with a complex.
(b) **Organizing**: This function calls for grouping of personal activities, assignment of different groups of activities to different individuals, delegation of authority to carry them out and provision for coordination of authority relationships horizontally and vertically in the organization structure.

(c) **Directing**: Directing is involved with getting persons together and asking them to work willingly and effectively for the achievement of designated goals.

(d) **Co-ordinating**: Co-ordination in the management of personnel takes place at all levels, from top management through to the supervisors, coordinating refers to balancing, timing and integrating activities in an organization so that a unity of action in pursuit of a common purpose is achieved.

(e) **Controlling**: It involves reasoning performance, correcting, negative durations and assuring the accomplishment of plans. Through direct observation, direct supervision, as well as reports records and audits, personnel management assures
itself that its activities are carried out in accordance with the plans.

**OPERATIVE FUNCTIONS:**

The operative functions of personnel management are as under:

1. **Procurement**
2. **Development**
3. **Compensation**
4. **Maintenance**

**Procurement:**

The procurement function is basically concerned with the living of personnel. The right people, in the right place, at the right time, as to accomplish an organizational goals. This function deals with such subjects as the determination of manpower requirements, their recruitment, selection and placement.

**Development:**

The development function is concerned with personnel development of employee by increasing their skill through training and education so that job performance is properly achieved. To develop pre-job and in service training programmes for operatives. To develop programmes of lectures and classes
for clerical personnel, holding seminars and conferences, providing for educational and vocational counselling and appraising employee potential and performance are undertaken under this function.

COMPENSATING FUNCTION:

Compensating function deals with securing adequate and equitable remuneration to personnel for their contribution to the attainment of organizational objectives. Functions related to wage surveys, to formulate wage scales for each job classification, to consider payment of bonus to supervisory personnel. It also deals with establishment of job classifications, job descriptions and job analyses, merit ratings, the establishment of wage rates and wage structure, wage plans and policies, incentives and profit sharing plans etc.

THE MAINTENANCE FUNCTION:

Maintenance function deals with maintaining good working conditions and favourable attitudes towards the organization. To provide for adequate facilities in respect of legal advice, canteen, recreation, first aid etc. To give sickness, disability, accident and retirement benefits through insurance and schemes.
REVIEW OF LITERATURE

Many scholars have shown great interest in studying at broad levels about problems associated with financial performance, productivity, human resource development. The notable among them are:

"Principles and Practice of Management" a study carried out by E.F.L. Brech\(^1\) in 1952 discussed about the various aspects of management. The book has been divided into four parts. The author dealt with the basic concept of management. The first part deals with the Distribution. The study of Distribution is immediately concerned with those aspects, hence its pride of place among the four divisions of management studied. The second part is devoted to the production. Finally the activities of control, which can be briefly summarised as the means of assessing management's performance and achievement is studied in part four.

John N. Myer\(^2\) has made a study on 'Financial Statement Analysis' in 1939. The whole study has been divided into two parts. In the first part the author describes the introductory aspect of the financial statements in which early use of


structure statement, nature and limitations of financial structure, the problem of the unit of measurement etc. have been discussed. Part IIInd deals with the technique of the financial analysis, the comparison of balance sheet, income statement, variation in income standard ratio etc. A separate chapter has been kept for the financial structure in which structural ratios, structure equation, structural relationship, return of capital etc. has been discussed in detail.

A study entitled "Essentials of Management" was carried out by Harold Koontz and Cyril O'Donnel in 1974. The study has been divided into six parts. Part one deals with the basis of management through a study of the nature and application of management science. The second part of the study is devoted to the planning in which the reasons for planning and the general kinds of plans are explained. Part IIIrd has been assigned to the organizing. The whole of the six chapters discusses the various aspects of organizing. The part fourth covered the staffing in four chapters. The fifth chapter covers the nature of directing, motivation, communication and leadership and finally the last part is devoted to the managerial functions of controlling.

P.V. Kulkarni in his book entitled "Financial Management - A Conceptual Approach" in 1981 dealt with the basic concept of financial management. The study has been divided into thirty three chapters. The part 1st deals with the introductory aspect of Finance and further he discussed financial planning, internal financial control, fund-flow analysis ratio analysis, budgeting and budgetory control and different leverages with their implications. He explained in detailed how financial decisions are arrived at in the areas of capital structure, capital budgeting evaluation of a firm and the risk involved in them. The author also deals with the financial management in public sector undertakings and in the joint sector in detail.

In S. Ramathan's article, an attempt has been made to discuss the career in ONGC since 1970. He says that external and internal factors affect the career management in ONGC.

The external factors identified are:

(1) Regulatory environment.
(2) Economic environment.
(3) Political environment


2. Dr. S. Ramathan, Career Management in ONGC, ONGC Reporter, Dehradun, 1981, p.44.
(4) Social environment.

(5) Competition.

Internal influencing factors are:

(1) Organizational design and structure
(2) Technology
(3) Operating system
(4) Personnel Management
(5) Organizational style
(6) Financial resources

The study also gives the possible changes in the external and internal environments which will influence the operations in ONGC.

The human relations in ONGC was studied in a significant work of Harbanslal's paper. The definition, objectives and concepts of human relations are covered. Simultaneously with the disputes their career, solutions and human relations rules in ONGC.¹

The management of human resources the Indian Public Sector units has been studied by the Member Offshore, Dr. A.K. Malhotra² of ONGC. It takes into account, the period of 1979

1. Harbans Lal, Human Relations in ONGC, p. 103

to 1983. He has done his work, considering certain determinants like:

(1) Bureaucracy which is supportive in nature and act as a friend, philosopher and the commission guide.

(2) Choosing the right man for the right job with autonomy to managers.

(3) Commission leadership to political will. Environment factors rather than external ones are the major determinants in the success of ONGC.

The definition of clear objectives strategies, organization structure and personnel skills.

The course of time between 1974 and 1987 was analysed in a composition by G. Ramaswamy in his article entitled "ONGC lags Behind in Oil Production." He has gauged the crude oil production in the country by ONGC. Side by side with international companies and finds that ONGC has failed in the effort. As far as oil exploration goes, ONGC has shown good results but when it come to the extraction of oil, in the past three years. ONGC has not shown any growth at all. The

1. G. Ramaswamy, ONGC lags Behind in Oil Production, the Times of India, New Delhi, September 24, 1988, p.6.
deficiency in extraction is the reason given for the same. The study says that full exploration of oil is not done through in the fields, its in ample amount.

G.D. Dhingra's paper attempts to evaluate the welfare concepts in ONGC. The paper published after the study evaluates the general welfare measures relating to education of employee's children, medical, housing, travels, sports etc. in the Commission. These measures have been introduced by central Government for their employees as well as introduced throughout ONGC on similar patterns.

Therefore he feels that a continued improvement of these measures is required for raising productivity in the Commission.

M.S. Chemma in his article entitled "The Management Challenges in the offshore sector, ONGC" has been studied. A concise analysis of different aspects of new management culture, enhanced programmes in management of ONGC in offshore and independent specialised service, is made in this work.

A comprehensive study of emerging trends in crude oil production in ONGC has been made by Badhwar and Shekhar Jha.

Taking into account the demand of crude oil for consumption in the country average cost incurred per employee total expenditure on employees, total number of employees, cost of production of crude oil and profit on one side and crude oil production on the other, a comparative study has been made. The inference drawn was that extraordinary weightage is given to the structure of organization and the image it has for self-sufficiency in oil, as an objective is ignored. Structures like Bombay High, which bear oil are centralised. Other poor structures bearing oil are left out. The pace at which the total cost is shooting up is far greater than that of crude oil production and manpower.

The possibility of the privatization of oil exploration has been looked into the study conducted by Eapen Thomas. It proves that risk can be lessened in oil exploration in private and foreign collaboration, decentralization can be brought about. Cost can be lowered and other benefits can be had with oil sector privatization. The Government can become self-sufficient in oil and can also lessen its burden on loss through privatization of oil exploration.

Kumar Ketkar's article attempts to discuss the PRs and communication in ONGC at hours of crisis. One finds that,

1. Eapen Thomas, Private Sector at the Threshold, Business India, New Delhi, March 6 to 19, 1989, p.53.
ONGC's PR's and communication are not secretive and open to all. Government and the press. This openness helps to judge the irresponsibility of employees and executive when a crisis arises in an organization.

A study titled personnel planning in ONGC's conducted by Mr. S.K. Chawla,\(^1\) discusses personnel planning in ONGC, from 1951-1981. The study focusses on the human resources which are induced, most sensitive, dynamic, appreciative and subject to various degree of production of crude oil depending upon how it is steered and utilized.

The manpower growth, manpower planning, directorate of manpower and change agent in the ONGC were other focal points of this study.

A significant study of the development of human resources in ONGC was conducted by R.K. Dhir.\(^2\) The manpower has been measured and compared with the crude oil production.

Col. S.P. Wahl\(^3\) comments on the achievements and weaknesses of the ONGC in his study. He has analysed the working

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3. Col. S.P. Wahl, Technologically we are fully self-reliant, Sunday, New Delhi, 2 to 8 April, 1989, p.51.
of the organization and its contribution in generation of energy for India. Finally, it concludes that certain areas need to be strengthened to achieve self-sufficiency in oil. Also, there is need to being in the time management approach in ONGC.

The contribution of Mr. S.S. Sachdeva regarding the study of the management of industrial relations in ONGC in relation to a cooperative approach is worth mentioning here.

A cooperative approach, in the management of industrial relations can prove worthwhile only with a code of discipline in the Commission, recognition of union and espirit de corps.

AIMS AND OBJECTIVES OF THE STUDY:

The following are the aims and objectives of the study:

1. To make an appraisal of the overall performance of capacity utilization and profitability in ONGC.

2. To analyse the role of capacity utilization in the growth and development of the economy.

3. To assess production performance with reference to capacity utilization.

1. S.S. Sachdeva, Management of Industrial Relations - A Cooperative Approach, p. 79.
4. To examine the impact of under-utilization of capacities on profitability and financial position of ONGC.

5. To review the organizational structure of ONGC and give certain suggestions for their improvements.

6. To examine the personnel policy of ONGC and how far it is successful.

7. To assess and evaluate the financial performance of the ONGC on certain parameters.

**HYPOTHESIS:**

The proposed study would proceed to substantiate the following hypothesis:

1. that ONGC has been utilizing its capacity to the fullest extent;

2. that the company's production performance has not been affected on account of under-utilization of capacity, if any;

3. that the organizational structure of ONGC is efficient enough to provide congenial business environment;

4. that the personnel policy of ONGC is satisfactory enough;
5. that the physical and financial performances of ONGC one up to the mark both from the commercial and social angles; and

6. that the profitability, productivity, and overall efficiency of the organization are satisfactory.

METHODOLOGY:

In the present study, I have mainly relied on the secondary sources such as Annual Reports for different years, different journals, periodicals, statements, and other related literatures etc. for making an examination, analysis and interpretation of the problems. Also, the primary data have been gathered through personal interviews/discussions with the officers of the Commission.

The work of presentation of statistics, their analysis, their interpretations, and the formulations of policies have been done for the most part on the basis of official data. As a result this study may have some limitations as the centpercent authenticity of secondary sources cannot be ensured.

FRAMEWORK:

Keeping in view the objectives of the study, the present work has been divided into five chapters. Given
below are the basis contents of the various chapters in a nutshell.

Chapter I has dealt with the organization and working of Oil and Natural Gas Commission. It also highlight their role and structure in the development of socialistic society. The Chapter II deals with the statement of problems and conceptual framework of the study. The objectives underlying the study have also been defined and a tentative hypotheses has been framed. The third chapter throws light on the personnel policies of ONGC.

Chapter IV attempts to analyse the financial efficiency of the organization. In financial analysis the author has examined profitability, growth of sales, capital employed, debt equity leverage current ratio, working capital and the uses and applications of available financial resources.

The Chapter V being the last chapter consists of mainly conclusions derived during the course of the study and finally suggestions have been offered in order to bring about a marked change in the present oil scenario of the country.