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**UNIVERSITY OF JAMMU
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SELF LEARNING MATERIAL

B. A. SEMESTER-I

Subject : BUSINESS MANAGEMENT

Unit - I - V

Course No. : BM-101

Lesson No. 1-15

Course-Cordinator :

Stanzin Shakya

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PRINCIPLES OF MANAGEMENT

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BUSINESS MANAGEMENT

Course Code : BM-101

Title: Principles of Management

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Total Marks: 100

Examination : 3 Hrs.

External Marks : 80

Internal Marks : 20

The syllabus is for examination of BA Management Semester-I to be held in December 2018, December 2019 and December 2020.

Objective : The objective of this course is to develop a basic understanding about the management concepts and management processes in organisation.

Unit I Basis of Management : Management Concepts, Nature, Process, Evolution of Management Thoughts, Managerial Functions, Systems Approach, Approaches to Management, Managers Complex Environment.

Unit - II Planning and Decision Making - Concept, Purpose and Nature; MBO, Strategies and Policies, Types of Planning, Planning Premises, Decision Making : Process, Types, Models and Significance.

Unit - III Organising and Staffing - Nature and Elements, Organising as Process, Organisation Structure, Line/Staff Authority and Decentralization ; Meaning Nature and Importance, Span and Management.

Unit - IV Directing as Management Process - Its significance and main elements; Coordination - Concept, Process and Techniques; Controlling : Concept, Process, Requirement for Adequate Control and Effective Control Techniques.

Unit - V Leadership - Concept, Traits, Styles; Motivation - Concept and Theories; Communication - Meaning, Nature, Types and Importance; Management Information Systems; Business Process Re-engineering.

Note for Paper Setter :

The Paper Setter is requested to set 10 questions in all with at least 2 questions from each unit. All the questions shall carry equal marks. The students are required to attempt 5 questions selecting one from each unit necessarily i.e. internal choice is available.

Suggested Readings :

1. Stoner, Freeman, Gilbert Jr. : Management (Pearson Education).
2. Kootz, O'Donnell, Weighrich : Essentials of Management.
3. Michael, J. Stahl : Management - Total Quality in a Global Environment (Blackwell Business).
4. Newman, Warren and Summer : The Process of Management - Concept, Behaviour and Practice.
5. Brech, E.F.L. : Principles and Practice of Management.

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MANAGEMENT

STRUCTURE

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- 1.5 Traditional Management vs. Modern Management
- 1.6 Summary
- 1.7 Glossary
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1.1 INTRODUCTION

Every human being has needs and wants but it is impossible for an individual to satisfy all his desires by himself. Therefore, they join hands with fellow beings and work in an organised group to achieve, what he cannot accomplish single handedly. Thus organizes himself in groups e.g. a family, hockey team, a college, a business firm, a government etc. and as these groups develop in course of time with complexities managing becomes a difficult task. The need of existence of management has increased tremendously. Management is not only essential to business concerns but also essential to banks, schools, colleges, hospitals, hotels, religious bodies, charitable trust etc. Every business unit has objectives of its own. These objectives can be achieved with the co-operative efforts of several personnel. The works of a number of persons are properly co-ordinate to achieve the objectives through the process of management. However, the management is not a matter of pressing a button, pulling a lever, issuing order, scanning profit and loss statements promulgating rules and regulations. Rather it is the power to determine what shall happen to the personalities and happiness of entire people, the power to shape the destiny of a nation and of all the nations which make up the world. Peter F. Drucker has stated in his famous book “The Practice of the Management” that the emergence of management as an essential, a distinct and leading social institution, a new leading group, emerged as fast as management since the turn of this century. Rarely in human history has a new institution proved indispensable so quickly and even less often has a new institution arrived with so little opposition, so little disturbance and so little controversy.

1.2 OBJECTIVES

After going through this lesson, you should be able to:

- Describe the meaning of management and its objectives
- Elucidate the evolution of management thought
- Discuss the scope and significance of management

- Explain in detail the features, levels and importance of management
- Differentiate between traditional and modern management thought

1.3 MEANING AND CONCEPTS OF MANAGEMENT

The word ‘management’ can be styled as: Manage-men-t- (i.e. manage men tactfully). Why manage men tactfully? This is with view to get the things done. In order to manage men tactfully, one has to understand the highly unpredictable and uncertain human nature. Owing to this management is very complicated and challenging activity.

A simple traditional definition, defines it as the “art of getting things done by others”. This definition brings in two elements namely accomplishment of objectives, and direction of group activities towards the goal. The weakness of this definition is that firstly it uses the word “art”, whereas management is not merely an art, but it is both art and science. Secondly, the definition does not state the various functions of a manager clearly.

The study of a discipline should start with its definition delineating properly its contents and characteristics, defining its scope and boundary, and prescribing the objectives for which it stands. From this point of view, we can proceed only when we define management. However, a precise definition of management is not so simple because the term management is used in a variety of ways. Being a new discipline, it has drawn concepts and principles from a number of disciplines such as economics, sociology, psychology, anthropology, statistics, and so on. The result is that each group of contributors has treated management differently. For example, economists have treated management as a factor of production; sociologists have treated it as a class or group of persons; practitioners have treated it as a process comprising different activities. Naturally, all these divergent groups view the nature and scope of management from their own points of view. Thus, taking all these points of view together, it becomes difficult to define management in a comprehensive way.

Concepts of Management

In the present context, the term management is used in three alternative ways:

1. Management as a discipline,
2. Management as a group of people, and
3. Management as a process.

Management as a Discipline

Discipline refers to a field of study having well-defined concepts and principles. When we refer to management as a discipline, we include in it the various relevant concepts and principles, the knowledge of which aids in managing. From this point of view, management can be treated either as an art or science, the two basic and broad disciplines. However, since management prescribes various principles and how these principles can be applied in managing an organisation, it has the orientation of both, science and art, a phenomenon which will be discussed later.

Management as a Group of People

Sometimes, we refer to management as a group of people in which we include all those personnel who perform managerial functions in organisations. For example, when we talk about relationship between management and labour in an organisation, we refer to two distinct classes or groups of personnel in the organisation. In the first category, we include all those persons who are responsible for managerial functions and in the second category, we include non-managerial personnel. This approach of using management is quite popular; however, it does not serve our purpose of defining the term management.

Management as a Process

In studying management discipline, we generally refer to management as

a process. A process can simply be defined as systematic method of handling activities. However, the management process can be treated as a complex one which can be referred to as an identifiable flow of information through interrelated stages of analysis directed towards the achievement of an objective or set of objectives. It is a concept of dynamic rather than static existence in which events and relationships must be seen as dynamic, continuous, and flexible, and as such, must be considered as a whole. Thus, management as a process includes various activities and sub activities. However, what these activities are must be defined precisely to understand the exact nature and scope of management. In a simple way, we can define management as what managers do. However, this definition, though simple, suffers from two limitations:

There is a problem in identifying the people in the organisation who can be called managers because there is no uniformity in the titles given to the people. For example, people may be called as president, chief executive or managing director at the top level. Similarly at the middle level, they can be called as executive or accountant, and at lower level as supervisor. Therefore, it becomes difficult to identify who is a manager and who is not; whose activities should be treated as managerial and whose activities as non-managerial. Thus, what should be studied is not clear.

Even if the problem of identifying people as managers is solved, the problem of identifying managerial activities still exists because people known as managers may perform different kinds of activities, some of which may not really be managerial. Therefore, unless some yardsticks are prescribed to distinguish between managerial and non-managerial activities, managerial activities cannot be identified.

In order to overcome these limitations, the total activities of an organisation can be divided into two groups: operational and managerial. Those activities which are of operative nature through which actual work is accomplished such as handling a machine by workers, putting the materials into godown, etc., are called operational activities. As against this, some activities are performed to get things done like a supervisor instructing a

worker to do a particular job, or marketing manager instructing his salesmen to contact the customers to sell the product, etc. Such activities are different from the first group and are known as managerial activities. Thus, management can be defined as the process of getting things done by others. Management is invariably defined as the process of ‘getting things done through the efforts of others’, ‘getting from where we are to where we want to be with the least expenditure of time, money, and efforts’, or ‘coordinating individual and group efforts toward super ordinate goals’. Though these definitions of management as process use different terms, all of them convey the same set of meanings in their final analysis.

1.3.1 Definitions of Management

The term management has been defined differently by different writers. Few of the important definitions of management classified on the basis of their concept are discussed below:

- (A) Functional concept as a process, management is what a manager performs.

“Management is that function of an enterprise which concerns itself with the direction and control of the various activities to attain the business objectives”
-William Spriegel

“Management is the planning, organising command, coordination and control of the technical, financial security and accounting activities.”
-Louis A. Allen

“Management is the process by which a corporative group directs action towards a common goal”.
-Joseph Messie

“Management is a distinct process consisting of planning, organising, activating and controlling performed to determine and accomplish the objectives by the use of human beings and other resources.”
-George R. Terry

“To manage is to forecast and plan, to organise, to command, to coordinate and to control.”
-Henry Fayol

Management is a social process entailing responsibility for the effective and economical planning and regulation of the operations of an enterprise in fulfilling of a given purpose or task, such responsibility involves:

(a) Judgement and decision in determining plans and in using data to control performance and progress against plans; and (b) The guidance, integration, motivation and supervision of the personnel composing the enterprise and carrying out its operations.
E.F.L. Brech

(B) Human relation concept management as a technique of getting things done.

“Management is the art of directing and inspiring people.”

-J.D. Mooney and A.C. Railey

“Management is getting things done through the efforts of other people”.

- Wrence A. Appley

“Management consists of getting things done through others. Manager is one who accomplishes the objectives by directing the efforts of others.”

-S. George

“Management is the art of getting things done through and with people informally organized groups. It is the art of creating an environment in which people can perform as individuals and yet co-operate towards attainment of group goals. It is an art of removing blocks to such performance, a way of optimizing efficiency in reaching goals.”

-Herald Koontz

(C) Leadership and decision making concept management as an art and science of decision making and leadership.

“Management is the art and science of decision making and leadership”.

-Donald J. Clough

“Management is the art and science of preparing organising and directing human efforts to control the forces and utilise the material of a nature for the benefit of men”. **-American Society of Mechanical Engineers**

“Management is the function of executive leadership anywhere.”

-Ralph, C. Davis

“Management means decision making”

-Ross Moore

“Management is simply the process of decision making and control over the action of human beings for the express purposes of attaining predetermined goals.”

-Stanley Vance

“Management may be defined as “a technique by means of which the purposes and objectives of a particular human group are determined, clarified and effectuated.”

-Dean Elmore Peterson and E. Grosvenor Plowman

- (D) Productivity concept management as a technique of increasing productivity.

“Management is the art of knowing what you want to do.....in the cheapest way.”

F.W. Taylor

“Management may be defined as the art of securing maximum results with a minimum of effort so as to secure maximum prosperity and happiness for both employer and employee and give the public the best possible service.”

-John F. Mee

- (E) Integration concept management as the coordinator of human and material resources.

“Management is the force that integrates men and physical plant into an effective operating unit.”

-Keith and Gubellini

“Management is the total task of welding into a single working force men, money, machinery, materials and methods.” **-Mrityunjoy Banerjee**

“Management is, a cooperation of the human and material resources essentially in the effective and efficient attainment of objectives.”

-Robert, L. Trewatha and M. Gene Newport

“Management consists in guiding human and physical resources into a dynamic, hard hitting organisation unit that attains its objectives to the satisfaction of those served and with a high degree of morale and sense of attainment on the part of those rendering the service.” **-Lawrence, A. Appley**

“Management entails the coordination of human and material resources towards the achievement or organisational objectives as well as the organisation of the productive functions essential for achieving stated or accepted economic goals.” **-Barry M. Richman**

“Business management is human activity which directs and controls the organisation and operation of a business enterprise. Management is centred in the administrators or managers of the firm who integrate men, material and money into an effective limit.” **-Wheeler**

An analysis of the above definitions makes it clear that management has been viewed in different senses laying stress on different aspects of management. The classification of definitions is neither rigid nor specified. This has been done keeping in view the main thrust of definitions. Thus, there can be overlapping in these classifications. It may not be appropriate to define management in terms of only one aspect. For instance, when one says management is what manager performs, the social and human aspects of management are not considered. Similarly, the definition, “management is management of people and not things,” is also incomplete and it gives more weight to the contribution of workers and underestimates the contribution of other factors of production.

As the process of decision making and leadership, management seeks to achieve optimum use of human and material resources. But management is much wider than simply taking executing decisions. It involves integration of individual effort into team work.

Management as the coordinator of human and material resources is the most appropriate concept of management. Optimum utilisation of available resources is impossible without proper integration and coordination. It identifies the functions which a manager has to perform. But it is essential to keep in view the social and human obligations of management while describing the functions or process of management.

To conclude, we can say that various definitions of management do not run contrary to one another. Management is the sum total of all those activities that

- determine objectives, plans, policies and programmes;
- secure men, material, machinery cheaply;
- put all these resources into operations through sound organisation;
- direct and motivate the men at work;
- supervise and control their performance and
- provide maximum prosperity and happiness for both employer and employees and public at large.

1.3.2 Features and Nature of Management

From the critical analysis of the above definitions, the following features or characteristics of management evolve:

- 1. Art as well as science:** Management is both an art and a science. It is an art in the sense of possessing of managing skill by a person. In another sense, management is the science because of developing

certain principles of laws which are applicable in a place where a group of activities are co-coordinated.

2. **Management is an activity:** Management is the process of activity relating to the effective utilization of available resources for production. The term 'resources' includes men, money, materials and machine in the organization.
3. **Management is a continuous process:** The process of management mainly consists of planning, organizing, directing and controlling the resources. The resources (men and money) of an organization should be used to the best advantages of the organization and to the objectives. The management function of nay one alone cannot produce any results in the absence of any other basic functions of management. So, management is a continuous process.
4. **Management is achieving pre-determined objectives:** The objectives of an organization are clearly laid down. Every managerial activity results in the achievement of objectives fixed well in advance.
5. **Organised activities:** Management is a group of organized activities. A group is formed not only in a public limited company but also in an ordinary club. All the organizations have their own objectives. These objectives will be achieved only by a group of persons. These persons' activities should be organized in a systematic way to achieve the objectives that cannot be achieved without any organized activities.
6. **Management is a factor of production:** The factor of production includes land, labour, capital and entrepreneurs. Here, land refers to a place where production is carried on. Labour refers to the paid employees of the organization who are working in different levels as skilled, unskilled, semi-skilled, manager, supervisor and the like capital refers to the working capital as in the form of cash, raw materials and production. According to Peter. F. Drucker, "whatever rapid economic and social development took place after World War II, it occurred as a result of systematic and

purposeful work of developing managers and management. Development is a matter of human energies rather than of economic wealth and the generation of human energies is the task of management. Management is the mover and development is the consequence.”

7. **Management as a system of activity:** A system may be defined as a set of component parts working as a whole. Authority may be defined as a right to command other for getting a particular course of organizational work done. Individuals are the foundation stones of the management. An individual has some goals as a member of the organization. There may be a conflict between his own goals and the management’s expectations from that individual. Such conflict is resolved by the management by ensuring balance between individual goals and organizational expectations.

Authority vested with many persons to take decisions and influence the behavior of the sub-ordinates. The very purpose of using the authority rest with superiors as given in the organization chart and social norms. The utilization of authority is based on the personality factors of the user and the behavior of a person over whom it is used.

8. **Management is a discipline:** The boundaries of management are not exact as those of any other physical sciences. It may be increased by the continuous discovery of many more aspects of business enterprise. So, the management status as a discipline is also increased in the same manner.
9. **Management is a purposeful activity:** Management is concerned with achievement of objectives of an organization. These objectives are achieved through the functions of planning, organizing, staffing, directing, controlling and decision-making. The organizational objectives are clearly defined and explained to every employee.
10. **Management is a distinct entity:** Management is distinct from its functional activities. The functions have the nature of “to do” but the management has the nature of “how to get things done” A manager requires some amount of skill and knowledge to get work done.

11. **Management aims at maximizing profit:** the available resources are properly utilized to get desired results. The results should be the maximizing profit or increasing profit by the economic function of a manager.
12. **Decision-Making:** There are a number of decisions taken by the management every day. Decision making arises only where there is availability of alternative courses of action. If there is only one course of action, need for decision- making does not arises the quality of decision taken by the manager determines the organization's performance. The success of failure of an organization depends upon the degree of right decision taken by the manager.
13. **Management is a profession:** Management is a profession because it processes the qualities of a profession. A fund of knowledge is imparted and transferred in this profession and the same is followed by management. The established principles of management are applied in practice.
14. **Universal application:** The principles and practices of management are applicable not to any particular industry alone but applicable to every type of industry. The practice of management is different from one organization to another according to their nature.
15. **Management is getting thing done:** A manager does not actually perform the work but he gets the things done by others. According to Knootz and O'Dennell, "Management is the art of getting things done through and with people in formally organized groups".
16. **Management as a class or a term:** A class may be defined as a group of people having homogenous characteristics to achieve common objectives. Engineers and doctors are grouped as a class in a society. Each and every doctor has the same objectives in life just like engineers and doctors, the management people have got similar aspirations to achieve corporate objectives.

17. **Management as a career:** Now-a-days, management is developed as a career focused on certain specialization. Financial management, cash management, portfolio management, Marketing management, Personnel management, industrial management and Business management are some of the specializations of management. Specialists are appointed on the key posts of top management.
18. **Direction and control:** A manager can direct his subordinates in the performance of a work and control them whenever necessary. If the available resources are not unlisted properly by him, he fails to achieve the corporate objective in the absence of direction and control. Generally, direction and control deal with the activities of human effort.
19. **Dynamic:** The management is not static. In the fast developing business world, new techniques are developed and adopted by the management. Management is changed according to the social change. The social change is the result of the changing business world.
20. **Management is needed at all levels:** The functions of management are common to all levels of organization. The top executive performs the functions of planning, organizing, directing, controlling and decision making. The same functions are also performed by the lower level supervisor.
21. **Leadership quality:** Leadership quality is developed in the persons who are working in the level management. According to R.C. Davis, “Management is the functions of executive leadership everywhere”.

Nature of Management

The study and application of management techniques in managing the affairs of the organisation have changed its nature over the period of time. Though management as a practice came long ago, in fact, with the existence of human groups themselves, its impact as a formal body of knowledge has been felt much later, particularly during the last five-six decades. Various contributions to the

field of management have changed its nature, for example, from merely a practice to science also. Similarly, other changes have also occurred. Thus, the nature of management can be described as follows:

1. **Multidisciplinary**

Management is basically multidisciplinary. This implies that, although management has been developed as a separate discipline, it draws knowledge and concepts from various disciplines. It freely draws ideas and concepts from such disciplines as psychology, sociology, anthropology, economics, ecology, statistics, operations research, history, etc. Management integrates the ideas and concepts taken from these disciplines and presents newer concepts which can be put into practice for managing the organisations. In fact, the integration of knowledge of various disciplines is the major contribution of management and this integrated discipline is known as management. Therefore, the contributions in the field can be expected from any discipline which deals with some aspects of human beings.

2. **Dynamic Nature of Principles.**

Principle is a fundamental truth which establishes cause and effect relationships of a function. Based on integration and supported by practical evidences, management has framed certain principles. However, these principles are flexible in nature and change with the changes in the environment in which an organisation exists. Because of the continuous development in the field, many older principles are being changed by new principles. Continuous researches are being carried on to establish principles in changing society and no principle can be regarded as a final truth. In fact, there is nothing permanent in the landslide of management.

3. **Relative, not Absolute Principles**

Management principles are relative, not absolute, and they should be applied according to the need of the organisation. Each organisation may

be different from others. The difference may exist because of time, place, socio-cultural factors, etc. However, individuals working within the same organisation may also differ. Thus, a particular management principle has different strengths in different conditions. Therefore, principles of management should be applied in the light of prevailing conditions. Allowance must be made for different changing environment.

4. **Management: Science or Art**

There is a controversy whether management is science or art. However, management is both a science and an art.

5. **Management as Profession**

Management has been regarded as a profession by many while many have suggested that it has not achieved the status of a profession.

6. **Universality of Management**

Management is a universal phenomenon. However, management principles are not universally applicable but are to be modified according to the needs of the situation. The nature of management suggests that it is a multidisciplinary phenomenon; its principles are flexible, relative and not absolute. It is both science and art; it can be taken as a profession and finally it is universal.

MANAGEMENT: SCIENCE OR ART

The controversy with regard to the nature of management, as to whether it is a science or an art, is very old. This controversy, however, is not very much in the air though the controversy is yet to be settled. Specification of exact nature of management as science or art or both is necessary to specify the process of learning of management. It is to be noted that the learning process in science differs from that of art. Learning of science basically involves the assimilation of principles while learning of art involves its continuous practice. Much of the controversy of management as science or art is on account of the

fact that the earlier captains of industry and managers have used intuition, hunches, commonsense, and experience in managing organisations. They were not trained professional managers, although they were very brilliant and had developed commonsense through which they managed well. Commonsense and science differ in the following ways:

1. Commonsense is vague as compared to scientific knowledge.
2. Flagrant inconsistency often appears in commonsense whereas logical consistency is the basic of science.
3. Science systematically seeks to explain the events with which it deals; commonsense ignores the need for explanation.
4. The scientific method deliberately exposes claims to the critical evaluation of experimental analysis; commonsense method fails to test conclusions in any scientific fashion.

Science is based on logical consistency, systematic explanation, critical evaluation and experimental analysis. Thus, science can be defined as follows:

“Science is a body of systematised knowledge accumulated and accepted with reference to the understanding of general truths concerning a particular phenomenon, subject, or object of study.”

Thus, science is a systematised body of knowledge. The process of scientific theory construction and confirmation can be viewed as involving the following steps:

1. The formulation of a problem or complex of problems based on observation;
2. The construction of theory to provide answers to the problem or problems based inductions from observations;
3. The deduction of specific hypotheses from the theory;

4. The recasting of the hypotheses in terms of specific measures and the operations required to test the hypotheses;
5. The devising of actual situation to test the theorem; and
6. The actual testing in which confirmation does or does not occur.

Management as Science

Judging from the above features of formulation of theory in science, management cannot be regarded as science because it is only half-way. It may be called 'inexact science' or 'pseudo-science'. Perhaps this is true for all social sciences of which management is a branch. Management is not as exact as natural or physical sciences are. This phenomenon can be explained as follows:

1. Science may be viewed in terms of its structure, its goals, and its methods. In terms of its structure, it is a number of scientific disciplines: physics, biology, psychology, economics, management and many others. Each of these sciences attempts to provide a set of internally consistent hypotheses, principles, laws, and theories dealing with an aspect of total knowledge. To the extent a science is mature, such internal consistency may be attained but there are many young sciences like management that only approximate this state.
2. One of the most important rules of science is that concepts have to be defined clearly in terms of the procedures involved in their measurement. One has to know exactly what one is talking about while using a particular term. Meanings have to be clear and unambiguous to avoid confusion and erroneous classification. However, in management, various terms are not used in the same way and giving same meaning. Even the major terms like management and organisation are used in different ways. The reason for this phenomenon is quite simple. Since the second decade of the last century, a number of disciplines have claimed to contribute to human knowledge of managing. These disciplines have been immature to be a science. The consequence has been almost unfathomable confusion over

the various terms, a confusion in which ambivalence in using the various terms has played a conspicuous part.

3. In science, observations must be controlled so that causation may be imputed correctly. The most common method of eliminating a given factor as possible cause of an event is to hold it constant—to keep it from varying so that it cannot operate as a source of change. This is a difficult rule to follow, specially in studying organisational phenomena. Various research studies in management have suffered because of the bias of researchers. In many studies, for example, a variable that was thought to be irrelevant was found to exert a causal influence. However, the effort to identify factors that must be controlled and to develop procedures to accomplish this is a continuing one. To the extent that this effort is successful, reliability of perception and reasoning, and hence valid explanation, is possible.
4. Theories in science are in terms that permit empirical confirmation. Scientific statements are testable and the tests are capable of repetition with same result. Furthermore, explanatory statements are logically consistent with other explanatory statements that have been frequently confirmed. Thus, rationality of total scientific system is maintained. However, this does not happen in management exactly. Many of the management principles lack empirical evidences and are not testable. Further, these principles do not give similar results under varying conditions and, therefore, lack universal application. No doubt, attempts are being made to evolve principles in management on the basis of scientific observations which may have universal application, but still the process is in an evolutionary stage. Until such principles are not evolved, management cannot be called a science in its true sense.

The various factors analysed above suggest that management is not a pure science but it can be simply called 'inexact science'. This is so because management also makes use of scientific methods in evolving principles. Therefore, it bears partial characteristics of science. In fact, many people have suggested that with greater use of mathematics and statistics in management, the direction is towards more and more

use of true science in management. This is true but it must be remembered that management is not becoming mathematics, rather mathematics is being used to explain, codify, and help to decide issues in management. Mathematics is a basic abstract science.

It is fundamental to other sciences. For example, it is basic to the study of physics. But it is not the mathematics that is the science of management but the use of mathematics helps in relating and understanding the activity of management. The knowledge consists in how and where to use mathematics in solving issues of managerial difficulty. Science may contribute to the solution of managerial problems in two ways: (i) existing research and theory relevant to the problem may be brought to bear on its solution and (ii) where sufficient time is available, research may be conducted to provide information not previously available and to guide solution accordingly. As the body of scientific knowledge bearing on management process increases, the first approach may receive wider application. However, second approach may have limited application because of the widespread time pressure on decision making for problem solution.

Management as an Art

Management can be regarded as art also. The meaning of art is related with the bringing of a desired result through the application of skills. Whereas under science, one learns the 'why' of a phenomenon, under art, one learns the 'how' of it. Art is 'thus' concerned with the understanding of how particular work can be accomplished, that is, art has to do with applying knowledge or science or expertness in performance. This is specially important in management because in many instances, much creativity and adroitness in applying the managerial efforts are necessary to achieve the desired results. Furthermore, the adequate consideration of people involved in managerial action is vital and adds to the concept of the art of managing.

Science and art are complementary fields of endeavour; they are not mutually exclusive. The medical doctor requires the knowledge of science of chemistry, biology, and anatomy. But excellence in absorbing these funds of

knowledge does not make him an excellent physician. He has to apply his wealth of knowledge expertly, and his skill in perceiving how and when to use his knowledge is essential to his success in preventing and controlling diseases of mankind. Therefore, knowledge is not the sole qualification. Similarly, in management, if one student scores A grade and another scores B grade, it does not mean that the former would be a better manager than the latter. This is so because management is an art and a better manager is one who knows how to apply the knowledge in solving a particular problem. Management is an art can be seen from the following facts:

1. The process of management does involve the use of know-how and skills like any other art such as music, painting, sculpture, etc.
2. The process of management is directed to achieve certain concrete results as other fields of art do.
3. Management is creative like any other art. Creativity is a major dimension in managerial success. It creates new situations for further improvement.
4. Management is personalised meaning thereby that there is no 'one best way of managing'. Every person in his profession has individual approach and technique in solving the problems. The success of managerial task is related with the personality of the person apart from the character and quality of general body of knowledge.

Management: Both Science and Art

Thus, to be a successful manager, a person requires the knowledge of management principles and also the skills of how the knowledge can be utilised. Absence of either will result in inefficiency. It can be seen that management uses both scientific knowledge and art in managing an organisation. As the science of management increases so should the art of management. A balance between the two is needed. Neither should be overweighed or slighted. Some feel that further gains in science of management will restrict art more and more. This is true to a limited extent only. The fact remains that to be useful, knowledge of science

must be applied, that is, art must be present. Therefore, the old saying that 'knowledge is power' is partially true. The correct saying should be 'applied knowledge is power'. People having abundant knowledge may have little use if they do not know how to use knowledge. This is particularly true for management which is a situational phenomenon.

Management as Profession

Management is regarded as profession by many, although it does not possess all the features of a profession. Therefore, it is desirable to find out whether management is a profession. Profession is an occupation for which specialised knowledge, skills, and training are required and the use of these skills is not meant for self-satisfaction but these are used for larger interests of the society and the success of the use of these skills is measured not in terms of money alone.

Thus, all professions are occupations in the sense that they provide means of livelihood; however, all occupations are not professions because some of them lack certain characteristics of a profession. The various characteristics of profession may be: (i) existence of an organised and systematised body of knowledge; (ii) formal method of acquisition of knowledge; (iii) existence of an association with professionalisation as its goals; (iv) formulation of ethical codes; and (v) service motives. Let us discuss the extent to which all these characteristics are found in management to determine whether management is profession or not.

1. Existence of Knowledge

A profession emerges from the establishment of fact that there is a body of knowledge which cannot be skirted around but has to be studied for being a successful professional. This is true for all professions including management. Management has been developed as a distinct body of knowledge over the last five-six decades. The development of knowledge in management field has been due to the need for managing complex and large organisations in a better way. Thus, management satisfies the requirement of a profession in the form of existence of knowledge. However, the concept of management is still evolving and

continuously new principles are being developed though this does not affect its status as being a profession.

2. Acquisition of Knowledge

An individual can enter a profession only after acquiring knowledge and skills through formal training. For example, only law graduates can enter the profession of legal practice. A professional is one who practices a profession and is regarded as an expert since he has mastery of a specific branch of learning upon which his occupation is based so that he may offer service to his client. However, the emphasis is put on the initial acquisition of knowledge through some formal method. From this point of view, management cannot be regarded as a profession because the entry to the managerial cadre in an organisation is not limited to management graduates only, though it can be said that management graduates can put in better performance in the organisation because of their familiarity with the various techniques of management.

3. Professional Association

An occupation, which claims to be a profession, should have an association. A professional association consists of firms and individuals whose membership is based on common professional, scientific, or technical aims. The representative body of professionals is needed to regulate and develop the professional activities. The body may also prescribe the criteria for individuals who want to enter the profession. In the field of management, there are associations at various levels. For example, in India, there is All India Management Association with its local chapters in most of the cities. Similarly in foreign countries also, there are associations of managers. However, managers do not belong to a single, unified professional group like Indian Medical Council for medical practitioners or Bar Council of India for legal practitioners. Instead, individuals and firms affiliate with a variety of interest groups falling into two categories: the trade associations and the professional, occupational, scientific, or technical interest. This is true throughout the world. From this point of view, management cannot be termed as true profession.

4. Ethical Codes

For every profession, some ethical standards are provided and every individual of the profession is expected to maintain conformity with these standards. The need for ethical codes arises because of the fact that occupations whose practitioners have mastery over an area of knowledge have a degree of power by virtue of their expertise and this power can be used for the benefit of the professionals at the cost of the society. This has resulted in many occupations issuing a code of ethics of professional practice so that clients may know the standard and commitment that they should receive from a professional. In management also, a code of conduct has been formulated to suggest the behavioural pattern for professional managers. Though there is a lack of universally accepted ethical codes for managers throughout the world, in most of the countries, managers are supposed to be socially responsible, and it is their duty to protect the interest of all parties associated with an organisation. These parties may be customers, suppliers, employees, financiers, creditors, government and the general public. However, the practice of ethical codes in management is not much prevalent in the absence of any controlling body as the management association is not fully representative of the professional managers. In fact, in India, many professional managers are not even aware of the code of conduct formulated by All India Management Association.

5. Service Motive

While ethical code provides the behavioural pattern for professionals, service motive concept suggests that professionals should keep social interest in their mind while charging fees for their professional services. It is essential because the monetary value of professional service cannot be measured easily in the absence of market mechanism except the competition among the professionals themselves. Since the professionals are in a position to charge higher fees by virtue of their expert knowledge, hence associating high monetary value for their service, the success of any profession is measured not in terms of money it earns but by the amount of social service it provides. This is true for management also. Management is an integrating agency and its contribution in the society by way of integrating

various resources into productive units is very important for the stability of the society. This important contribution of management cannot be measured in terms of money alone because without the integrating effort of management, resources worth millions of rupees may be useless.

1.3.3 Objectives of Management

When you act as your small company's owner and manager, it's important to have a set of management goals and objectives. Setting benchmarks for your company is desire if you want to grow. While you have a number of goals and objectives to shoot for as the manager, there are a few that stand out if you want to achieve a successful and smooth-running business.

Objective serves as guidelines or landmarks or road lines for action and efforts to achieve managerial goal. Well defined objective steers an organization to success.

According to **George R. Terry**, "A managerial objective is the goal which prescribes definite scope and suggests the efforts of a manager."

In the words of **Peter F. Drucker**, "Objectives in the key areas are the 'instrument panel' necessary to pilot the business enterprise. Without them the management flies by the 'seat of the pants' without landmarks, without maps and without having flow route before."

Heinz Wehrich and Harold Koontz defined objectives of management as, "A systematic manner and that is consciously directed toward that effective and efficient achievement of organizational and individual objectives".

Objective provides a direction for the organization goal and quality of work to be accomplished within a given period of time. Objectives are the values which are to be achieved by the organization. These objectives set by the higher management; and every level of management, a supervisor of a team sets the objectives and also decides the process to achieve them. For achieving the objectives, it is essential that the managerial objectives are clear and definite.

The broad purposes or objectives of the management are as follows—

1. Optimum utilisation of resources:

The most important objectives of the management are to use various resources of the enterprise in a most economic way. The proper use of men, materials, machines, and money will help a business to earn sufficient profits to satisfy various interests i.e. proprietor, customers, employees and others. All these interests will be served well only when physical resources of the business are properly utilised.

2. Growth and development of business:

By proper planning, organisation and direction etc., management leads a business to growth and development on sound footing. It helps in profitable expansion of the business. It provides a sense of security among the employers and employees.

3. Better quality goods:

The aim of the sound management has always been to produce the better quality products at minimum cost. Thus, it tries to remove all types of wastages in the business.

4. Ensuring regular supply of goods:

Another objective of management is to ensure the regular supply of goods to the people. It checks the artificial scarcity of goods in the market. Hence, it keeps the prices of goods within permissible limits.

5. Discipline and morale:

The management maintains the discipline and boosts the morale of the individuals by applying the principles of decentralisation and delegation of authority. It motivates the employees through monetary and non-monetary incentives. It helps in creating and maintaining better work culture.

6. Mobilising best talent:

The employment of experts in various fields will help in enhancing the efficiency of various factors of production. There should be a proper environment which should encourage good persons to join the enterprise. The better pay scales, proper amenities, future growth potentialities will attract more people in joining a concern.

7. Promotion of research and development:

Management undertakes the research and development to take lead over its competitors and meet the uncertainties of the future. Thus, it provides the benefits of latest research and technology to the society.

8. Minimise the element of risk:

Management involves the function of forecasting. Though the exact future can never be predicted yet on the basis of previous experience and existing circumstances, management can minimise the element of risk. Management always keeps its ears and eyes to the changing circumstances.

9. Improving performance:

Management should aim at improving the performance of each and every factor of production. The environment should be so congenial that workers are able to contribute their maximum to the enterprise. The fixing of objectives of various factors of production will help them in improving their performance.

10. Planning for future:

Another important purpose of management is to prepare a prospective plan. No management should feel satisfied with today's work. Future plans should take into consideration what is to be done next. Future performance will depend upon present planning. So, planning for future is essential to every organisation.

1.4 EVOLUTION OF MANAGEMENT THOUGHT

The management thought or theory in the current economic situation (1980 onwards) can best be understood in the light of its historical growth particularly since 1900. Similarly, the future of management thought can be anticipated by knowledge of the past as well as understanding of the present. We deal with the evolution of management theory and concepts and then we will have a firm grasp over the current thoughts on management, viz. systems approach and contingency approach to organisation and management.

The evolution of management thought may be divided into three broad stages:

- (A) The classical theory of management comprising of three streams :
 - (i) Bureaucracy; (ii) Scientific Management; and (iii) Process Management Theory describing the process of management. Weber introduced bureaucracy around 1900. F.W. Taylor introduced scientific management around 1910. H. Fayol inaugurated process management (functional or administrative management) around 1910.
- (B) The neo-classical theory covered two streams dealing with human factor, viz.
 - (i) Human Relations; and (ii) Behavioural Sciences Approach.

E. Mayo and Roethlisberger pioneered human relations movement around 1930. Maslow, McGregor, and others launched behavioural sciences movement around 1940. (Refinement of human relations movement).
- (C) The Modern Management theories again comprised three streams of thought;
 - (i) Technical and quantitative sciences offering quantitative decision-making through operations research and with the help of computer and information system; (ii) Systems approach to organisation and management, and (iii) Contingency approach to organisation and management.

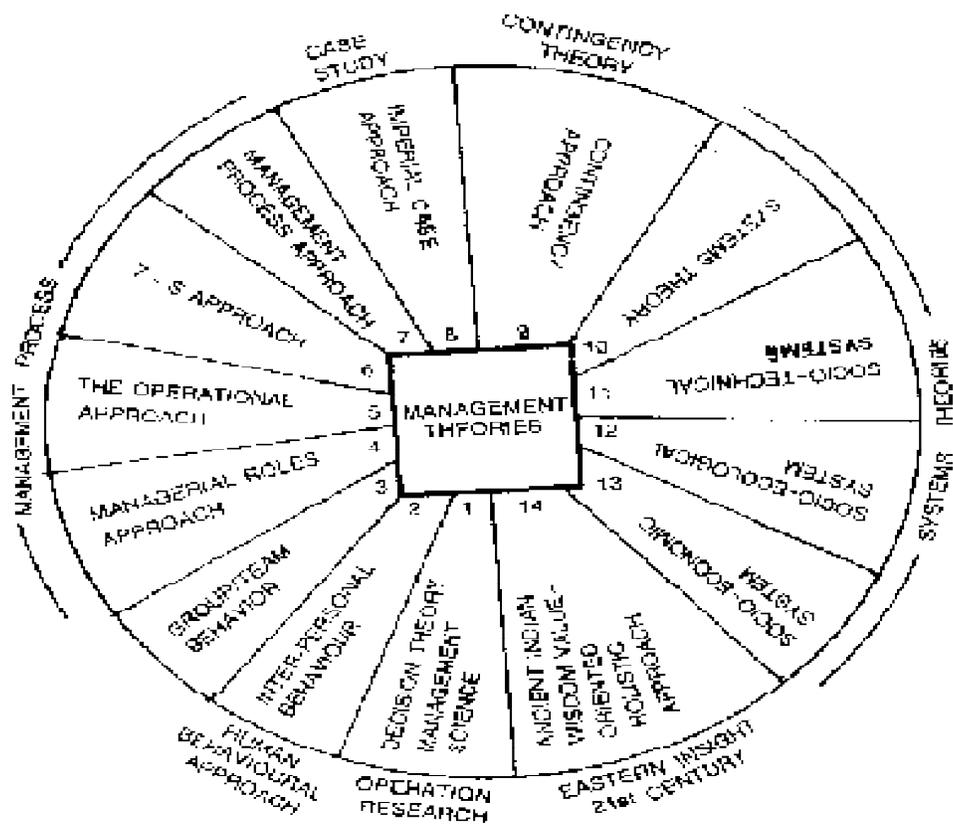


Fig. 1.1. Schools of Management Thought/Approach

The following Management Theories are described below in this lesson:

A. Classical Theory of Management/Organisation

- Bureaucracy,
- Scientific Management,
- Management Process.

B. Neo-classical Approaches

- Human Relations/ Behaviour,
- Behavioural and Social Sciences.

C. Modern Streams of Management Thought.

- Management Science (Quantitative Approach).
- Systems Approach.
- 7-S Approach.
- Operational Approach.
- Managerial Roles Approach.
- Contingency Approach.

D. Management Thought: Indian Wisdom (Value-Oriented Holistic Approach).

An approach to Management Thought in the 21st century as Eastern Insight expressed in Japanese Management also.

Quantitative approach to management, sometimes called operations research or management science, was developed during World War II by Blackett, Churchman and others and it was applied in business management around 1950. Systems approach was introduced by Bertalanffy, Boulding and others around 1960. Contingency approach was introduced by Joan Woodward, Fiedley, P. Lawrence, J. Lorsh and others around 1970 and it seems better suited to lead management out of the so-called management theory jungle. In fact, contingency approach was pioneered by Pigors and Myers in personnel management particularly even before 1970. Today, contingency approach integrates admirably all prior management thoughts and we now recognise that an organisation is an open adaptable system and it has three sub-systems. viz: (i) Human or social system dealing with human resources, (ii) Transformation or technical system for processing inputs into outputs, and (iii) Management or administrative system in charge of managing technical and social systems. In the 21st century we hope that in the Management World, enlightened Management in India and abroad would introduce Indian Wisdom (Value-oriented Holistic Approach for Effective

Management, so that Management can solve all problems arising out of absence of human and ethical values, *e.g.*, Corruption, Exploitation, Pollution, etc., and enterprises would restore their bright image.

A. CLASSICAL THEORIES OF MANAGEMENT

At about 1900, a set of principles and concepts about organisation and management, now called as classical theory, began to be extensively developed. Even at present the influence of classical theory of organisations is quite remarkable. The existence of complex and large organisations even today can be accounted appreciably through classical concepts of management thought. Under classical theory of management, an organisation is the structure of the relationships, objectives, roles, activities and other factors when persons work together. This point of view regarding an organisation is expressed fully by three streams of the classical theory, viz: (i) Bureaucracy; (ii) Scientific Management; and (iii) Process Management. We have mechanistic structure of an organisation and it is considered as a closed system. Let us describe the three streams of classical theory of management.

Features of Management in the Classical Period: (1) It was closely associated with the industrial revolution and the rise of large-scale enterprise which demanded the development of new forms of organisation and management practices. (2) Traditional or classical organisation and management theory is based upon contributions from a number of sources, including scientific management, administrative management theory, the bureaucratic model, micro economics and public administration. (3) Management thought is focussed on (a) job content, (b) structure, (c) division of labour, (d) tasks of management (e) standardisation, simplification and specialisation. (f) scientific approach towards organisation and management, (g) primary incentives based on the economic and physiological needs of the workers.

Traditional theory was based on three pillars: (1) bureaucratic model. (2) scientific management and (3) administrative or process management theory. We will describe, in brief, these three pillars.

i. Bureaucratic Model (Max-Weber— 1864-1920)

The first pillar or thread in the classical organisation and management theory was systematically provided by Max Weber (1864-1920) a German Sociologist. He offered bureaucratic model for management of any large and complex organisation in any branch of human activity. He considered bureaucracy as the most efficient form for a complex organization.

Elements of Bureaucracy: The elements of bureaucracy are vital parts of modern business, governmental, educational and other complex organisations. These elements are:

- (i) Hierarchy of authority involving superior—subordinate relationship and chain of command;

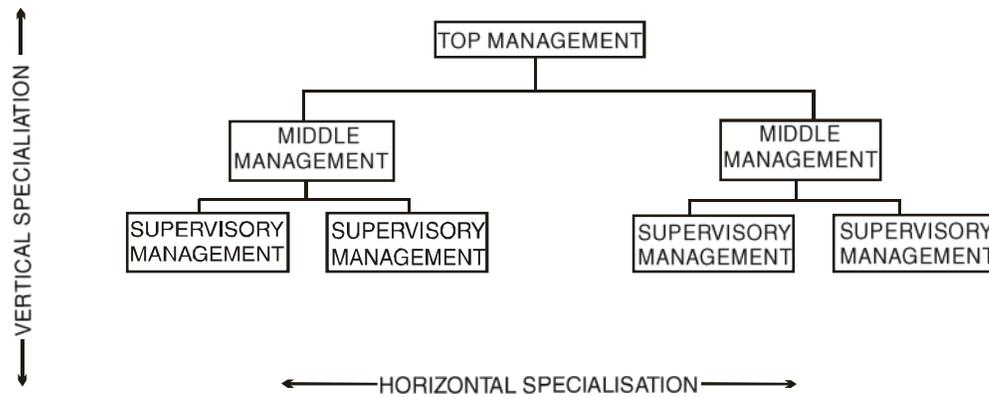


Fig. 1.2 The Bureaucratic Structure

- (ii) Clear-cut division of work, based upon competence and functional specialization. An ordered hierarchy takes the advantage of specialisation;
- (iii) A system of rules, regulations and procedures. A bureaucrat seeks rationality routine, objectivity and consistency for his organisation. Behaviour is subject to systematic discipline and control;
- (iv) A rule by law leads to impersonality of interpersonal or mutual relations. Interpersonal relations are based on positions and not on personalities. We have mechanical and impersonal behaviour;

- (v) A system of work procedures involving standardisation of methods;
- (vi) Selection and promotion of employees based upon managerial and/or technical competence; and
- (vii) Authority and power rest in the office. Bureaucracy recognises only legal power and authority given to each office or position in the organisation. The power does not belong to an individual. It is a part of the office.

Assessment of Bureaucracy

Bureaucracy provided a rigid machine model of an organisation. It could not account for humanistic model of an organisation which could recognise importance of human, interpersonal or mutual relations in an organisation. Bureaucratic organisation may be preferred where change is not anticipated or where rate of change is slow and it can be predicted. In a stable or static organisation (considered as closed system) bureaucracy can work and may be preferred. It is usual in government and in many stable large businesses. But in a dynamic business organisation (considered as an open system) we cannot use bureaucracy. There are many glaring disadvantages in bureaucratic organisations: rigidity, impersonal and mechanical or dehumanised environment, higher cost of controls, tendency to forget ultimate goals of the organisation, self-perpetuation and empire building, difficulty of co-ordination and communication, blind faith in rules, regulations and procedures. Above all, bureaucracy cannot offer satisfaction of higher level wants of employees and to that extent it fails miserably to exploit fully the human potential. It offers limited scope for the development of human resources or for management development. Many of the problems of bureaucracy probably would be reduced if the individual needs and characteristics of all people are remembered and are duly considered in making managerial decisions. In other words, we must humanize bureaucracy.

Note: (1) The term bureaucracy is currently used in two ways: (a) technically, as by Weber, and (b) popularly, to characterize the red tape and inefficiencies of governmental administration.

(2) Bureaucracy seems to naturally and logically evolve as organizations become larger and more complex.

ii. Scientific Management (F.W. Taylor)

F.W. Taylor (1856-1915) eventually becomes acclaimed as “the Father of Scientific Management.” He provided a base upon which much of our current thinking about management is firmly established. He published his famous book ‘The Principles of Scientific Management in 1911.

Taylor, Gilbreth, (Frank and his wife, Lillian), Gantt and others launched what they called scientific management. According to these experts it was not proper to just find a way of doing something. A manager has to find the one right way. They used time and motion study for developing a right way. According to them analysis, planning and control of work should be separated from the execution of work and management should be responsible for detailed analysis, investigation and planning of work in advance whereas workers should be responsible for the performance of the work as per plans.

Scientific management revolutionised the entire shop or plant management. It led to the development of time and motion study, and it refined wage incentive plans. It provided necessary foundation for industrial engineering. If we take a broad view of Taylorism or scientific management, the contributions of Taylor and his eminent followers were truly outstanding and many features of their contributions have proved to be enduring and classical. The basic theme of Taylor was that managers should study work scientifically in order to identify “one best way” to get the job done. Taylor codified his ideas in terms of certain principles which were very popular. The essence of positive view of scientific management was described by Taylor as follows:

- (i) All jobs can be observed and analyzed in order to determine the one best way of accomplishing them. Management must use scientific, rather than the rule of thumb approach.
- (ii) The best man for the job can be scientifically selected and trained.

- (iii) You can insure that the one best way is followed by paying the man on incentive basis tying his wage or salary to how much he produces.
- (iv) Put a manager in charge of analyzing, planning, preparing and inspecting work. The worker simply carries out the directions and instructions issued by the manager.
- (v) Harmonious organization can be obtained by assigning the appropriate man to each set of operations. This will prevent any discord.
- (vi) Management has to choose the best means of economical production. Specialization of workers is essential to increase efficiency of production.
- (vii) Co-operation between labour and management can be achieved. This will ensure maximum output, in place of restricted output by workers.
- (viii) A striving for enterprise and the development of each man to his greatest efficiency and prosperity must be accomplished.
- (ix) Workers must be inspired or trained to use the scientific methods developed through time and motion study.
- (x) Management must organize in such a way that it can properly manage and carry out its duties. Frank and Lillian Gilbreth, Henry Gantt, George Berth, Edward Felen, etc. Scientific management was concerned essentially with improving the operational efficiency at the shop floor level. Taylor has defined scientific management as follows:

“Scientific management is concerned with knowing exactly what you want men to do and then see in that they do it in the best and cheapest way.”

Since Taylor has put the emphasis on solving managerial problems in a scientific way, often, he is called as father of scientific management and his contributions as the principles of scientific management. Though his contributions have become traditional in present day context, still the label scientific management is used for his contributions.

It does not mean that present-day management thoughts and practices are not scientific. In fact, management as a science has been taken much later than the contributions of Taylor.

Taylor joined Midvale Steel Company in U.S.A. as a worker and later on became supervisor. During this period, he continued his studies and eventually completed his M.E. (Master of Engineering). Subsequently, he joined Bethlehem Steel Company. At both these places, he carried experiments about how to increase the efficiency of people. Even after his retirement, he continued to develop scientific management.

On the basis of his experiments, he published many papers and books and all his contributions were compiled in his book 'Scientific Management'. Taylor's contributions can be described in two parts: elements and tools of scientific management and principles of scientific management.

B. NEO-CLASSICAL THEORY

Classical theory was job oriented and it focused its attention on scientific job analysis. Neoclassical theory focuses its attention on the worker and it is employee-oriented. Now we have a shift in managerial style from product-centred in a modern plant. Plant layout, machinery, tools etc., must offer employee convenience and facilities. Neoclassical theory is built upon the success of classical theory. The pillars of classical approach—order, rationality, structure etc.,—have been modified by the neoclassical movement.

i. Behavioural Approach

Neo-classical theory is called human relations and behavioural science movement. It is built on the base of classical theory. It modified, improved and extended the classical theory. Classical theory concentrated on job content and management of physical resources. Neo-classical theory gave greater emphasis to man behind the machine and stressed the importance of individual as well as group relationships in the plant or workplace. The behavioural science approach to management is the core of psychology and sociology in the understanding of

individual as well as group behaviour in an organisation. It advocated the importance of human values in business. Original goals and values may be followed too excessively that this itself becomes end for the organisation. Over the period, people are provided incentives on such behaviour. For example, rules are means for achieving organisational goals but following of rules may become the objective of the organisation and organisational objectives may become secondary. People may be judged on the basis of observance of rules and not results. For example, in government organisations, the performance may be judged on the basis of whether expenditure has been incurred on the lines of rules and regulations. Thus, expenditure becomes the criterion of performance measurement and not the results achieved through expenditure.

(a) Unintended Consequences

In bureaucratic structure, there may be many consequences which have not been visualised but which emerge because of the system. Such unintended consequences may be of following nature :

1. There may be trained incapacity in the organisation. Trained incapacity relates to a phenomenon where a person is trained at the matter from a single point of view. Thus, he does not see beyond his training and tries to correlate the matter with total situation on the basis of his training. This happens because of excessive specialisation.
2. There is conflict between professionals and bureaucrats. The basic reason of conflict is the difference in orientation of professionals and bureaucrats. Professionals try to work according to their discipline for efficiency while bureaucrats try to emphasise rules and regulations.
3. Often there is conflict between organisation and individuals. There are many characteristics of bureaucratic organisation which work against human nature. For example, human beings work better when there is comparatively free environment but bureaucratic organisation puts more restrictions through rules and regulations. Thus, people try to avoid these rules and regulations.

(b) Inhuman Organisation

Perhaps the most important criticism of bureaucracy has come from behavioural scientists who have emphasised on human behaviour in the organisation. According to them, bureaucratic structure is inhuman and works like machine in which there is no importance of human beings. For example, Argyris holds the view that individual moves from immaturity to maturity and over the period he matures, while bureaucratic organisation is designed to suit immature personality. A mature personality requires less control, innovation in behaviour, and flexibility in working. The design of bureaucratic structure is against these features. Thus, bureaucracy works against the basic nature of human behaviour.

A pioneering criticism of bureaucracy comes from organisational psychologist, Warren Bennis. He sees the model as overly mechanical and no longer useful. The flaws and dysfunctions of the bureaucratic organisation are extensive but the main are as follows :

1. It is inhumane and denies man's needs.
2. It is incompatible with the development of a mature personality.
3. It promotes conformity.
4. It does not consider the informal organisation and interpersonal difficulties.
5. The hierarchy interferes with communication.
6. Innovation and new knowledge are stifled.
7. It is ineffective in a turbulent environment.

These criticisms are representative of the lack of human aspect of bureaucracy. The thrust of these criticisms is that bureaucratic structure makes inadequate assumptions about the real nature of human beings and does not address itself to the interaction of people within the organisation.

(c) Closed-System Perspective

Bureaucratic organisation has closed-system perspective. Though a social organisation cannot be a totally closed system but it may lean towards closed system in its working. A closed system is self-contained and self maintaining. It is generally rigid and static. It ignores external conditions and makes no allowances for adapting to changes in the environment. In other words, It is viewed as operating within a vacuum. Specific characteristics of closed-system social organisation include predictability, rationality, optimisation, internal efficiency, and certainty. Since behaviour is assumed to be functional and all outcomes predictable, those activities that take place in the environment—that is changes in social, political and economic and other factors—can be ignored.

Bureaucratic structure can work well when environment is highly static and predictable. However, the nature of environment for large organisations of today is highly dynamic and heterogeneous. In dynamic environment, more interaction between organisation and environment is required. There is high need for information monitoring and processing. Thus, an open-system perspective is more suitable for the management of modern-day organisations while bureaucratic structure has closed-system perspective.

ii. Hawthorne Experiments and Human Relations

Many of the findings of earlier writers, particularly of scientific management, which focused attention on the mechanical and physiological variables of organisational functioning were tested in the field to increase the efficiency of the organisations. Surprisingly, positive aspects of these variables could not evoke positive response in work behaviour, and researchers tried to investigate the reasons for human behaviour at work. They discovered that the real cause of human behaviour was something more than mere physiological variables. Such findings generated a new phenomenon about the human behaviour and focused attention on the human beings in the organisations. As such, this new approach has been called ‘human relations approach of management’.

Even in the writings of classical approach, notably, Taylor, Fayol, Henry Gantt, Follet, Urwick, and others, the human element in the organisation was recognised, but they emphasised it very little. The human relations approach was born out of a reaction to classical approach and during the last seven decades, a lot of literature on human relations has been developed. The essence of the human relations contributions is contained in two points : (i) organisational situation should be viewed in social terms as well as in economic and technical terms, and (ii) the social process of group behaviour can be understood in terms of clinical method analogous to the doctor's diagnosis of the human organism. Among human relations approach, there are many contributions and many more researches are being carried on. For the first time, an intensive and systematic analysis of human factor in organisations was made in the form of Hawthorne experiments. There will be relatively lengthy discussion of the results and implications of the Hawthorne studies because of their historical importance to the behavioural approach to the analysis of management problems.

The Hawthorne plant of the General Electric Company, Chicago, was manufacturing telephone system bell. It employed about 30,000 employees at the time of experiments. Although in respect of material benefits to the workers, this was the most progressive company with pension and sickness benefits and other recreational facilities, there was great deal of dissatisfaction among the workers and productivity was not upto the mark. After the utter failure of an investigation conducted by efficiency experts, in 1924, the company asked for the assistance from the National Academy of Sciences to investigate the problems of low productivity.

In order to investigate the real causes behind this phenomenon, a team was constituted led by Elton Mayo (psychologist) Whitehead and Roethlisberger (sociologists), and company representative, William Dickson. The researchers originally set out to study the relationship between productivity and physical working conditions. They conducted various researches in four phases with each phase attempting to answer the question raised at the previous phase. The four phases were as follows :

1. experiments to determine the effects of changes in illumination on productivity, illumination experiments (1924-27),
2. experiments to determine the effects of changes in hours and other working conditions on productivity, relay assembly test room experiments, 1927-28;
3. conducting plant-wide interviews to determine worker attitudes and sentiments, mass interviewing programme, 1928-30; and
4. determination and analysis of social organisation at work, bank wiring observation room experiments, 1931-32.

1. Illumination Experiments

Illumination experiments were undertaken to find out how varying levels of illumination (amount of light at the workplace, a physical factor) affected the productivity. The hypothesis was that with higher illumination, productivity would increase. In the first series of experiments, a group of workers was chosen and placed in two separate groups. One group was exposed to varying intensities of illumination. Since this group was subjected to experimental changes, it was termed as experimental group. Another group, called as control group, continued to work under constant intensities of illumination. The researchers found that as they increased the illumination in the experimental group, both groups increased production. When the intensity of illumination was decreased, the production continued to increase in both the groups. The production in the experimental group decreased only when the illumination was decreased to the level of moonlight. The decrease was due to light falling much below the normal level. Thus, it was concluded that illumination did not have any effect on productivity but something else was interfering with the productivity. At that time, it was concluded that human factor was important in determining productivity but which aspect was affecting it was not sure. Therefore, another phase of experiments was undertaken.

2. Relay Assembly Test Room Experiments

Relay assembly test room experiments were designed to determine the effect of changes in various job conditions on group productivity as the illumination experiments could not establish relationship between intensity of illumination and production. For this purpose, the researchers set up a relay assembly test room and two girls were chosen. These girls were asked to choose four more girls as coworkers. The work related to the assembly of telephone relays. Each relay consisted of a number of parts which girls assembled into finished products. Output depended on the speed and continuity with which girls worked. The experiments started with introducing numerous changes in sequence with duration of each change ranging from four to twelve weeks. An observer was associated with girls to supervise their work. Before each change was introduced, the girls were consulted. They were given opportunity to express their viewpoints and concerns to the supervisor. In some cases, they were allowed to take decisions on matters concerning them. Following were the changes and resultant outcomes :

1. The incentive system was changed so that each girl's extra pay was based on the other five rather than output of larger group, say, 100 workers or so. The productivity increased as compared to before.
2. Two five-minute rests—one in morning session and other in evening session—were introduced which were increased to ten minutes. The productivity increased.
3. The rest period was reduced to five minutes but frequency was increased. The productivity decreased slightly and the girls complained that frequent rest intervals affected the rhythm of the work.
4. The number of rest was reduced to two of ten minutes each, but in the morning, coffee or soup was served along with sandwich and in the evening, snack was provided. The productivity increased.
5. Changes in working hours and workday were introduced, such as cutting an hour off the end of the day and eliminating Saturday work. The girls

were allowed to leave at 4.30 p.m. instead of usual 5.00 p.m. and later at 4.00 p.m. Productivity increased.

As each change was introduced, absenteeism decreased, morale increased and less supervision was required. It was assumed that these positive factors were there because of the various factors being adjusted and making them more positive. At this time, the researchers decided to revert back to original position, that is no rest and other benefits. Surprisingly, productivity increased further instead of going down. This development caused a considerable amount of redirection in thinking and the result implied that productivity increased not because of positive changes in physical factors but because of a change in the girl's attitudes towards work and their work group. They developed a feeling of stability and sense of belongingness. Since there was more freedom of work, they developed a sense of responsibility and self-discipline. The relationship between supervisor and workers became close and friendly.

3. Mass Interviewing Programme

During the course of experiments, about 20,000 interviews were conducted between 1928 and 1930 to determine employees attitudes towards company, supervision, insurance plans, promotion, and wages. Initially these interviews were conducted by means of direct questioning such as do you like your supervisor? or is he in your opinion fair or does he have favourites? etc. since this method had disadvantage of either stimulating antagonism or the over-simplified 'yes' or 'no' responses which could not get to the root of the problem, the method was changed to non-directive interviewing where interviewer was asked to listen to instead of talking, arguing or advising. The interview programme gave valuable insights about the human behaviour in the company. Some of the major findings of the programme were as follows :

1. A complaint is not necessarily an objective recital of facts; it is a symptom of personal disturbance the cause of which may be deep seated.
2. Objects, persons, and events are carries of social meanings. They become related to employee satisfaction or dissatisfaction only as the employee comes to view them from his personal situation.

3. The personal situation of the worker is a configuration, composed of a personal preference involving sentiments, desires and interests of the person and the social reference constituting the person's social past and his present interpersonal relations.
4. The position or status of a worker in the company is a reference from which the worker assigns meaning and value to the events, objects and features of his environments such as hours of work, wages, etc.
5. The social organisation of the company represents a system of values from which the worker derives satisfaction or dissatisfaction according to the perception of his social status and the expected social rewards.
6. The social demands of the worker are influenced by social experience in groups both inside and outside the work plant.

During the course of interviews, it was discovered that workers' behaviour was being influenced by group behaviour. However, this conclusion was not very satisfactory and, therefore, researchers decided to conduct another series of experiments. As such, the detailed study of a shop situation was started to find out the behaviour of workers in small groups.

4. Bank Wiring Observation Room Experiments

These experiments were carried on between November 1931 and May 1932 with a view to analyse the functioning of small group and its impact on individual behaviour. A group of fourteen male workers was employed in the bank wiring room: nine wiremen, three soldermen and two inspectors. The work involved attaching wire to switches for certain equipment used in telephone exchange. Hourly wage rate for the personnel was based on average output of each worker while bonus was to be determined on the basis of average group output. The hypothesis was that in order to earn more, workers would produce more and in order to take the advantages of group bonus, they would help each other to produce more.. However, this hypothesis did not hold valid. Workers decided the target for themselves which was lower than the company's target,

for example group's target for a day was connecting 6600 terminals against 7300 terminals set by the company. The workers gave following reasons for the restricted output :

- (a) **Fear of Unemployment.** The basis reasoning of workers was that if there would be more production per head, some of the workers would be put out of employment.
- (b) **Fear of Raising the Standards.** Most workers were convinced that once they had reached the standard rate of production, management would raise the standard of production reasoning that it must be easy to attain.
- (c) **Protection of Slower Workers.** The workers were friendly on the job as well as off the job. They appreciated the fact that they had family responsibility that required them to remain in the job. Since slower workers were likely to be retrenched, the faster workers protected them by not overproducing.
- (d) **Satisfaction on the Part of Management.** According to workers, management seemed to accept the lower production rate as no one was being fired or even reprimanded for restricted output.

The workers in the group set certain norms of behaviour including personal conduct. The workers whose behaviour was in conformity with both output norm and social norm were most preferred. This study suggested that informal relationships are an important factor in determining the human behaviour. During the course of experiments, workers were counselled for good human relations in the company's plant. The counselling was in regard to personal adjustment, supervision, employee relations, and management-employee relations. The supervisors tended to understand and accept the problems of workers, and managements tried to sense their feelings which were helpful in formulating the action for resolving management-employee conflicts.

Implications of Hawthorne Experiments

Hawthorne experiments have opened a new chapter in management by suggesting management through good human relations. Human relations involves

motivating people in organisation in order to develop teamwork which effectively fulfills their needs and achieves organisational goals. Hawthorne experiments have tried to unearth those factors which are important for motivating people at workplace. The major findings of the experiments can be presented below:

1. Social Factors in Output. An organisation is basically influenced by social factors. In fact, Elton Mayo, one of the researchers engaged in Hawthorne experiments, has described an organisation as “a social system, a system of cliques, informal status system, rituals and a mixture of logical, non-logical behaviour.” Thus, an organisation is not merely a formal structure of functions in which production is determined by the official prescription but the production norm is set by social norms. Since people are social beings, their social characteristics determine the output and efficiency in the organisation. Economic rewards and productivity do not necessarily go together. Many non-economic rewards and sanctions affect the behaviour of workers and modify the impact of economic rewards. While motivating workers, these factors should be taken into account.

2. Group Influence. Workers being social beings, they create groups which may be different from their official group. In fact, groups are formed to overcome the shortcomings of formal relationships. The group determines the norm of behaviour of members. If a person resists a particular norm of group behaviour, he tries to change the group norm because any deviation from the group norm will make him unacceptable to the group. Thus, management cannot deal with workers as individuals but as members of work group subject to the influence of the group.

3. Conflicts. The informal relations of workers create groups, and there may be conflict between organisation and groups so created. The conflict may be because of incompatible objectives of the two. However, groups may help to achieve organisational objectives by overcoming the restraining aspect of the formal relations which produce hindrance in productivity. Conflict may also arise because of maladjustment of workers and organisation. As the individual moves through the time and space within the organisation, there constantly arises the need for adjustment of the individual to the total structure. In the absence of such adjustment, either

individual progresses upward at a rapid pace or the organisation structure itself may change over the time while the individual remains standstill. In either event, the change takes place in the position of the individual with respect to organisation structure hence, adjustment is required.

4. Leadership. Leadership is important for directing group behaviour, and this is one of the most important aspects of managerial functions. However, leadership cannot come only from a formally-appointed superior as held by earlier thinkers. There may be informal leader as shown by bank wiring experiments. In some areas, informal leader is more important in directing group behaviour because of his identity with group objective. However, a superior is more acceptable as a leader if his style is in accordance with human relations approach, that is the superior should identify himself with the workers.

5. Supervision. Supervisory climate is an important aspect in determining efficiency and output. Friendly to the workers, attentive, genuinely concerned supervision affects the productivity favourably. For example, in the bank wiring room experiment, an entirely different supervisory climate—more friendly to the workers and less use of authority in issuing orders—existed which helped in productivity, while in regular departments, supervisors were concerned with maintaining order and control which produced inhibiting atmosphere and resulted in lower productivity.

6. Communication. The experiments show that communication is an important aspect of organisation. Through communication, workers can be explained the rationality of a particular action, participation of workers can be sought in decision-making concerning the matter of their importance, problems faced by them can be identified and attempts can be made to remove these. A better understanding between management and workers can be developed by identifying their attitudes opinions and methods of working and taking suitable actions on these.

Criticisms of Hawthorne Experiments

Though Hawthorne experiments have opened a new chapter in management by emphasising the importance of social factors in output, it is not without fault. The experiments have been widely criticised by some behavioural

scientists because of lack of scientific objectivity used in arriving at various a conclusions. Some critics feel that there was bias and preconception on the part of the Harvard researchers. One writer developed a detailed comparison between the conclusions drawn by the researchers and the evidence presented, and found that their conclusions were almost entirely unsupported. He asked the question, “how it was possible for studies so nearly devoid of scientific merit, and conclusions so little supported by evidence, to gain so influential and respected a place within scientific disciplines and to hold this place for so long. Following other criticisms have also been made against the Hawthorne experiments:

1. The Hawthorne researchers did not give sufficient attention to the attitudes that people bring with them to the workplace. They did not recognize such forces as class consciousness, the role of unions, and other extra-plant forces on attitudes of workers.
2. The Hawthorne plant was not a typical plant because it was a thoroughly unpleasant place to work. Therefore, the results could not be valid for others.
3. The Hawthorne studies look upon the worker as a means to an end, and not an end himself. They assume acceptance of management’s goals and look on the worker as someone to be manipulated by management.

In spite of these shortcomings, Hawthorne experiments will be known for discovering the importance of human factor in managing an organisation. The experiments have stimulated many researchers to study the human problems in management.

(a) Neo-Classical Approach : Advocates of human relations and behavioural science approach to management are primarily interested in the following areas of management : (1) Organisation as a social system; (2) Employee motivation through non-monetary incentives; (3) Democratic leadership; (4) Two-way communication; (5) Employee development; (6) Group psychology and attitudes; (7) Human importance in man-machine system. Let us deal with these areas in brief.

1. The business organisation is not just a techno-economic system. Basically it is a social system. It is a social organism.
2. The employee can also be motivated by many social and psychological wants and not solely by economic incentives because his behaviour is also influenced by feelings, emotions and attitudes. Logical factors (more money) are less important than emotional factors in determining production efficiency. The scientific management would ridicule this.
3. Democratic rather than authoritarian leadership is essential in order to honour demands. Management must learn to develop co-operative attitudes and not rely merely on command. Matured employees dislike command.
4. Effective two-way communication network is essential to establish common flow of understanding in any organisation and then only organisation can attain its goals. Hence, participation becomes an important instrument under neoclassical approach.
5. Management must take greater interest in employee development and workers satisfaction as there is a very close connection between morale and productivity. In other words, productivity and satisfaction go together hand-in-hand in any business.
6. Informal group and informal organisation must be recognised. Group psychology plays an important role in any enterprise. We must rely more on group efforts. Teamwork is the key to productivity. Management is responsible for team work.
7. Management must develop social skills in addition to technical skills. The neoclassical theory tried to solve the man machine equation by emphasising that man is a living entity and he is far more important than the inanimate machine. Hence, key to higher productivity lies not in technological development alone but in reality it lies in the employee morale. Where morale is high, output is also high. Man-to-Man relationships, team spirit, group harmony should be given top preference by management.

Job structure, job design should receive secondary importance. Job enrichment is given greater importance. Employees also expect greater empowerment in planning and implementation (motivation, communication, coordination), functions of management should receive more importance than the techniques of planning and control.

C. OTHER APPROACHES TO MANAGEMENT.

i. Social Systems Approach

Social systems approach of management has extended the implications of human relations approach further. This approach was introduced by Vilfredo Pareto, a sociologist. His ideas were later developed by Chester Barnard who synthesised the concept of social systems approach. According to this approach an organisation is essentially a cultural system composed of people who work in cooperation. As such for achieving organisational goals, a cooperative system can be developed by understanding the behaviour of people in groups. The major features of this approach are as follows:

1. Organisation is a social system, a system of cultural relationships.
2. Relationships exist among the external as well as internal environment of the organisation.
3. Cooperation among group members is necessary for the achievement of organisational objectives.
4. For effective management, efforts should be made for establishing harmony between the goals of the organisation and the various groups therein.

Contributions of Barnard

The contributions of Chester Barnard to management, particularly social systems approach, are overwhelming. His book '**The Functions of the Executive,**' is regarded as the most influential book on the management during the pre-modern management era. His analysis of management is truly a social systems approach since, in order to comprehend and analyse the functions of executives, he has

looked for their major tasks in the system in which they operate. In determining the tasks of executives, he has analysed the nature of co-operative social system, as he found non-logical factors also influencing human behaviour in the organisation. This is a marked departure from the earlier approach. The major contributions of Barnard can be presented as follows:

1. Concept of Organisation

Barnard suggests that classical concept of organisation does not fully explain the features of an organisation. He has defined formal organisation as a system of consciously coordinated activities of two or more persons. In his opinion, an organisation exists when the following three conditions are fulfilled: (i) there are persons able to communicate with each other; (ii) they are willing to contribute to the action; and (iii) they attempt to accomplish a common purpose.

2. Formal and Informal Organisations

Organisations can be divided into two parts: formal and informal. The formal organisation has consciously coordinated interactions which have a deliberate and common purpose. On the other hand, the informal organisation refers to those social interactions which do not have consciously coordinated joint purpose. The informal organisation exists to overcome the problems of formal organisation. In fact, Barnard has suggested that executives should encourage the development of informal organisation to serve as a means of communication, to bring cohesion in the organisation, and to protect the individual from dominance and onslaught of the organisation. Both the formal and the informal organisations depend on each other and there is continuous interaction between the two. Therefore, in managing an organisation, the manager should take into account both types of organisation.

3. Elements of Organisation

According to Barnard, there are four elements of a formal organisation. These are : (i) a system of functionalisation so that people can specialise, that is, departmentation; (ii) a system of effective and efficient incentives so as to induce

people to contribute to group action; (iii) a system of power which will lead group members to accept the decisions of the executives; and (iv) a system of logical decision-making.

4. Authority

Barnard does not agree with the classical view that authority transcends from the top to down. He has given a new concept of authority which is termed as 'acceptance theory of authority' or 'bottom-up authority.' In his opinion a person does not obey an order because it has been given by a superior but he will accept a communication as being authoritative only when four conditions are met simultaneously: (i) he can understand the communication; (ii) he believes that it is not inconsistent with the organisational purpose; (iii) he believes it to be compatible with his personal interest as a whole; and (iv) he is mentally and physically able to comply with it.

5. Functions of the Executive

Barnard has identified three types of functions which an executive performs in a formal organisation. These are: (i) maintenance of organisational communication through a system of organisation that is through formal interactions; (ii) the securing of essential services from individuals in the organisation so as to achieve organisational purpose; and (iii) the formulation and definition of organisational purpose.

6. Motivation

Apart from financial incentives which have their own limitations in motivating the people, Barnard has suggested a number of non-financial techniques for motivating people. Prominent among these are: opportunity of power and distinction, pride of workmanship, pleasant organisation, participation, mutual supporting personal attitudes, and feeling of belongingness.

7. Executive Effectiveness

To make the executive effective requires a high order of responsible

leadership. While co-operation is the creative process, leadership is the indispensable fulminator of its forces. Leadership is the most strategic factor in securing cooperation from the people. Executive leadership demands high calibre, technological competence, and technical and social skills. The executive leadership should not have preconceived notions and false ideologies. It should be above personal predilections and prejudices. The leadership is likely to commit the following four types of errors: (i) the oversimplification of the economy of organisation life; (ii) disregarding the reality of informal organisation and its necessity; (iii) an inversion of emphasis upon the objective and subjective aspects of authority; and (iv) a confusion of morality with responsibility.

8. Organisational Equilibrium

Organisational equilibrium refers to the matching of individual efforts and organisational efforts to satisfy individuals. The co-operation of individuals with the organisation brings forth new activities. The organisation must afford satisfaction to individuals comprising it. This is required to maintain equilibrium in the organisation. This equilibrium is not static but dynamic. Demands and aspirations of individuals change and the organisation has to cope with the dynamic situation. The equilibrium of the organisation depends on the individuals working in it, other organisations and the society as a whole. Thus, the organisation has to take into account the changes in the society. The organisational equilibrium can be perceived not only through logical appraisal but through analysis and intuition. Thus, many non-logical factors also enter into organisational analysis. Therefore, the reasons for an action should not only be logical but must also appeal to those attitudes, predilections, prejudices, emotions, and mental background that cover action.

The above contributions of Barnard show how he was concerned for the development of the organisation through social systems. His contributions are regarded quite high in management. This is evident by the ideas expressed by William Wolf about the book written by Barnard. "The book is a sociology of management. Its style of writing was purposely pitched at a high level of discourse. Barnard was writing for social scientists, not for practitioners. He believed that the field of management was lacking in concepts and was clouded by ambiguous and even

erroneous thinking. In a sense, he hoped that the functions would set things right and guide the social scientists to more realistic studies of organisation and management.”

ii. Decision Theory Approach

Decision theory approach looks at the basic problem of management around decision-making-the selection of a suitable course of action out of the given alternatives. Major contribution in this approach has come from Simon. Other contributors are March, Cyert, Forrester, etc. The major emphasis of this approach is that decision-making is the job of every manager. The manager is a decision-maker and organisation is a decision-making unit. Therefore, the basic problem in managing is to make rational decision. From this point of view, decision theory approach has the following features.

1. Management is essentially decision-making.
2. The members of the organisation are decision-makers and problem-solvers.
3. Organisation can be treated as a combination of various decision centres. The level and importance of organisational members are determined on the basis of importance of decisions which they make.
4. Quality of decision affects the organisational effectiveness.
5. All factors affecting decision-making are the subject-matter of study of management. Besides processes and the techniques involved in decision-making, other factors affecting the decisions are information systems, social and psychological aspects of decision-makers. Thus, it covers the entire range of human activities in organisation as well as the macro conditions with in which the organisation works.

III. Contributions of HERBERT SIMON

Herbert Simon, a Noble prize winner in Economics, has made significant contributions in the field of management particularly administrative behaviour and decision making. His contributions cover both social systems and decision

theory approaches, more particularly the latter. Simon examined the principles of management given by Urwick and Gullick and found them contradictory and ambiguous. He described these principles as ‘myths’, ‘slogans’; and ‘homely proverbs’. Simon looked at organisational problems in totality of socio-psychological context and viewed that decision making takes place in this context. His major contributions to management are summarised below:

1. Concept of Organisation

Simon has described an organisation as a complex network of decisional processes, all pointed towards their influence upon the behaviour of the operatives. He has viewed the organisation containing distribution and allocation of decision-making functions. According to him, physiology of the organisation is to be found in the process whereby organisation influences the decisions of its members, supplying these decisions with their devices. Thus, the best way to analyse an organisation is to find out where and by whom decisions are made.

2. Decision-making

Perhaps the greatest contribution of Simon is in the field of decision-making. Decision-making is the core of management and management is synonymous with decision-making. This is why he has been referred to as decision theorist. According to him, the decision process can be broken into a series of three sequential steps. These are : (i) intelligent activity: the initial phase of searching the environment for conditions calling for decisions; (ii) design activity: the phase of inventing, developing, and analysing possible course of action to take place; and (iii) choice activity: the final phase of actual choice selecting a particular course of action from those available.

3. Bounded Rationality

Simon is of the view that man is not completely rational. He has criticised the theories which are based on the assumptions of complete rationality. He has advocated the principle of bounded rationality. Accordingly, managers do not go for maximum satisfaction out of a decision but are satisfied with good enough satisfaction from a decision. Managers cannot maximise on account of various

limitations and constraints. A decision is rational if for achieving the desired ends, appropriate means are adopted. However, it is not easy to separate the ends from the means because of ends-means chain. This ends-means chain is seldom and integrated or completely integrated one. The relationship between organisational activities and ultimate objectives is also not clear. Moreover, a simple ends-means chain analysis may not help in reaching accurate conclusion because what is an end at one point of time or at one level of organisation might be a means at the other time or at other level of the organisation.

4. Administrative Man

Simon has given the concept of administrative man as the model of decision-making. The model is based on the following assumptions : (i) Administrative man adopts satisficing approach in decision-making rather than the maximising approach of economic man. (ii) He perceives the world as a simplified model of real world. Thus, he remains content with simplification. (iii) He can make his choice without first determining all possible alternatives and without ascertaining that these are in fact all the alternatives. (iv) He is able to make decisions with relatively simple rule of thumb, or tricks of trade, or force of habit. The administrative man model describes the decision-making process of managers truly than alternative theory of economic man.

5. Organisational Communication

Simon has emphasised the role of communication in organisation. According to him, there are three stages in the communication process: initiation, transmittal, and receipt of information. There may be blockade of communication at any of these three stages. In order to overcome the problem of communication, he has emphasised the role of informal communication and has attached less importance to the formal network of authority.

IV. Contributions of PETER DRUCKER

Among the contemporary management thinkers, Peter Drucker outshines all. He has varied experience and background which include psychology, sociology, law and journalism. Through his consultancy assignments, he has developed solutions to number of managerial problems. Therefore, his contributions cover various approaches of

management. He has written many books and papers. The more important books are *The Practice of Management (1954)*, *Managing by Results (1964)*, *The Effective Executive (1967)*, *The Age of Discontinuity (1969)*, *Management : Tasks, Responsibilities and Practices (1974)*, and *Management Challenges for 21st Century (1999)*, The main contributions of Drucker can be presented as follows :

1. Nature of Management

Drucker is against bureaucratic management and has emphasised management with creative and innovative characteristics. The basic objective of management is to lead towards innovation. The concept of innovation is quite broad. It may include development of new ideas, combining of old and new ideas, adaptation of ideas from other fields or even to act as a catalyst and encouraging others to carry out innovation. He has treated management as a discipline as well as profession. As a discipline, management has its own tools, skills, techniques, and approaches. However, management is more a practice rather than a science. Thus, Drucker may be placed in 'empirical school of management'. While taking management as a profession. Drucker does not advocate to treat management as a strict profession but only a liberal profession which places more emphasis that managers should not only have skills and techniques but should have right perspective putting the things into practice. They should be good practitioners so that they can understand the social and cultural requirements of various organisations and countries.

2. Management Functions

According to Drucker, management is the organ of its institution. It has no functions in itself, and no existence in itself. He sees management through its tasks. Accordingly, there are three basic functions of a manager which he must perform to enable the institution to make its contributions for (i) the specific purpose and mission of the institution, whether business, hospital or university; (ii) making work productive and the worker achieving; and (iii) managing social impacts and social responsibilities. All these three functions are performed simultaneously within the same managerial action. A manager has to act as administrator where he has to improve upon what already exists and is already known. He has to act as entrepreneur in redirecting the resources from areas of low or diminishing results to areas of high or increasing results. Thus, a manager

has to perform several functions: setting of objectives, decision-making, organising, and motivating. Drucker has attached great importance to the objective setting function and has specified eight areas where clear objective setting is required. These are : market standing, innovation, productivity, physical and financial resources, profitability, managerial performance and development, worker performance and attitude, and public responsibility.

3. Organisation Structure

Drucker has decried bureaucratic structure because of its too many dysfunctional effects. Therefore, it should be replaced. He has emphasised three basic characteristics of an effective organisation structure. These are : (i) enterprise should be organised for performance; (ii) it should contain the least possible number of managerial levels ; and (iii) it must make possible the training and testing of tomorrow's top managers—giving responsibility to a manager while still he is young. He has identified three basic aspects in organising: activity analysis, decision analysis, and relation analysis. An activity analysis shows what work has to be performed, what kind of work should be put together, and what emphasis is to be given to each activity in the organisation structure. Decision analysis takes into account the four aspects of a decision : the degree of futurity in the decision, the impact of a decision over other functions, number of qualitative factors that enter into it, and whether the decision is periodically recurrent or rare. Such an analysis will determine the level at which the decision can be made. Relation analysis helps in defining the structure and also to give guidance in manning the structure.

4. Federalism

Drucker has advocated the concept of federalism. Federalism refers to centralised control in decentralised structure. Decentralised structure goes far beyond the delegation of authority. It creates a new constitution and new ordering principle. He has emphasised the close links between the decisions adopted by the top management on the one hand and by the autonomous unit on the other. This is just like a relationship between federal government and state governments. In a federal organisation, local managements should also participate in the decisions that set the limits of their own authority. Federalism has certain positive

values over other methods of organising. These are as follows : (i) it sets the top management free to devote itself to its proper functions; (ii) it defines the functions and responsibilities of the operating people; (iii) it creates a yardstick to measure their success and effectiveness in operating jobs; and (iv) it helps to resolve the problem of continuity through giving the managers of various units education in top management problems and functions while in an operating position.

5. Management by Objectives

Management by objectives (MBO) is regarded as one of the most important contributions of Drucker to the discipline of management. He introduced this concept in 1954. MBO has further been modified by Schleh which has been termed as 'management by results'. MBO includes method of planning, setting standards, performance appraisal, and motivation. According to Drucker, MBO is not only a technique of management but it is a philosophy of managing. It transforms the basic assumptions of managing from exercising control to self-control. Therefore, in order to practise MBO, the organisation must change itself. MBO has become such a popular way of managing that today it is regarded as the most modern management approach. In fact, it has revolutionised the management process.

6. Organisational Changes

Drucker has visualised rapid changes in the society because of rapid technological development. Though he is not resistant to change, he feels concerned for the rapid changes and their impact on human life. Normally, some changes can be absorbed by the organisations but not the rapid changes. Since rapid changes are occurring in the society, human beings should develop philosophy to face the changes and take them as challenges for making the society better. This can be done by developing dynamic organisations which are able to absorb changes much faster than static ones.

Drucker's contributions have made tremendous impact on the management practices. His contributions have been recognised even by the management thinkers of Socialist Bloc. For example, Vishiani, a USSR management thinker, writes about Drucker as follows : "Drucker shows a certain foresightedness and understanding

of the development prospects of modern production when he opposes the view that worker is no more than an appendage of machine. Moved by the desire to strengthen the position of capitalism, he endeavours to give due consideration also to some objective trends in production management. Drucker, therefore, tells the industrialists not to fear a limited participation of the workers in the management of production processes. He warns them that if they do not abandon that fear, the consequences may be fatal to them.” Drucker is perhaps the only Western management thinker who has attracted so much attention of the communist world.

V. Management Science Approach

Management science approach, also known as mathematical or quantitative measurement approach, visualises management as a logical entity, the action of which can be expressed in terms of mathematical symbols, relationships and measurement data. The primary focus of this approach is the mathematical model. Through this device, managerial and other problems can be expressed in basic relationships and, where a given goal is sought, the model can be expressed in terms which optimise that goal. This approach draws many things from the decision theory approach and, in fact, provides many techniques for rational decision-making. The major features of this approach are as follows :

1. Management is regarded as the problem-solving mechanism with the help of mathematical tools and techniques.
2. Management problems can be described in terms of mathematical symbols and data. Thus every managerial activity can be quantified.
3. This approach covers decision-making, systems analysis and some aspects of human behaviour.
4. Operations research, mathematical tools, simulation, models, etc., are the basic methodologies to solve managerial problems.

Management science approach is a fast developing one in analysing and understanding management. This has contributed significantly in developing orderly thinking in management which has provided exactness in management discipline.

Various mathematical tools like sampling, linear programming, game theory, time series analysis, simulation, waiting line theory, etc., have provided more exactness in solving managerial problems. However, it is very difficult to call it a separate school of management because it does not provide the answer for the total managerial problems. Moreover, many managerial activities are not really capable of being quantified because of involvement of human beings who are governed by many irrational factors also.

VI. Human Behaviour approach

Human behaviour approach is the outcome of the thoughts developed by behavioural scientists who have looked at the organisation as collectivity of people for certain specified objectives. Since management involves getting things done by people, the study of management must revolve around human behaviour. The approach, also known as '*leadership*' '*behavioural science*' or '*human resource*' approach, brings to bear the existing and newly-developed theories and methods of the relevant behavioural sciences upon the study of human behaviour. In contrast to human relations approach which assumes that happy workers are productive workers, human behaviour approach has been goal and efficiency-oriented and considers the understanding of human behaviour to be the major means to that end. The human behaviour approach emphasises human resources in an organisation more as compared to physical and financial resources. Since this approach studies human behaviour ranging from personality dynamics of individuals at one extreme to the relations of culture at the other, this can be divided into two groups: *interpersonal behaviour approach* and *group behaviour approach*. Writers on interpersonal behaviour approach are heavily oriented towards individual psychology while writers on group behaviour approach rely on social psychology and emphasise on organisational behaviour.

Among the many individual and social psychologists who have contributed to management are Maslow (need hierarchy), Herzberg (motivation-hygiene theory and job enrichment), McGregor (theory X and Y), Likert (management systems and linking pin model), Argyris (immaturity-maturity theory, integration of individual and organisational goals, and pattern of A B analysis), Blake and Mouton (managerial grid), Sayles (interpersonal behaviour), Bennis (organisational development), Fiedler (contingency model of leadership styles), Tannenbaum and others (continuum approach

of leadership). Besides, notable contributions have come from those who have expanded a particular concept formulated earlier to make it more practicable. They include Leavitt, Stogdill, Vroom, Reddin, etc.

Apart from psychologists who have concentrated more on individual behaviour in organisation, significant contributions have come from sociologists who have studied human behaviour in group and have emphasised on group behaviour. Notable among them are Homans (human group), Bakke (fusion process), Lewin (group dynamics), Katz and Kahn (social psychology of organisations). Some others have attempted to integrate the various views such as Debin, Dalton, Selznick, etc.

Major conclusions of the contributions made by behaviouralists can be presented as follows :

1. People do not dislike work. If they have helped to establish objectives, they will want to achieve them. In fact, job itself is a source of motivation and satisfaction to employees.
2. Most people can exercise a great deal of self-direction, self-control and creativity than are required in their current job. Therefore, there remains untapped potential among them.
3. The manager's basic job is to use the untapped human potential in the service of the organisation.
4. The manager should create a healthy environment wherein all subordinates can contribute to the best of their capacity. The environment should provide a healthy, safe, comfortable and convenient place to work.
5. The manager should provide for self-direction by subordinates and they must be encouraged to participate fully in all important matters.
6. Operating efficiency can be improved by expanding subordinate influence, self direction and self-control.
7. Work satisfaction may improve as a 'by-product' of subordinates making full use of their potential.

VII. Systems Approach to Management

The systems approach to management and organisation indicates a new stream of management thought under modern theory of management. Since 1950, we have a period of refinement, extension and synthesis of management thought and practice. While the behavioural and quantitative schools were developing new concepts and techniques of management, a new direction in management thought appeared which is usually called as the systems approach. Basically it took up where the process management school left off in attempting to unify management theory. It stresses the inter-relatedness and interdependence of all activities within an organisation. It includes operations research, behavioural sciences, social technical systems, management information systems and industrial dynamics.

Industrial engineering time and motion study, operations research (called management science) and systems analysis have refined and streamlined scientific management. Similarly, we have parallel growth and refinement in personnel management and industrial relations. The human relations approach is itself now refined and we have adopted more objective and value based approach to understand persons in organisations. This was due to increasing use of psychology, sociology, psychiatry in the investigation of human behaviour in organisations. The greatest influence upon current management thought is, of course, due to adoption of systems approach to our organisations and management.

The systems approach was developed only after 1950. It is the recent contribution to management thought. It was stimulated by the development of operations research. Modern theory considers an organisation as an open adaptive system which has to adjust to changes in its environment. An organisation is now defined as a structured process in which individuals interact (act and react) for attaining objectives. Classical theory defined organisation as the structure of relationship, powers, objectives, roles, activities, communications and other factors that exist when persons work together. It represented only mechanistic structure. Modern definition also incorporates humanistic approach. Neoclassical theory defined organisation as a group of people with a common objective and it emphasised the humanistic approach.

(a) What is a System?

The word system is derived from Greek word meaning to bring together or to combine. A system is a set of inter-connected and inter-related elements or component parts which operate together to achieve certain goals. When relating systems to organisations, a system is an established arrangement of components which leads to the accomplishment of particular objectives as per plan.

This definition has three significant parts: (1) Every system is goal-oriented and it must have a purpose or objective to be attained. The objective provides the basis for evaluating functions performed within the system. (2) In designing the system we must establish the necessary arrangement of components. This is nothing but organising function of management. (3) Inputs of information, material and energy are allocated for processing as per plan so that the outputs can achieve the objective of the system *viz.*, productivity and satisfaction.

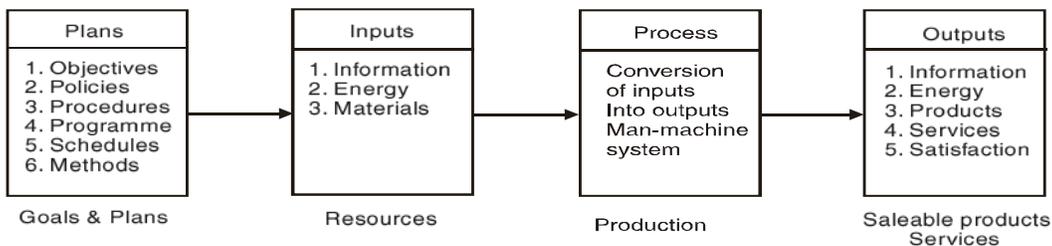


Fig. 3.1 The Design of a Basic System

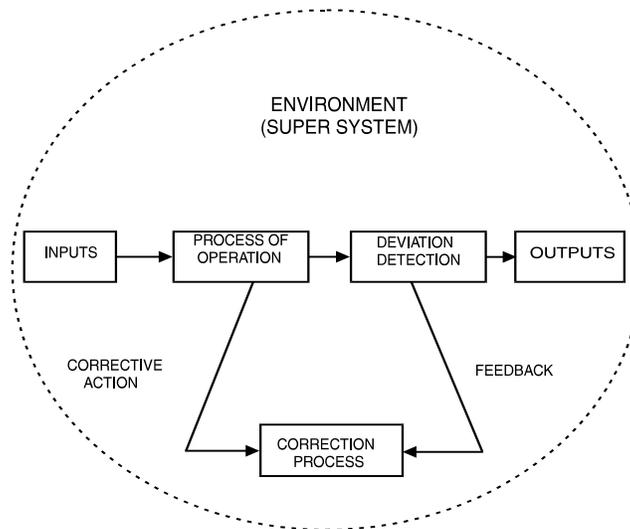
Note: (1) Generally there are three basic inputs that enter the process or of the system *viz.*, information (technology) energy (motive power) and materials to be transformed into goods. (2) If the output is service, materials are not included in the inputs. (3) If we have manufacturing company, output is goods or materials. If we have a consulting firm, output is information or advice. If we have a power generating company, output is energy. (4) The feature which defines and delineates a system forms its boundary. The system is inside the boundary; the environment is outside the boundary.

(b) Systems Approach Applied to an Organisation.

When systems approach is applied to an organisation, we have the following features of an organisation as an open adaptive system: (1) It is a subsystem of its broader environment. (2) It is *goal-oriented* people with a purpose. (3) It is a *technical* subsystem— using knowledge, techniques, equipment and facilities. (4) It is a *structural* subsystem—people working together on interrelated activities. (5) It is a *psychosocial* system— people in social relationship. (6) It is co-ordinated by a managerial subsystem creating, planning organising, motivating, communicating and controlling the overall efforts directed towards set goals.

Elements of environment include persons, physical resources, climate, economic and market conditions, attitudes, competition, and laws. The environment offers both opportunities and risks. Management overcomes risks and exploits opportunities.

**AN ORGANISATION AS AN OPEN ADAPTIVE SYSTEM
(SIMPLE FEEDBACK IN A CONTROL SYSTEM)**



**Fig. 1.4 An Organisation as an Open Open Adaptive System
Dotted circle points out Environment Area**

Note: (1) Modern theory regards an organisation as an open-system consisting of five basic parts or elements: (a) Input. (b) Process of transformation, (c) Output. (d) Feedback in a control system and (e) Environment. (2) The organisation and its environment are interdependent. (3) It is an open system which adapts to changing needs of the environment through a process of feedback—an perhaps systems approach has attracted the maximum attention of thinkers in management particularly in the present era. Though this approach is of comparatively recent origin, starting late 1950, it has assumed considerable importance in analysing the phenomena of management. It is an integrating approach which considers management in its totality based on empirical data. The basic idea of systems approach is that any object must rely on a method of analysis involving simultaneous variations of mutually dependent variables. This happens when systems approach is applied in management.

(c) Features of a System

A system is an assemblage of things connected or interrelated so as to form a complex unity; a whole composed of parts and sub-parts in orderly arrangement according to some scheme or plan. This has been defined as “an organised or complex whole; an assemblage or combination of things or parts forming a complex unitary whole.” On the basis of this definition, various features of a system can be identified.

1. A system is basically a combination of parts, subsystems. Each part may have various sub-parts. When a subsystem is considered as a system without reference to the system of which it is a part, it has the same features of a system. Thus, a hierarchy of systems and subsystems can be arranged. For example, the universe is a system of heavenly bodies which includes many subsystems of stars called galaxies. Within a galaxy, there is solar system. When we consider galaxy as a system, solar system may become a subsystem but we can also consider solar system consisting of so many planets. In the same way, an organisation is a system of mutually dependent parts, each of which may include many subsystems.

2. Parts and sub-parts of a system are mutually related to each other, some more, some less; some directly, some indirectly. This relationship is not natural, given, or unalterable in a social system. The relationship is in the context of the whole. Any change in one part may affect other parts also. Therefore, how various parts are given relationship is important for the functioning of the system.
3. A system is not merely the totality of parts and subparts but their arrangement is more important. The whole becomes greater than the total of individual parts because of the type of arrangement made in these parts and subparts. Thus, a system is an interdependent framework in which various parts are arranged.
4. A system can be identified because it has a boundary. In the case of physical system, this boundary is quite visible and, therefore, the system can be identified easily. However, in the case of a social system, the boundary is not visible because it is not like a line or wall that functions to preserve or to define what is inside. Instead, the boundary maintains proper relationship between the system and its environment—objects lying outside the system. Identification of this boundary in the case of human organisation facilitates the management of a system by differentiating those which can be controlled because they are the parts of the system and those which cannot be controlled because they are outside the system.
5. The boundary of a system classifies it into two parts: closed system and open system. All living organisms are open systems while all non-living systems are closed systems. The major differences between the two will be identified shortly.
6. System transforms inputs into outputs. This transformation process is essential for the survival of the system. There are three aspects involved in this transformation process: inputs, mediator, outputs. Inputs are taken from the environment, transformed into outputs, and given back to the environment. Various inputs may be in the form of information, money,

materials, human resources, etc. Outputs may be in the form of goods and services. The total relationship may be called as input-output process and system works as mediator in this process. However, in this process, system restores some of the inputs taken from the environment. Restoring the inputs taken from the environment helps the system maintain its structure and avoid decay and death. Thus, the system can grow over the period of time. For example, a business organisation survives and grows over the period of time by earning profit in the process of transforming inputs into outputs. Profit is essential for the organisation of survive.

(d) Open and Closed Systems

The boundary of a system classifies it into two parts: closed system and open system. All living organisms are open system while all non-living systems are closed system. The major differences between the two are as follows:

1. Closed systems are those that have no interaction with environment, that is, no outside system impinges on them or for which no outside systems are to be considered. Open systems are those that interacts with their environment, that is, they have systems with which they relate, exchange, and communicate.
2. Closed systems are self-contained and self-maintaining as they do not interact with the environment. Open systems interact with their environment and in this in interaction; they import energy and export output. Because of this interaction, closed system is rigid and static but open systems are dynamic and flexible as they are subject to change by environment forces.
3. Closed systems are generally mechanical, for example, an automatic watch. Therefore, once they are set, they work. However, open systems are affected by environmental factors and they have to be adjusted according to environment. Thus, they require restructuring because of change in environment.

4. Closed systems are like close loop while open systems are characterised by negative entropy. They import more energy than is expended or consumed. Thus, they can grow over the period of time. When this relationship is reversed, the open systems decline.
5. Open systems have feedback mechanism that helps them to maintain homoeostatic, a kind of equilibrium. Homoeostatic is a process through which a system regulates itself around a stable state. For example, human body works on the principle of homoeostatic. It maintains its temperature relatively at a constant level despite variations in the environmental temperature. Similarly thermostat maintains this equilibrium. However, organisational equilibrium is not static. It being a dynamic system, gets feedback to maintain dynamic equilibrium. In closed systems, there is no such feedback mechanism.

The distinction between closed and open systems is there but really no system is a closed one but has some properties of open systems. The classification of various systems into closed and open is not very proper. Therefore, it is more appropriate to think of systems in terms of the degree to which they are open or closed rather than using a dichotomy of open-close.

(e) Features of Management as System

Under the systems approach, management is regarded as a system. It draws heavily from systems concepts. When systems concepts are applied to management, it is taken in the following ways:

1. **Management as a Social System.** Management can be considered as a system. Therefore, management has all the characteristics of a system as discussed above. However, management is a social system and unlike biological or mechanical systems, it has the characteristics of social systems. This concept of social system is quite different from co-operative social system as discussed earlier. Management as a system consists of many subsystems which are integrated to constitute an entity.

2. **Management as Open System.** Management, like any other social system, is an open system. It interacts with its environment. Out of this interaction, it takes various resources, allocates and combines these resources to produce desirable outputs which are exported to the environment. Thus, management works as input-output mediator. These features of management suggest that it is not free to decide the things on its own but due weightage has to be given to the environmental factors affecting the management of an organisation. Consideration is required at the levels of taking inputs, transforming them into outputs, and exporting the outputs to the environment.
3. **Adaptive.** Organisation being an open system, its survival and growth in a dynamic environment demands an adaptive system which can continuously adjust to changing environment. Management tends to achieve environmental constancy by bringing the external world under control, or bringing internal modification of organisational functioning to meet the needs of the changing world. Since there is a provision of feedback mechanism, management can evaluate its performance and take corrective actions. In fact, the basic role of management is considered in terms of its adaptability to environment.
4. **Dynamic.** Management as a system is dynamic. It suggests that management attempts at achieving equilibrium in the organisation. However, this equilibrium is not static as happens in mechanical systems. Management moves towards growth and expansion by preserving some of the energy. Managerial effectiveness depends on this energy exchange. Therefore, it is not only the internal processing process that determines the effectiveness of management but also how it interacts with the changing environment in terms of taking inputs and giving outputs also determines its effectiveness.
5. **Probabilistic.** Management is probabilistic and not deterministic. A deterministic model always specifies the use of model in a condition with predetermined results. Therefore, the outcome of an action can be predicted

accurately. For example, if one wants to get the total of 250 and 500, he can press the button of a calculator and gets 750. This is possible because the outcome is certain. In the case of probabilistic model, the outcome can be assigned only probability and not certainty. For example, if a coin is tossed, the probability of getting a head is 0.5. But one cannot say with certainty that there will be 50 heads out of tossing of a coin 100 times. Management being probabilistic points out only the probability and never the certainty of the performance and consequent results. Management has to function in the face of many dynamic variables and there cannot be absolute predictability of these variables. For example, we make forecast of future events but the forecast is relevant to a certain degree only and not to the level of certainty. This is what management takes into account.

6. **Multilevel and Multidimensional.** Systems approach of management points out the multilevel and multidimensional features of management. It has both macro and micro approach. At macro level, it can be applied to suprasystem, say, a business system as a whole. At micro level, it can be applied to an organisation. Even it can be applied to a suprasystem of an organisation. However, it has the same characteristics at all these levels : subsystem level, system level, and subsystem level. Thus, both parts and whole are equally important in managing.
7. **Multivariable.** Management is multivariable and involves taking into account many variables simultaneously. This feature of management suggests that there is no simple cause-effect phenomenon, rather an event may be the result of so many variables which themselves are interrelated and interdependent. This interrelatedness and interdependence makes managing quite a complex process. Thus, it realises the complexity of management.
8. **An Integrated Approach.** Systems approach of management takes an integrated view of managing. It identifies the reason for a phenomenon in its wider context taking into account the total factors affecting the phenomenon. In other approaches, a particular phenomenon has been explained in terms of a single factor or cluster of factors. Management

tries to integrate the various factors to find out the reasons behind a phenomenon. It emphasises on how the management of one subsystem of the organisation should be taken in relation with others because other subsystems become environment for the give system. Thus, the problem in one subsystem should not be traced into the subsystem only but in a much wider context. This is true for the management of whole organisation also.

(f) Implications of Systems Approach

Systems approach of management provides an integrated approach of managing. This considers management in its totality. The integrative approach of managing can be best understood by quoting Churchman on the systems approach of management. He writes as follows:

“There is a story often told in logic text about a group of blind men who were assigned the task of discovering an elephant. Each blind man was located at a different part of the body. A horrendous argument arose in which each claimed to have a complete understanding of the total elephantine system. What is interesting about this story is not so much the fate of the blind men but the magnificent role that the teller had given himself, namely, the ability to see the whole elephant and consequently the ridiculous behaviour of the blind system describers. The story is in fact a piece of arrogance. It assumes that a very logically astute man always gets on the top of a situation, so to speak, and looks at the foolishness of the people who are incapable of seeing the whole.”

The quotation aptly describes how management problems should be seen in an organisation, that is, by taking the totality of the organisation and not a part of it. This implies that there should be integration of various forces affecting management. We have entered a period that forces us to find out more accurate answers to the questions involving the wholeness of an operation. This age of synthesis forces management to think out in new and different ways, as suggested by the systems approach. In this, view, the whole is not merely a combination of its different parts but more than that. This more can be achieved by combining the various parts in a particular way.

Systems approach possesses the conceptual level of managerial analysis much higher than any other approach. It discards the simplistic approach of managerial analysis and suggests that management of an organisation must be consistent with the demands of organisational environment and the needs of its members. It provides a framework through which organisation-environment interaction can be analysed and facilitates decision-making, since the system within which managers make decisions can be provided as a more explicit framework, and decision-making is easier to handle.

(g) Limitations of Systems Approach

Though systems approach possesses conceptual framework of much higher order as compared to other approaches, it may be emphasised that this in no way is the unified theory of management. Systems approach came in a big way in managerial analysis and raised the hope of becoming a general and unified theory of management. A general and unified theory can be applied to all types of organisations, presenting their comprehensive analysis so that those who want to study organisations from different angles can derive knowledge. This was exactly expected of systems approach. However, this promise could not be fulfilled because systems approach suffers from two limitations.

1. **Abstract Approach.** It is often suggested that systems approach is too abstract to be of much use to practising managers. It merely indicates that various parts of the organisation are interrelated. Similarly, an organisation is a social system and, therefore, is related with other organisations in the society. This is true and significant for managing. But it fails to spell out precisely relationships among these. Therefore, its contribution to managing is limited. For example, it is one thing to say that economic forces trigger social, technical and psychological changes in the organisation. But this is not enough for managing a organisation. What is required is a statement of what economic forces initiate what social, technological and psychological changes.

2. **Lack of Universality.** Systems approach of management lacks universality and its precepts cannot be applied to all organisations. For example,

systems approach provides modern structural forms, cybernetic system for control and communication. These systems are suitable for large and complex organisations but are not suitable for small organisations. Since most modern organisations are large and complex, it is argued that systems approach is applicable in general. This may be true but the role of a theory is not to prescribe actions for a particular category of organisations, rather, the theory should specify the relationships among different variables which can be applied to all organisations.

If systems approach is seen in this perspective, some people believe that the approach is as incomplete as any other. In fact, they argue that this approach does not offer anything new. The managers have been doing their jobs seeing the problems as a network of interrelated elements with interaction between environments inside and outside of their organisations. Looking into these shortcomings of systems approach, researchers have tried to modify the systems approach. This attempt had led to the emergence of a separate, though related, approach, situational or contingency approach.

VIII. Contingency or Situational Approach

Contingency or situational approach is an important addition to the paradigm of modern management theory and approach. In one way, this is an extension of systems approach. The basic idea of contingency approach is that there cannot be a particular management action which will be suitable for all situations. Rather, an appropriate action is one which is designed on the basis of external environment and internal states and needs. Contingency theorists suggest that systems approach does not adequately spell out the precise relationship between organisation and its environment. Contingency approach tries to fill this gap by suggesting what should be done in response to an event in the environment.

Some researchers distinguish between contingency and situational approaches by suggesting that situational management implies that what a manager does depends on a given situation. Contingency approach, on the other hand, suggests an active interrelationship between the variables in a situation and the

managerial actions devised. Thus, contingency approach takes into account not only given situations but also the influence of given solutions on behaviour patterns of an organisation. Despite these differences and emphasis on varying factors, themes of both the approaches are common. In fact, some authors believe that the term contingency is misleading and they should have used the term situational. Nevertheless, both terms are used interchangeably.

The basic theme of contingency view can be presented by quoting Tosi and Hammer. They say that:

“When a subsystem in a organisation behaves in response to another system or subsystem, we say that response is contingent on environment. Hence, a contingency approach is an approach where the behaviour of one subunit is dependent on its environmental relationship to other units or subunits that have control over the consequences desired by that subunit.”

Judged in the light of this statement, contingency approach has the following features :

1. Management action is contingent on certain action outside the system or subsystem as the case may be.
2. Organisational action should be based on the behaviour of action outside the system so that organisation should be integrated with the environment.
3. Because of the specific organisation-environment relationship, no action can be universal. It varies from situation to situation.

(a) Relationship between Systems and Contingency Approaches

Contingency approach has emerged out of the systems approach. Contingency theorists have accepted the basic tenets of systems approach. They accept the basic features of organisation-environment relationship and dynamic nature of organisation. However, they feel that systems approach is too abstract to apply for managerial action. This can be overcome by modifying systems

framework and translating it into operational framework. Therefore, both approaches are related but they differ in certain context. A comparison between the two can be presented as follows:

1. **Model of Human Being.** The range of activities of human beings is different under two approaches. Systems usually employs a richer model of human beings than contingency approach. The former takes into account the full range of human behaviour in the organisation while contingency approach, by and large, is interested in structural adaptation of organisation to its task environment. Therefore, contingency theorists talk mostly in terms of structural change in the organisation in response to a change in the environment.
2. **Organisational Variables.** Systems approach is very broad in considering the organisational variables. It tries to cover personal, social, technical, structural and environmental variables. Therefore, managing involves establishing relationships among these variables and considering them in taking any action. Contingency approach, on the other hand, concentrates on structural adaptation of organisation. This approach tends to predict the ultimate outcome of a disturbance of the organisational equilibrium by a change in the task environment.
3. **Evolution.** Major contributors in systems approach have been social psychologists while sociologists have contributed to contingency approach. Contingency approach has been built up over systems approach. Therefore, it is possible that both approaches may merge or profoundly influence each other. In fact, there are signs of convergence of two approaches. This is likely to continue and system approach may specify situations under which a particular type of organisation can function well. In fact, equifinality character of open system suggests that different strategies can be adopted by an organisation facing a particular problem. Similarly, contingency approach may provide the process by which the organisation may adapt to its task environment. Both these efforts are quite similar.

(b) Implications of Contingency Approach

Contingency approach is an important addition to the paradigm of modern theory of management. It is the sophisticated approach to understand the increasing complexity of organisations. It emphasises the multivariate nature of organisations and attempts to understand how organisations operate under varying conditions. The approach is directed towards suggesting organisational designs and managerial actions most appropriate to specific situations. The major implications of contingency approach are as follows:

1. Management is entirely situational and there is nothing like universal principles of management or one best way of doing a particular thing. What managers do depends on the circumstances and environment. Lorsch and Lawrence have described the implication of situational management as follows:

“Underlying this new approach (contingency approach) is the idea that the internal functioning of organisations must be consistent with the demands of the organisation task, technology, or external environment, and the needs of its members if the organisation is to be effective. Rather than searching for the panacea of the one best way to organise under all conditions, investigators have more and more tended to examine the functioning of organisations in relation to the needs of their particular members and the external pressures facing them. Basically, this approach seems to be leading to the development of a ‘contingency theory of organisation with the appropriate internal states and processes of the organisation contingent upon external requirements and member needs.’”

2. The approach suggests suitable alternatives for those managerial actions which are generally contingent upon external and internal environment such as organisational design, strategy formulation, decision systems, influence systems, leadership, and organisational improvement. In all these cases, action alternatives cannot be arranged

in advance but have to be identified and adjusted according to the situations in which decisions in respect of these have to be made.

3. Contingency approach suggests that since organisation interacts with its environment, neither the organisation nor any of its subsystems is free to take absolute action. Rather, it has to modify and adjust the actions subject to various forces like social, political, technical, and economic. Besides, the actions should be according to the needs of internal state of the organisation or its subsystems. Thus, the basic problem of managing is to align the internal state with the external state.

(c) Limitations of Contingency Approach

In spite of the various contributions, contingency approach has not been acknowledged as a unified theory of management because it suffers from some limitations. These limitations are of the following nature:

1. **Inadequate Literature.** Contingency approach suffers from inadequacy of literature. Therefore, it has not adequately spelled out various types of actions which can be taken under different situations. It is not sufficient to say that 'managerial action depends on the situation.' The approach should provide 'if this is the situation, this action can be taken'. Unless this is done, the approach cannot offer much assistance to the practice of management. No doubt, researches have been conducted in this direction but, by and large, they have not satisfied the needs of managers.
2. **Complex.** The suggestion of the approach is very simple, that is, managers should do according to the needs of the situation. However, when put into practice this becomes very complex. Determination of situation in which managerial action is to be taken involves analysis of a large number of variables with multifarious dimensions. Therefore, there is a possibility that managers, who are always short of time, may ignore the thorough analysis of all these variables and may resort to short-cut and easier way.

3. **Difficult Empirical Testing.** Contingency approach, being complex, presents problems in testing the precepts of the theory. For empirical testing of a theory, it is necessary that some methodology is available. No doubt, methodology is available but because of the involvement of too many factors, testing becomes difficult. For example, contingency theory suggests that greater the degree of congruence between various parts of organisational components, the more effective will be organisational behaviour at various levels. This lacks the empirical validity and hence cannot be adapted to managerial actions.
4. **Reactive not Proactive.** Contingency approach is basically reactive in nature. It merely suggests what managers can do in a given situation. For a given organisation, suprasystem constitutes environment and management can be applied to suprasystem also. Therefore, managers are responsible to manage the environment in such a way that they avoid the undesirable aspects of environment. Since the managers are quite powerful in the society, they must be in a position to provide a sense of direction and guidance through innovative and creative efforts especially in coping with the environmental changes.

No doubt, these limitations are valid, but the situation remains that at micro level, managers have to manage according to contingency approach. They should not ignore the importance of taking actions according to the needs of the situations. For analysing the situations, they will have to use their highest skills.

IX. Mckinsey's 7-S Approach

Mckinsey developed 7-S framework for management :

1. Strategy, i.e., systematic allocation of resources to realise strategic goals.
2. Structure, e.g., organisation structure.

3. Systems, e.g., information system, control system.
4. Style, e.g., managerial style.
5. Staff. e.g., staffing.
6. Shared values, e.g., human values in humanising an organisation.
7. Skills, e.g., professional skills, strategy skills.

It is a simple, easy to remember framework. Practicing managers and teachers like it. But managerial function of planning-action-control cycle covers them and the cycle is followed in management books.

X. The Operational Approach

It emphasises typical operations involved in management e.g., line and staff, departmentation. It draws on all other managerial approaches. It has practical application to managing. However, it is based mostly on management process approach. It is almost similar to functional approach.

XI. The Managerial Roles Approach

Prof. Mintzberg describes ten roles played by a manager. These are grouped into three categories. (A) Interpersonal roles covers the first three roles: Figurehead role, leader role and liaison role. The next three as informational roles cover receiver, giver and transmitter of information. The final four are termed as decisional roles such as entrepreneurial, handler of disturbances, allocator of resources and negotiator debating with third parties and workers unions.

A key point about the role of managers is, of course, the capability or adaptability of manager to many different uses in addition to those mentioned above. Much will depend upon your job and the circumstances. The specialist manager must also possess the quality of versatility.

Really speaking, the roles described by Mintzberg are evidences of all well-known managerial functions, e.g., interpersonal role is a leading function,

allocation of resources is a planning function. We have many other roles played by a manager in addition to those ten roles, e.g., acting as a trouble shooter, innovator, recruiter, etc.

In interpersonal relations, particularly, manager must remember that he as a human being deals with other human beings. Here, human values, ethical and moral, play a very important role. He must constantly think of values.

Characteristics of Modern Management Thought

1. **The Systems Approach** : An organisation as a system has five basic parts: (1) input, (2) process, (3) output, (4) feedback, and (5) environment. It draws upon the environment for inputs (resources). Management allocates and combines these resources or inputs to produce certain desirable outputs. The success of these outputs can be judged by means of feedback. If necessary, we have to modify our mix of inputs to produce outputs as per changing demands and changing environment.
2. **Dynamic** : We have a dynamic process of interaction occurring within the structure of an organisation. The equilibrium of a organisation and its structure is itself dynamic or changing. The classical theory assumed static equilibrium.
3. **Multilevel and Multidimensional**: Systems approach points out wheels within wheels or complex multilevel and multidimensional character. We have both a micro and a macro approach. A company is micro (little world) within a business system. It is macro (the great world) with respect to its own internal units. Within a company as a system we have: (1) production subsystem, (2) finance subsystem, (3) marketing subsystem, (4) personnel subsystem. All parts or components are interrelated. Both parts as well as the whole are equally important. At all levels, organisations interact in many ways.
4. **Multimotivated**: Classical theory assumed a single objective, for instance, profit. Systems approach recognises that there may be several

motivations behind our actions and behaviour. Management has to compromise and integrate these multiple diverse objectives e.g., economic objectives and social objectives, i.e., productivity and satisfactions (shareholders, employees, customers, community and society).

5. **Multidisciplinary:** Systems approach integrates and uses with profit ideas emerging from different schools of thought. Management freely draws concepts and techniques from many fields of study such as psychology, social psychology, sociology, ecology, economics, mathematics, operations research, systems analysis, etc.
6. **Multivariable:** It is assumed that there is no simple cause-effect phenomenon. An event may be the result of so many factors which themselves are interrelated and interdependent. Some factors are controllable, some uncontrollable. Intelligent planning and control are necessary to face these variable factors. We do not live in a vacuum or in a system unaffected by outside influences. We live in a dynamic, complex and the great world system.
7. **The survival and growth of an organisation in a dynamic environment demands an adaptive system which can continuously adjust to changing conditions.** A viable organisation and its environment are in a dynamic equilibrium. An organisation is an open system adapting itself through the process of feedback. We have human or machine controller to provide necessary corrections on the basis of feedback of information in order to achieve desired results.
8. **Probabilistic:** Management principles point out only the probability and never the certainty of performance and the consequent results. We have to face so many variables simultaneously. How can we have absolute predictability of events? Our forecasts are mere tendencies. Of course, Intelligent forecasting and planning can reduce the degree of uncertainty to a considerable extent, projects and information decision

systems in future. A mechanistic or bureaucratic approach to management is appropriate when: (1) Environment is unchanging; (2) Emphasis is on efficiency, (3) Emphasis is on routine jobs, many rules and procedures. An organic or behavioural managerial approach is preferred when: (1) We have fast changing environmental, (2) We want flexibility, (3) Emphasis is on less specialised jobs, fewer rules, procedures, etc. and (4) Employees can exercise self-control and self-discipline. Systems approach/leads to holism.

1.5 TRADITIONAL MANAGEMENT VS MODERN MANAGEMENT

Traditional Management style doesn't apply nowadays, except for the military. But it does, still, exists widely, especially on government agencies and some private institutions, believe me, I know some (not in the military, of course). I like to call it the "Command and Conquer" management style, where managers who possess this type of management approach doesn't really care about the well-being of their employees. Some traditional managers, actually, sometimes try to reach out for their employees but fails to really touch the heart or even get their employees' sympathy. This style, in my humble opinion, is driven mostly by results they wanted to get. It (the style) will push employees to their limits just to get results, or even force employees to obey them without any regards. Strictly follows the direct chain of command. The ability of management is derived from the power of the position (not much of a management, if you ask me). Not much, if any, of soft skills required either. In today's world of management, it is used in the military (of every country out there) and countries like India, China, Japan and some European companies. However, it only works (I mean really works) in the military. Most of the western world (outside the military) has moved away from it due to the long-term downsides to the business in the areas of workforce morale etc.

Fear, most of the time, becomes the main reason why employees obey their traditional managers, which is bad. Fear is far very different from the word respect and it doesn't correlate with each other. You just can't have respect if you don't give respect to others. Just like if you show and ask your employees to fear you, you can never have respect, but surely they'll fear you.

These managers never talk to their employees, unless they need something from them. If these managers feel some silent grudges going on against them, they will do what it takes just to make their people obey them. They offer sanctions, and even pile up the job to the staff that shows signs of inobedience. And after a job well done, nothing! As if nothing happens! And if the employee fails them, staggering words of failure from their superiors will be heard and planted into his mind.

What do you get after these? You'll get unmotivated, undependable, unreliable, and inefficient employees working around you. You can even say goodbye to the good working harmony. And the trust will never be there, and just like respect, you can't earn trust overnight.

These are the reasons why the emergence of the modern managers is very crucial. The style focuses mainly on the word "respect" and results will eventually follow.

"By providing a simple gesture to an employee like saying "thank you" and encouraging him/her with an action and made them think that you believe in her/his skills and ability will make your organization successful."

-Jaime Menor, Effective Employee Recognition

Modern style of management largely depends on soft skills - consensus building, relationships, listening, and understanding, taking the team along with you willingly than dragging them along with you. The "manager" in this case may or may not have any actual power to adversely affect his/her followers, if they do not follow. The power of a manager is derived from the people who the manager manages (the managed) - and the managed give that power willingly to the manager. It is more comparable in modern day to a matrix organization and pure project management at its best. In my opinion, this is the best form of management in the long run, because it builds moral, participation, and sense of ownership among the managed.

Motivation is another factor considered by these managers. A simple pat on the back, a simple thanks, and even a single word that would mean high

appreciation of a job accomplished by an employee. Next is communication. This will do wonders to your organization and excellent or effective communication will pivot the group's success.

It's really hard to break down a team full of self respect, excels in group communication, and highly motivated. They treat failure as a challenge, and set aside success stories as experience. You can never take away the harmony, for everybody is dependable. All of these because of one style, the Modern Management style. This practices reaching out to employees, knowing their well-being. It treats its personnel not just as employees, but as a very important part of the organization.

1.6 SUMMARY

Management helps you to manage your business in a way that allows you to understand what is going on a daily basis, the direction it is taking, how well it is following the path you set for it and, finally, how well the risks and complexities of conducting business are being managed. The Business Management concepts help to highlight areas you can focus on to ensure you understand how to minimise avoidable errors. For Instance, by effectively managing your communications you understand the true meaning of what you are trying to communicate is being understood in the way you intended. This then ensures you understand your clients' needs more accurately. By understanding your client base better allows you to grow your business more sustainably.

Managers in the 21st century are encountering extremely significant challenges in their process of management in an organisation such as hiring and keeping the right employee, building a strategic mindset, crafting an innovative culture and organisation, developing system thinking and also getting rid of short term mentality. An organisation will need to have a caliber HR manager in order to own a team of committed employees. It is HR managers' responsibility to make sure that they hired the right employee because staffs are the most important assets of an organisation. Employees not only need to own the profession, experienced but they also need to be readily adapted to the organisation culture to allow high productivity, quality performance and also healthy profits. Other

than hiring the right employee, managers should also revise their human management skills in dealing with employment issues from time to time to match the changing labour market and working environment to retain those talented employees. They need to realise that the employee is able to work innovatively while the advancement in technology can never replace the ability of that person. In the challenge of building strategic mindset among the employees is important because managers need to use their strength to overcome weakness and also try to turn threats into opportunities. Managers have to communicate the organisation vision with the employees to ensure that everyone is sharing the same vision and work towards the same direction. It is also necessary for managers to eliminate the reactive mindset which are decisions made force by the external environment because in the business field, managers should think actively to prevent the occurrence of problems rather than thinking for solutions after the arise of problems.

1.7 GLOSSARY

- **Management:** Management consists of the interlocking functions of creating corporate policy and organizing, planning, controlling, and directing an organization's resources in order to achieve the objectives of that policy.
- **Manager:** An individual who is in charge of a certain group of asks, or a certain subset of a company. A manager often has a staff of people who report to him or her.

For example, a restaurant will often have a front-of-house manager who helps the patrons, and supervises the hosts; or a specific office project can have a manager, known simply as the project manager. Certain departments within a company designate their managers to be line managers, while others are known as staff managers, depending upon the function of the department.

- **Administration:** Administration refers to the group of individuals who are in charge of creating and enforcing rules and regulations,

or those in leadership positions who complete important tasks. An example of administration is the President of the United States and the individuals he appoints to support him.

1.8 SELF ASSESSMENT QUESTIONS

1. What do you mean by the term management? Give its features and importance.

2. Trace the evolution of management thought

3. Differentiate between administration and management.

1.9 LESSON END EXERCISE

1. How do you distinguish between organisation and management.

2. Discuss the levels of management?

1.10 SUGGESTED READINGS

- LM Prasad: Principles and Practice of Management (Sultan Chand & Sons)
- Gupta, Sharma and Bhalla: Principles and Practices of Management (Kalyani Publishers)
- T. Ramasamy: Principles of Management (Himalaya Publishing House)
- George R Terry: Principles of Management (Richard D Irwin Inc)
- Harold Koontz and Heinzwehrich: Essentials of Management (Mcgraw Hill series in Management)
- Peter F Drucker: Frontiers of Management (Heinemann London)
- Peter F Drucker: Managing for future (Tata Mcgraw Hill)
- J.S. Chandan : Management theory and Practice (Vikas Publishing House Pvt Ltd.)

MANAGEMENT FUNCTIONS

STRUCTURE

- 2.1 Introduction
- 2.2 Objectives
- 2.3 Management Functions/ the Process of Management
 - 2.3.1 Planning
 - 2.3.2 Organizing
 - 2.3.3 Staffing
 - 2.3.4 Directing
 - 2.3.5 Coordination
 - 2.3.6 Controlling
- 2.4 Let us sum up
- 2.5 Glossary
- 2.6 Check Your Progress
- 2.7 Suggested Readings

2.1 INTRODUCTION

There is enough disagreement among management writers on the classification of managerial functions. Newman and Summer recognize only four functions, namely, organizing, planning, leading and controlling.

Henri Fayol identifies five functions of management, viz. planning, organizing, commanding, coordinating and controlling. Luther Gulick states seven such functions under the catch word ‘POSDCORB’ which stands for planning, organizing, staffing, directing, coordinating, reporting and budgeting. Warren Haynes and Joseph Massie classify management functions into decision-making, organizing, staffing, planning, controlling, communicating and directing. Koontz and O’Donnell divide these functions into planning organizing, staffing, directing and controlling.

For our purpose, we shall designate the following six as the functions of a manager: planning, organizing, staffing, directing, coordinating and controlling.

2.2 OBJECTIVES

The objectives of this lesson are to enable to define management; to describe the nature and scope of management; to know the difference between management and administration; to understand various levels of management; and to describe the various skills that are necessary for successful managers.

2.3 MANAGEMENT FUNCTIONS /PROCESS OF MANAGEMENT

2.3.1 Planning

Planning is the most fundamental and the most pervasive of all management functions. If people working in groups have to perform effectively, they should know in advance what is to be done, what activities they have to perform in order to do what is to be done, and when it is to be done. Planning is concerned with ‘what’, ‘how, and ‘when’ of performance. It is deciding in the present about the future objectives and the courses of action for their achievement. It thus involves:

- (a) determination of long and short-range objectives;
- (b) development of strategies and courses of actions to be followed for the achievement of these objectives; and
- (c) formulation of policies, procedures, and rules, etc., for the implementation of

strategies, and plans.

The organizational objectives are set by top management in the context of its basic purpose and mission, environmental factors, business forecasts, and available and potential resources. These objectives are both long-range as well as short-range. They are divided into divisional, departmental, sectional and individual objectives or goals. This is followed by the development of strategies and courses of action to be followed at various levels of management and in various segments of the organization. Policies, procedures and rules provide the framework of decision making, and the method and order for the making and implementation of these decisions.

Every manager performs all these planning functions, or contributes to their performance. In some organizations, particularly those which are traditionally managed and the small ones, planning are often not done deliberately and systematically but it is still done. The plans may be in the minds of their managers rather than explicitly and precisely spelt out: they may be fuzzy rather than clear but they are always there. Planning is thus the most basic function of management. It is performed in all kinds of organizations by all managers at all levels of hierarchy.

2.3.2 Organizing

Organizing involves identification of activities required for the achievement of enterprise objectives and implementation of plans; grouping of activities into jobs; assignment of these jobs and activities to departments and individuals; delegation of responsibility and authority for performance, and provision for vertical and horizontal coordination of activities. Every manager has to decide what activities have to be undertaken in his department or section for the achievement of the goals entrusted to him. Having identified the activities, he has to group identical or similar activities in order to make jobs, assign these jobs or groups of activities to his subordinates, delegate authority to them so as to enable them to make decisions and initiate action for undertaking these activities, and provide for coordination between himself and his subordinates, and among his subordinates. Organizing thus involves the following sub-functions :

- (a) Identification of activities required for the achievement of objectives and implementation of plans.
- (b) Grouping the activities so as to create self-contained jobs.
- (c) Assignment of jobs to employees.
- (d) Delegation of authority so as to enable them to perform their jobs and to command the resources needed for their performance.
- (e) Establishment of a network of coordinating relationships.

Organizing process results in a structure of the organization. It comprises organizational positions, accompanying tasks and responsibilities, and a network of roles and authority-responsibility relationships.

Organizing is thus the basic process of combining and integrating human, physical and financial resources in productive interrelationships for the achievement of enterprise objectives. It aims at combining employees and interrelated tasks in an orderly manner so that organizational work is performed in a coordinated manner, and all efforts and activities pull together in the direction of organizational goals.

2.3.3 Staffing

Staffing is a continuous and vital function of management. After the objectives have been determined, strategies, policies, programmes, procedures and rules formulated for their achievement, activities for the implementation of strategies, policies, programmes, etc. identified and grouped into jobs, the next logical step in the management process is to procure suitable personnel for manning the jobs. Since the efficiency and effectiveness of an organization significantly depends on the quality of its personnel and since it is one of the primary functions of management to achieve qualified and trained people to fill various positions, staffing has been recognized as a distinct function of management. It comprises several sub- functions :

- (f) Manpower planning involving determination of the number and the kind of personnel required.

- (g) Recruitment for attracting adequate number of potential employees to seek jobs in the enterprise.
- (h) Selection of the most suitable persons for the jobs under consideration.
- (i) Placement, induction and orientation.
- (j) Transfers, promotions, termination and layoff.
- (k) Training and development of employees.

As the importance of human factor in organizational effectiveness is being increasingly recognized, staffing is gaining acceptance as a distinct function of management. It need hardly any emphasize that no organization can ever be better than its people, and managers must perform the staffing function with as much concern as any other function.

2.3.4 Directing

Directing is the function of leading the employees to perform efficiently, and contribute their optimum to the achievement of organizational objectives. Jobs assigned to subordinates have to be explained and clarified, they have to be provided guidance in job performance and they are to be motivated to contribute their optimum performance with zeal and enthusiasm. The function of directing thus involves the following sub-functions :

- (l) Communication
- (m) Motivation
- (n) Leadership

2.3.5 Coordination

Coordinating is the function of establishing such relationships among various parts of the organization that they all together pull in the direction of organizational objectives. It is thus the process of tying together all the organizational decisions,

operations, activities and efforts so as to achieve unity of action for the accomplishment of organizational objectives.

The significance of the coordinating process has been aptly highlighted by Mary Parker Follet. The manager, in her view, should ensure that he has an organization “with all its parts coordinated, so moving together in their closely knit and adjusting activities, so linking, interlocking and interrelation, that they make a working unit, which is not a congeries of separate pieces, but what I have called a functional whole or integrative unity”. Coordination, as a management function, involves the following sub-functions:

- (o) Clear definition of authority-responsibility relationships
- (p) Unity of direction
- (q) Unity of command
- (r) Effective communication
- (s) Effective leadership

2.3.6 Controlling

Controlling is the function of ensuring that the divisional, departmental, sectional and individual performances are consistent with the predetermined objectives and goals. Deviations from objectives and plans have to be identified and investigated, and correction action taken. Deviations from plans and objectives provide feedback to managers, and all other management processes including planning, organizing, staffing, directing and coordinating are continuously reviewed and modified, where necessary.

Controlling implies that objectives, goals and standards of performance exist and are known to employees and their superiors. It also implies a flexible and dynamic organization which will permit changes in objectives, plans, programmes, strategies, policies, organizational design, staffing policies and practices, leadership style, communication system, etc., for it is not uncommon that employees failure to achieve

predetermined standards is due to defects or shortcomings in any one or more of the above dimensions of management.

Thus, controlling involves the following process :

- (t) Measurement of performance against predetermined goals.
- (u) Identification of deviations from these goals.
- (v) Corrective action to rectify deviations.

It may be pointed out that although management functions have been discussed in a particular sequence-planning, organizing, staffing, directing, coordinating and controlling – they are not performed in a sequential order.

Management is an integral process and it is difficult to put its functions neatly in separate boxes. Management functions tend to coalesce, and it sometimes becomes difficult to separate one from the other. For example, when a production manager is discussing work problems with one of his subordinates, it is difficult to say whether he is guiding, developing or communicating, or doing all these things simultaneously. Moreover, managers often perform more than one function simultaneously.

2.4 LET US SUM UP

In every field of study, first there are basic principles which are practiced later in the forms of certain functions but management is a field where principles are exclusively based on practical experiences. The above named functions of management which have been discussed in this lesson are the backbone of management philosophy. These functions are interrelated as well and we need to perform them in sequenced order for getting the organizational objectives accomplished. But today's environment of business is a perfect blend of all these typical functions. Thus, every function is exercisable according to the situations and perception of managers. Successful leaders and managers are very energetic. They exert a great deal of effort in order to communicate effectively, solve problems, make decisions, set goals, plan, execute plans, and supervise/ evaluate. These are a leader's directional (or thinking) and implementing skills. As a leader, you cannot expect positive results from your

subordinates unless you work equally hard at solving problems, making plans, and putting plans and decisions into action. Successful leaders also work hard at accomplishing their missions and objectives while maintaining only the highest possible standards of performance. Therefore, you being student of management should strive to exercise the same degree of effort and excellence.

2.5 GLOSSARY

1. **Planning:** It is the ongoing process of developing the business's mission and objectives and determining how they will be accomplished. Planning includes both the broadcast view of the organization, e.g. its mission, and the narrowest, e.g. a tactic for accomplishing a specific goal.
2. **Organizing:** Organizing is an essential function of management. It is the process of accumulating resources from different sources in order to work according to the plans laid out by the management.
3. **Staffing:** It is function in which qualified people are appointed to different posts relating to their skills and strengths. The activities included in this function are recruiting, hiring, training, evaluating and compensating.
4. **Directing:** Directing is a function that comes after staffing of the organization, it is the function in which the management is supposed to lead, direct to a specific goal and motivate the employees for the achievement of any objective, big or small.
5. **Controlling:** It is a function in which the performance of the organization is measured and then evaluated after which the standard observed is determined to be either good or bad, which then in turn leads to taking preventive and corrective measures.

2.6 CHECK YOUR PROGRESS

1. "Management starts from planning and ends up with controlling". Discuss this statement, giving suitable examples.

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2. What are the functions of a manager? Is mere knowledge of management enough to become successful manager?

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3. Discuss the important functions of management which support the philosophy of modern management thinkers.

2.7 SUGGESTED READINGS

1. Kootnz & O'Donnell, Principles of Management.
2. Peter F. Drucker, Practice of Management
3. J.S. Chandan, Management Concepts and Strategies.
4. Arun Kumar & Rachana Sharma, Principles of Business Management.

APPROACHES TO MANAGEMENT

STRUCTURE

- 3.1 Introduction
- 3.2 Objective
- 3.3 Approaches of management
 - 3.3.1 Classical Approach
 - 3.3.2 Scientific Management Approach
 - 3.3.3 Administrative Approach to Management
 - 3.3.4 Human Relation Approach to Management
 - 3.3.5 Social System Approach to Management
 - 3.3.6 Decision Theory Approach to Management
 - 3.3.7 Management Science Approach to Management
 - 3.3.8 Human Behavioural Approach to Management
 - 3.3.9 Mathematics or Quantitative Approach to Management
 - 3.3.10 System Approach to Management
 - 3.3.11 Contingency or Situational Approach to Management

- 3.4 Managers and Environment
- 3.5 Importance of the Environment
- 3.6 Direct Action versus Indirect Environmen
- 3.7 Let us sum up
- 3.8 Glossary
- 3.9 Check your progress
- 3.10 Suggested Readings

3.1 INTRODUCTION

Management involves a wide variety of activities. Theorists and academic authors have contributed to the study of management. There are a variety of writings available on management techniques. The various approaches to management and differing views have only added to the confusion of what management is all about. It isn't surprising to know that a highly respected author had called the situation as "the management theory jungle."

3.2 OBJECTIVES

The lesson is an insight into the following topics related to management:

- The various approaches to management
- The systems approach to management
- The social responsibilities of management.
- Manager and environment
- Direct action environmen

3.3.1 Classical Approach

The classical approach is also known as traditional approach, management process approach or empirical approach. The main features of this approach are as follows:

- It laid emphasis on division of labour and specialization, structure, scalar and functional processes and span of control. Thus, they concentrated on the anatomy of formal organization
- Management is viewed as a systematic network (process) of interrelated functions. The nature and content of these functions, the mechanics by which each function is performed and the interrelationship between these function is the core of the classical approach.
- It ignored the impact of external environment on the working of the organization. Thus, it treated organization as closed system.
- On the basis of experience of practicing managers, principles are developed. These principles are used as guidelines for the practicing executive.
- Functions, principles and skills of management are considered universal. They can be applied in different situations.
- The integration of the organization is achieved through the authority and control of the central mechanism. Thus, it is based on centralization of authority.
- Formal education and training is emphasized for developing managerial skills in would be managers. Case study method is often used for this purpose.
- Emphasis is placed on economic efficiency and the formal organization structure.
- People are motivated by economic gains. Therefore, organization controls economic incentives.

The Classical approach was developed through three mainstreams- Taylor's Scientific Management, Fayol's Administrative Management and Weber's Ideal Bureaucracy. All the three concentrated on the structure of organization for greater efficiency.

Merits of Classical Approach

- The classical approach offers a convenient framework for the education and training of managers.
- The observational method of case study is helpful in drawing common principles out of past experience with some relevance for future application
- It focuses attention on what managers actually do.
- This approach highlights the universal nature of management.
- It provides scientific basis for management practice.
- It provides a starting point for researchers to verify the validity and to improve the applicability of management knowledge. Such knowledge about management is effectively presented.

Shortcomings of Classical Approach

- Weber's ideal bureaucracy suggested strict adherence to rules and regulations, this lead to redtapism in the organization.
- It offers a mechanistic framework that undermines the role of human factor. The classical writers ignored the social, psychological and motivational aspect of human behaviour.
- The environmental dynamics and their effect on management have been discounted. Classical theory viewed organization as closed system i.e. having no interaction with environment.
- There is positive danger in relying too much on past experiences because a

principle or technique found effective in the past may not fit a situation of the future.

- The classical principles are mostly based on the personal experience and limited observations of the practitioners. They are not based on personal experience.
- The totality of real situation can seldom be incorporated in a case study.

3.3.2 Scientific Management Approach

The impetus for the scientific management approach came from the first industrial revolution. Because it brought about such an extraordinary mechanization of industry, this revolution necessitated the development of new management principles and practices. The concept of scientific management was introduced by Frederick Winslow Taylor in USA in the beginning of 20th century. He defined scientific management as, " *Scientific management is concerned with knowing exactly what you want men to do and then see in that they do it in the best and cheapest way*".

Elements and Tools of Scientific Management: The features of various experiments conducted by Taylor are as follows:

- *Separation of Planning and doing:* Taylor emphasized the separation of planning aspects from actual doing of the work. The planning should be left to the supervisor and the workers should emphasize on operational work.
- *Functional Foremanship:* Separation of planning from doing resulted into development of supervision system that could take planning work adequately besides keeping supervision on workers. Thus, Taylor evolved the concept of functional foremanship based on specialization of functions. This involve activities of workers as depicted in Figure-2.7:

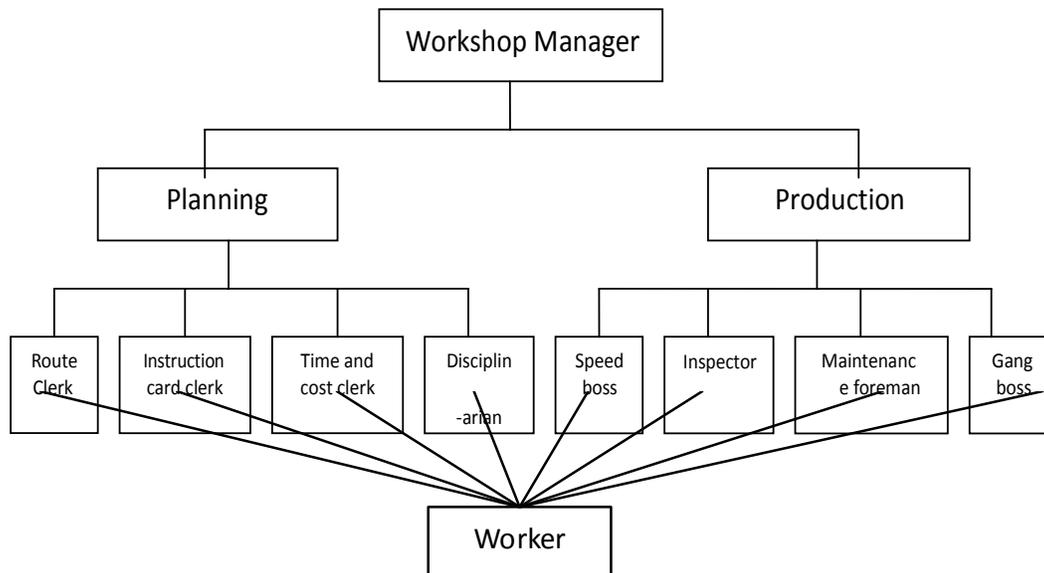


Figure-2.7 FUNCTIONAL FOREMANSHIP

- *Job Analysis:* It is undertaken to find out the best way of doing things. The best way of doing a job is one which requires the least movement consequently less time and cost.
- *Standardization:* Standardization should be maintained in respect of instruments and tools, period of work, amount of work, working conditions, cost of production etc.
- *Scientific Selection and Training of Workers:* Taylor has suggested that the workers should be selected on scientific basis taking into account their education, work experience, aptitudes, physical strength etc.
- *Financial Incentives:* Financial incentives can motivate workers to put in their maximum efforts. Thus, monetary (bonus, compensation) incentives and non monetary (promotion, upgradation) incentives should be provided to employees.

Principles of Scientific Management: Already discussed in this lesson.

Criticism of Scientific Management: The main grounds of criticism are given below:

- Taylor advocated the concept of functional foremanship to bring about specialization in the organization. But this is not feasible in practice as a worker can't carry out instructions from eight foremen.
- Workers were hired on a first-come, first-hired basis without due concern for workers ability or skills.
- Scientific management is production oriented as it concentrates too much on the technical aspects of work and undermines the human factors in industry. It resulted in monotony of job, loss of initiative, over speeding workers, wage reductions etc.
- Training was haphazard at best, with only minimal use of basic apprentice system.
- Tasks were accomplished by general rule of thumb without standard times, methods or motion.
- Managers worked side-by-side with the workers, often ignoring such basic managerial function of planning and organizing.

3.3.3 Administrative Approach to Management

The advocates of this school perceive management as a process involving certain functions such as planning, organizing, directing and controlling. That's why it is called as 'functional approach' or 'management process' approach. Fayol's contributions were first published in book form titled 'Administration Industrielle at Generale' in French Language, in 1916. He defined management in terms of certain functions and then laid down fourteen principles of management which according to him have universal applicability. Thus, he was a pioneer in the field of management education. In brief, Fayol's views on management command acceptability even today because they are much in tune with the requirements of management in the present day world.

Fayol's General Principles of Management

- *Division of Work*: The object of division of work is to produce more and better work with the same effort. It is accomplished through reduction in the number of tasks to which attention and effort must be directed.
- *Authority and Responsibility*: Authority is defined as 'the right to command and the power to make oneself obeyed'. Responsibility coexists with authority and is its other side. Fayol made a distinction between official authority and personal authority, the latter stemming from the manager's own intelligence, integrity, experience, personality, knowledge and skills.
- *Discipline*: It implies respect for agreements designed to secure obedience. It must prevail throughout an organization to ensure its smooth functioning. Discipline requires clear and fair agreements, good supervision and judicious application of penalties.
- *Unity of Command*: Every employee should receive orders and instruction from only one superior and a subordinate should be accountable to only one superior.
- *Unity of Direction*: Each group of activities having one objective should be unified by having one plan and one head.
- *Subordination of Individual to General Interest*: The interest of any one employee or group of employees should not take precedence over the interests of the organization as a whole.
- *Remuneration of Personnel*: The amount of remuneration and the methods of payment should be just and fair and should provide maximum possible satisfaction to both employees and employers.
- *Centralisation*: It refers to the degree to which subordinates are involved in decision making. Whether decision making is centralized (to management) or decentralized (to subordinates) is a question of proper proportion. The task is to find the optimum degree of centralization for each situation.

- *Scalar Chain*: The scalar chain is the chain of superiors ranging from the ultimate authority to the lowest ranks. Communication should follow this chain. However, if following the chain creates delays, cross-communications can be followed if agreed to by all parties and superiors are kept informed.
- *Order*: It is a rational arrangement for things and people. Fayol emphasized both material order and human order. In material order, there should be a place for everything and everything should be in its proper place. In human order, there should be an appointed place for everyone and everyone should be in his and her appointed place.
- *Equity*: Managers should be kind and fair to their subordinates. The application of equity requires good sense, experience and humanistic attitude for soliciting loyalty and devotion from subordinates.
- *Stability of Tenure*: High employee turnover is inefficient. Management should provide orderly personnel planning and ensure that replacements are available to fill vacancies.
- *Initiative*: Subordinates should be provided with an opportunity to show their initiative as a way to increase their skills and to inculcate a sense of participation.
- *Espirit de Corps*: Union is strength, and it comes from the harmony and mutual understanding of the personnel. Management should not follow the policy of 'divide and rule'. Rather it should strive to maintain team spirit and co-operation among employees so that they can work together as a team for the accomplishment of common objectives.

Criticism: Fayol's work has been criticized on the following grounds:

- His theory is said to be too formal. There is no single classification of managerial functions acceptable to all the functional theorists. There is also lack of unanimity about the various terms such as management, administration etc.

- He did not pay adequate attention to workers.
- The fundamentalists considered their principles to be universal in nature. But many of the principles have failed to deliver the desired results in certain situations.
- There is a vagueness and superficiality about some of his terms and definition.

TABLE-2.5. Dissimilarity between contribution of Taylor and Fayol

Basis of Comparison	Taylor	Fayol
1. Perspective	Shop floor level or the job of a supervisor	Top Management
2. Focus	Improving productivity through work simplification and standardization	Improving overall administration through general principles
3. Personality	Scientists	Practitioner
4. Results	Scientific observation and measurement	Universal Truths developed from personal experiences
5. Major Contribution	Science of Industrial Management	A systematic theory of management

3.3.4 Human Relation Approach to Management

The criticism of the Scientific and Administrative Management as advocated by Taylor and Fayol, respectively, gave birth to Human Relation Approach. The behavioural scientists criticized the early management approaches for their insensitiveness to the human side of organization. The behavioural scientists did not view the employees mechanically in work situation, but tried to show that the employees not only have economic needs but also social and psychological needs like need for recognition, achievement, social contact, freedom, and respect. Human

relations school regards business organization as a psycho-social system. Elton Mayo of Harvard and his associates conducted a famous study on human behaviour at the Hawthorne plant of the Western Electric Company and this study formed the foundation of this school of management thoughts. The basic hypotheses of this study as well as the basic propositions of the Human Relation Approach are the following:

- The business organization is a social system.
- The employees not only have economic needs but also psychological needs and social needs, which are required to be served properly to motivate them.
- Employees prefer self-control and self-direction.
- Employee oriented democratic participative style of management is more effective than mechanistic task oriented management style.
- The informal group should be recognized and officially supported.

The human relations approach is concerned with recognition of the importance of human element in organizations. It revealed the importance of social and psychological factors in determining worker's productivity and satisfaction. It is instrumental in creating a new image of man and the work place. However, this approach also did not go without criticism. It was criticized that the approach laid heavy emphasis on the human side as against the organizational needs. However, the contribution of this approach lies in the fact that it advises managers to attach importance to the human side of an organization.

3.3.5 Social System Approach to Management

It is developed during social science era, is closely related to Human Relation Approach. It includes those researchers who look upon management as a social system. Chester I. Barnard is called as the spiritual father of this approach. According to this approach, an organization is essentially a cultural system composed of people who work in cooperation. The major features of this approach are as follows:

- Organization is a social system, a system of cultural relationships.

- Relationships exist among the external as well as internal environment of the organization.
- Cooperation among group members is necessary for the achievement of organizational objectives.
- For effective management, efforts should be made for establishing harmony between the goals of the organization and the various groups therein.

3.3.6 Decision Theory Approach to Management

Decision Theory is the product of management science era. The decision theorists emphasize on rational approach to decisions, i.e. selecting from possible alternatives a course of action or an idea. Major contribution in this approach has come from Simon. Other contributors are March, Cyert, Forrester etc. The major emphasis of this approach is that decision making is the job of every manager. The manager is a decision maker and the organization is a decision making unit. Therefore, the major problem of managing is to make rational decision. The main features of this approach are:

- Management is essentially decision-making. The members of the organization are decision makers and problem solvers.
- Organization can be treated as a combination of various decision centers. The level and importance of organizational members are determined on the basis of importance of decisions which they make.
- All factors affecting decision making are subject matter of the study of management. Thus, it covers the entire range of human activities in organization as well as the macro conditions within which the organization works.

3.3.7 Management Science Approach to Management

Management science is an approach to management that applies mathematical analysis to decision making. It involves the use of highly sophisticated techniques,

statistical tools and complex models. The primary focus of this approach is the mathematical model. Through this device, managerial and other problems can be expressed in basic relationships and where a given goal is sought, the model can be expressed in terms which optimize that goal. The management science approach found its origins during World War II, when highly technical military/production problems become far too complex for traditional management methodology. The major features of this approach are:

- Management is regarded as the problem-solving mechanism with the help of mathematical tools and techniques.
- Management problems can be described in terms of mathematical symbols and data. Thus every managerial activity can be quantified.
- This approach covers decision making, system analysis and some aspect of human behaviour.
- Operations research, mathematical tools, simulation, model etc, are the basic methodologies to solve managerial problems.

3.3.8 Human Behavioural Approach to Management

Human Behavioural approach is a modified version of Human Relation approach. Human Behavioural approach is devoid of any emotional content, which is the core of Human Relation Approach. This approach stresses the individual performing the jobs. Here the attention is directed towards the human aspects of management. The neglect of human factor and the over emphasis on machines and materials led to the development of this approach. The Behavioural approach emphasizes synchronization of group goals within the broader framework of management. It does not consider the goals of the different groups as conflicting with others.

Many sociologists, psychologists and social psychologists have shown considerable interest in studying the problems of management. The sociologists who have contributed to management are Blak, Selznick, Homans, Dubin, Dalton, and

Katz and Kahn. The social psychologist who have contributed to management are McGregor, Argyris, Leavitt, Blake and Mouton, Sayles, Tannenbaum and his associates, Bennis, Fielder, Stogdill and Herzberg. The behavioural theories have drawn heavily on the work of Maslow. Douglas McGregor built on Maslow's work in explaining his 'Theory X' and 'Theory Y'. Frederick Herzberg develops a two factor theory of motivation. To sum up, many conclusions of the contributions made by behaviouralists can be presented as follows:

- People do not dislike work. If they have helped to establish objectives, they want to achieve them. In fact, job itself is a source of motivation and satisfaction to employees.
- Most people can exercise a great deal of self-direction and self-control than are required in their current job. Therefore, there remains untapped potential among them.
- The manager's basic job is to use the untapped human potential in the service organization.
- The managers should create a healthy environment wherein all the subordinates contribute to the best of their capacity. The environment should provide healthy, safe, comfortable and convenient place to work.
- The manager should provide for self direction by subordinates and they must be encouraged to participate fully in all important matters.
- Operating efficiency can be improved by expanding subordinate influence, direction and self control.
- Work satisfaction may improve as a by product of subordinates making use of their potential.

Merits of Behavioural Approach

It generated an awareness of the overwhelming role of the human element in organizations. It recognizes the quality of leadership as a critical factor in management

success. It recognizes the role of individual psychology and group behaviour in organizational effectiveness.

Shortcomings of Behavioural Approach

Conclusions of behavioural approach discounts theory and stress radical empiricism. This approach neglects the economic dimension of work satisfaction. It is group oriented and anti-individualistic.

TABLE-2.6 Distinction between human relations and behavioural approach

Human Relations Approach	Behavioural Sciences Approach
1. It laid emphasis on individual, his needs and behaviour.	It stressed upon groups and group behaviour.
2. It focused on inter-personal relationship.	It focused on group relationship.
3. It was based on the Hawthorne Experiments and so its scope is limited.	It refined the Human Relations approach and has a wide scope. It is much more systematic study of human behaviour in organization.
4. It was pioneered by Elton Mayo and its associates.	It was pioneered by Feith Davis, Rensis Likert and others.
5. It laid emphasis on informal groups' motivation, job satisfaction and morale.	The behaviourists studied group dynamics, informal organization leadership, motivation and participative management.

3.3.9 Mathematics or Quantitative Approach to Management

It emphasizes that the organization or decision making is a logical process and it can be expressed in terms of mathematical symbols and relationships, which can be used to solve corporate problems and conduct corporate affairs. This approach focuses attention on the fundamentals of analysis and decision making. This brings

together the knowledge of various disciplines like Operation Research and Management Science for effective solution of management problems. The Quantitative School quantifies the problem; generate solution, tests the solution for their optimality and then it recommends. The decisions are optimum and perfect as distinguished from the human behavioural approach, in which decisions are ‘satisfying’. This approach is devoid of any personal bias, emotions, sentiments, and intuitiveness. The main postulates of the quantitative approach are as follows:

- Management is a series of decision making. The job of a manager is to secure the best solution out of a series of interrelated variables.
- These variables can be presented in the form of a mathematical model. It consists of a set of functional equation which set out the quantitative interrelationship of the variable.
- If the model is properly formulated and the equations are correctly solved, one can secure the best solution to the model.
- Organizations exist for the achievement of specific and measurable economic goals.
- In order to achieve these goals, optimal decisions must be made through scientific formal reasoning backed by quantification.
- Decision making models should be evaluated in the light of set criteria like cost reduction, return on investment, meeting time schedules etc.
- The quality of management is judged by the quality of decisions made in diverse situations.

**TABLE-2.7 DIFFERENCE BETWEEN QUANTITATIVE APPROACH
AND SCIENTIFIC APPROACH**

Quantitative Approach	Scientific Management
1. It makes use of mathematical and statistical techniques in management.	It makes use of scientific approach in management.
2. It focuses on finding right answers to managerial problems (decision making).	It focuses on improving efficiency of men and machines (one best way of doing things).
3. In this operation research is the main techniques.	Time and motion studies are the main techniques.
4. It is developed by W. C. Churchman.	A movement launched by F. W. Taylor and his associates.
5. Application of Econometric models.	Application of Experiments and research.

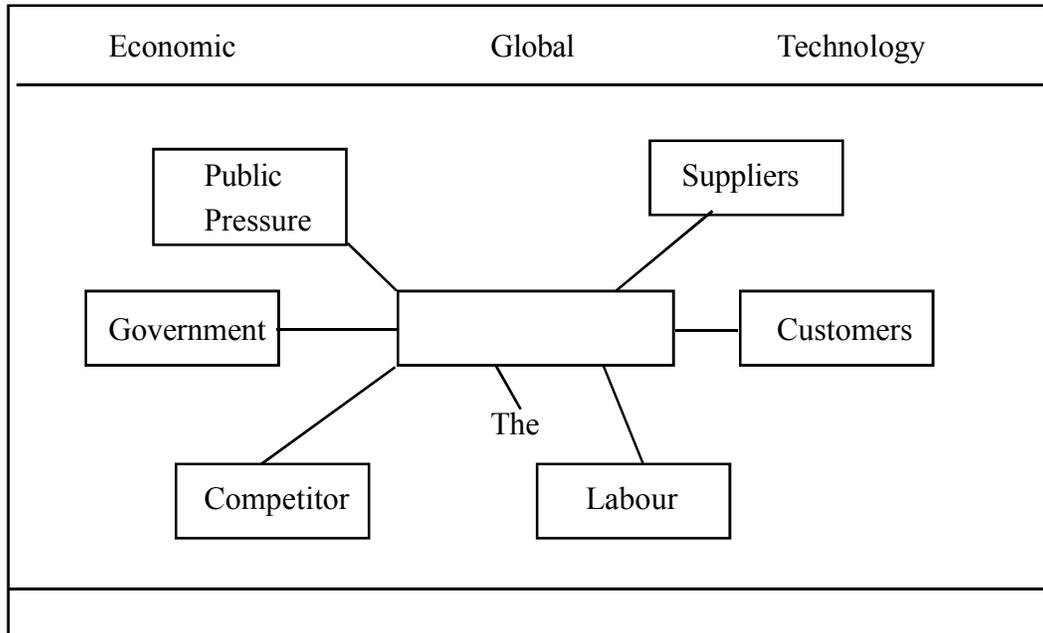
3.3.10 System Approach to Management

In the 1960s, a new approach to management appeared which attempted to unify the earlier school of thoughts. This approach is commonly referred to as ‘System Approach’. The system approach is based on the generalization that an organization is a system and its components are inter-related and inter-dependent. “A system is composed of related and dependent elements which, when in interactions, form a unitary whole. On other words, a system may be defined as an organized and purposeful entity of inter-related, inter-dependent and inter-acting elements. It is a goal oriented organism that is composed of parts interrelated in such a way that the total system is greater than the sum of its parts. The elements of each system may themselves be sub systems. These sub-systems are functionally related to each other and to the total system. The basic postulates of the system approach are as follows:

- An organization is a system consisting of several subsystems. For example, in a business enterprise production, sales and other departments re the subsystem.

- The position and function of each subsystem can be analyzed only in relation to other subsystem and to the organization as a whole rather than in isolation.
- An organization is a dynamic system because it is responsive or sensitive to its environment. It is vulnerable to changes in its environment.

FIGURE: 2.8 OPEN SYSTEM VIEW OF ORGANIZATION



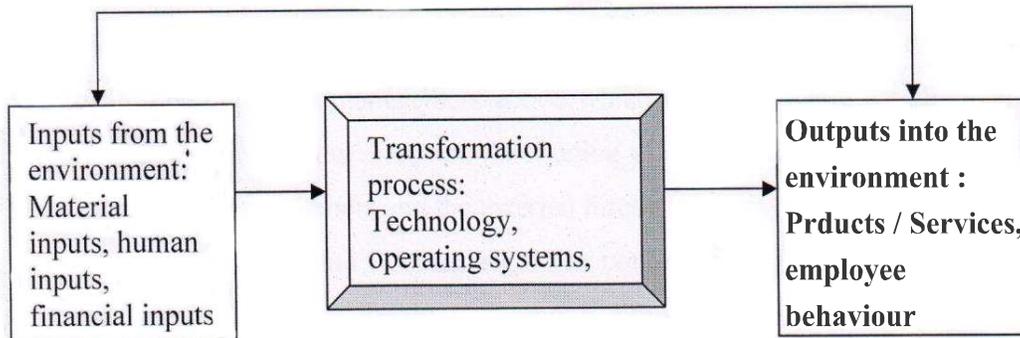
Systems are of several types. A *static system*, e.g. a petrol engine operates repetitively completing the same cycle of functions without change or deviation. On the other hand, the *dynamic system*, undergoes change, it grows or decays. Biological systems, e.g., plants, animals and human being are dynamic. A *closed system* is self-dependent and does not have any interaction with the external environment. Physical and mechanical systems are closed systems. A closed system concentrates completely on internal relationships, i.e. interaction between sub-systems only. An *open system* approach recognizes the dynamic interaction of the system with its environment in *Figure-2.8*.

The open system consisting of four basic elements:

- **Inputs:** These are ingredients required to initiate the transformation process. They include human, financial, material and information resources.

Figure-2.9 ELEMENTS OF OPEN SYSTEM

Feedback from the environment



- **Transformation process:** The inputs are put through a transformation process that applies technology, operating methodologies, administrative practices and control techniques in order to produce the output.
- **Outputs:** The output may be products and/or services, the sale of which creates profits or losses. This process also has by-product outputs such as worker behaviour, information, environmental pollution, community services and so on.
- **Feedback:** A feedback loop is used to return the resultant environmental feedback to the system as inputs.

If the environment is satisfied with the output, business operations continue. If it is not, changes are initiated within the business systems so that requirements of the customers are fully met. This is how an open system responds to the forces of change in the environment.

3.3.11 Contingency or Situational Approach to Management

Another important approach which has arisen because of the inadequacy of the Quantitative, Behavioural and System Approach to management is the Contingency Approach. Pigors and Myers propagated this approach in 1950. Other contributors include Joan Woodward, Tom Burns, G.W.Stalker, Paul Lawrence, Jay Lorsch and James Thompson. They analyzed the relationship between organization and environment. They concluded that managers must keep the functioning of an organization in harmony with the needs of its members and the external forces. Management is situational and lies in identifying the important variables in a situation. The basic theme of contingency approach is that organizations have to cope with different situations in different ways. There cannot be particular management action which will be suitable for all situations. The management must keep the functioning of an organization in harmony with the needs of its members and the external forces.

According to Kast and Rosenzweig, “The contingency view seeks to understand the interrelationships within and among sub-system as well as between the organization and its environment and to define patterns of relationships or configurations of variables. Contingency views are ultimately directed towards suggesting organizational designs and managerial actions most appropriate for specific situations”.

The approach has been used in important sub systems of management like organization, design, leadership, behaviour change and operation. The main features of contingency approach are:

- Management is entirely situational. The application and effectiveness of any techniques is contingent on the situation.
- Management action is contingent on certain action outside the system or subsystem as the case may be.
- Management should, therefore, match or fit its approach to the requirements

of the particular situation. To be effective management policies and practices must respond to environmental changes.

- Organizational action should be based on the behaviour of action outside the system so that organization should be integrated with the environment.
- Management should understand that there is no one hard way to manage. They must not consider management principles and techniques universal.

A general framework for contingent management has been shown in the *Figure-2.10*. However, it is an abstract depiction of the contingency model. In order to operationalise the contingency approach, managers need to know the alternatives for different situations. It may be operationalized as a 'if then' approach to management. The environment (If) is an independent variable where as management (when) is a dependent variable. In this model, a manager has to take four sequential steps:

- Analyze and understand the situation,
- Examine the applicability or validity of different principles and techniques to the situation at hand,
- Make the right choice by matching the techniques to the situations,
- Implement the choice.

FIGURE-2.10. A CONCEPTUAL MODEL OF CONTINGENCY APPROACH

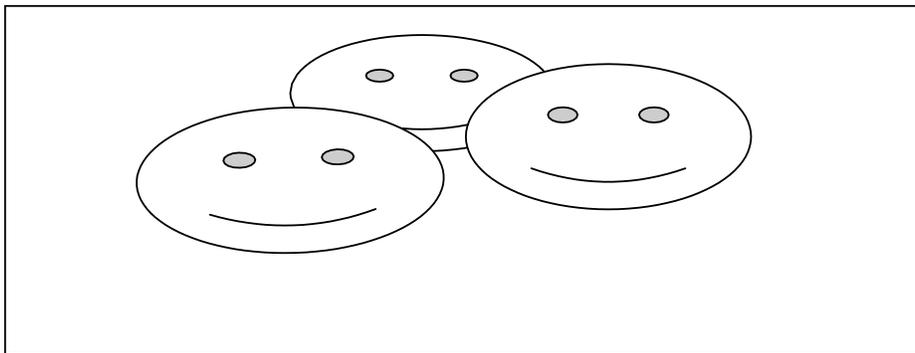


TABLE-2.8. SYSTEM APPROACH VS. CONTINGENCY APPROACH

Systems Approach	Contingency Approach
1. It treats all organizations alike irrespective of their size, cultural settings and dynamics.	It treats each organization as a unique entity.
2. It stresses interactions and sub-systems.	It identifies the exact nature of inter dependencies and their impact on organizational design and managerial style.
3. It studies organization at an abstract and philosophical level.	It is more down to earth and action oriented.
4. It is neutral or non-committal on the validity of classical principles of management.	It firmly rejects the blind application principles regardless of realities of individual situations.
5. It stresses upon the synergetic effect of organizations and the external input.	It is related to organization structure and design to the environment.
6. It is vague and complex.	It is pragmatic and action oriented.

3.4 MANAGERS COMPLEX ENVIRONMENT

Like human beings, organizations are the products of environment. All organizations whether engaged in business or non-business draw the inputs from the environment, convert the inputs into outputs and send them back to the environment. Thus, every organization has a two-way interaction with the environment.

A business organization is an open system which is influenced by the environment and in turn influences the environment. The environment of the business consists of two components – internal as well as external environment. The former refers to the various systems inside the organization such as, technology, structure, processes and people. As all these aspects constitute the subject matter of this course and are discussed in various lessons, the internal

environment, therefore, does not merit a detailed analysis. As such, this lesson focuses on the important variables of the external environment which have a bearing on the successful functioning and survival of the business.

3.5 IMPORTANCE OF ENVIRONMENT

The need to consider the forces external to the organization was first incorporated into management thought during the late 1950s. It was one of the major contributions of the systems approach to management which emphasizes and stresses the need for managers to view their organization as an entity of interrelated parts intertwined with the outside world. In an ever changing business environment as of today, changes in the outside world have made the need to consider the environment more important than ever. As Alvar Elbing states, “the external environment of an organization is a subject of increasing challenge for today’s managers”. Even if changes are not so significant, management would still have to consider the environment because, as an open system, an organization is dependent on the outside world for supplies, energy, workers and customers. As all these effect the organization’s very survival, management must be able not only to identify the factors in its environment but also to cope with them.

In this respect, organizations are similar to biological organisms. According to Charles Darwin’s theory of evolution, the species that have survived have done so because they were able to evolve and adapt to changes in their environment. Organizations, too, must adapt to changes in their environment in order to survive and be effective.

3.6 DIRECT ACTION VERSUS INDIRECT ENVIRONMENT

The external environment affecting the organisation may be divided into two major categories – *Direct action and Indirect action* environment. Direct action environment consists of those factors that directly affect and are affected by the organization’s operations. These factors include suppliers, labor unions, and the various laws of the land, customers and competitors. The indirect action environment, on the other hand, consists of those factors that may not have an

immediate direct effect on operations but nevertheless influence the activities of the firm. These include such factors as technology, socio-cultural and political factors, general economic conditions and so on. Let us now understand the impact of all these factors in detail.

DIRECT ACTION ENVIRONMENT

(a) Suppliers

As already understood, an organization is a vehicle for transforming inputs into outputs. The important inputs are materials, equipment, energy, capital and labour. The relationship between the organization and the suppliers of these inputs presents the forces in the environment that directly influence the operations of a firm. If an organization is unable to obtain these essential inputs of right quality, quantity and at the right price, it cannot possibly achieve the objectives.

(b) Laws

Virtually every aspect of the business is influenced by the laws of the land. The form of organization, the management and the way how a firm conducts itself in the society are very much influenced by the various provisions of the laws. For instance, The Companies Act, Factories Act, Workmen's Compensation Act, Industrial Disputes Act, Provident Fund Act, just to name a few, affect the functioning of the business. As a responsible corporate citizen, an enterprise has to comply itself with the provisions of these acts.

(c) Customers

The justification for the existence of a firm lies in the satisfaction of customer needs. In this context, it is appropriate to remember Peter F. Drucker's observation on the purpose of business. According to him, the purpose of any business is to create a customer. There is no exaggeration that it is customers in the market place who dictate the fortunes of any business. Needless to say that those organisations which neglect the customer expectations and aspirations would find the long-term survival very difficult. Customers' tastes and preferences are

not static, but keep on changing. Mention may be made of some of the changes in the recent past: the cell phone, the preference for quartz watches, audio-video gadgets, various sophisticated domestic appliances, cotton garments, fast foods and so on. Organizations which are adept in identifying the changes in the customers' attitudes and preferences or which can comfortably respond to the changes would survive and those which fail to take cognizance of changes would ultimately fall on the way side.

(d) Competitors

Many a policy of the organization are influenced by the competitors. In a competitive environment, the market place is characterized by moves and countermoves. The post-liberalization Indian markets for many products offer an excellent example as to how competition influences the organizations. In the last few years, in almost all the sectors of the Indian economy, competition has tremendously increased. As a result, many firms are forced to wake up from their slumber. They are forced to unlearn many of the practices and attitudes of the pre-liberalization/protection era. Company after company is now redefining its business, rediscovering the markets, talking in feverish pitch about customer service, human resource development and concern for the society.

INDIRECT ENVIRONMENT

Indirect environment of business is usually more complex and uncertain than the direct. Management is often compelled to make assumptions about the impact of the various factors like technology, general economic conditions, socio-cultural and political factors. Let us, therefore, examine the impact of these factors on the business.

(a) Technology

Technology, in the organizational context, influences the ways of doing things. It influences various processes. Technological changes affect the efficiency with which products are manufactured and sold, when a product will become obsolete, how information can be gathered and processed, and what customers expect from the organization's products and so on. Important technological

developments that have profoundly affected the organizations and society in the last two decades are the computer, cell phone technology, laser, xerography, integrated circuits, semiconductors, television, satellite communication, nuclear power, synthetic fuels and foods, etc. All these innovations have thoroughly changed the face of the society. Therefore, today's organizations need to keep abreast of technological changes that affect their operations and products so as to remain competitive. Failure of the management to clearly gauge the technological changes would cost the business dearly. It endangers the very survival of the organization.

The pace at which technological changes occur varies from industry to industry. In some industries where technology is stabilized, the changes are less frequent and less turbulent. On the other hand in some industries like information technology, telecommunication systems, polymers, etc. changes are frequent. Depending upon the nature of business and the type of technology used, every organization has to assess the technological environment from time to time.

(b) Economic Conditions

Managers must also assess how changes in general economic conditions will affect the operations. The fluctuations in economic activities of a nation as measured by the various parameters like the gross domestic product (GDP), price level, employment, aggregate demand and supply of consumer and industrial goods, etc. have far reaching impact on the prosperity of the business. These factors affect the cost of the inputs and the ability of customers to buy the goods and services. Organizations must be able to tackle effectively the inflationary and recessionary trends in the economy. When the economy is in an upbeat mood, firms normally benefit enormously and commit the resources for further growth with a hope of continuity of favorable economic conditions. Problems arise when the economy turns downswing. It is at that stage, firms have to adjust themselves to the down turn in economic conditions. Efficiency in operations, elimination of wastage, product planning, etc. hold the key for the survival of firms in such an adverse economic climate. As business organisations, in terms of size and impact, have grown into mega institutions, their failure will have disastrous effects on the

society. By virtue of their size, they also influence significantly the economic stability of the nation. Further, it is important to note that a given change in economic environment may have a positive effect on some organizations and a negative effect on others. Therefore, a manager must be able to clearly assess the impact of changes in economic conditions on the industry in general and his firm in particular.

(c) Socio-Cultural Factors

Organisations are affected by the culture of the particular society in many ways. Firms which have their operations in more than one country have to adapt to the respective cultures in an effective way. Otherwise, they find it difficult to gain the acceptance of the society. Sound understanding of the cultural variables is all the more important for firms in a country like India where there are several diversities in cultures of various regions within the country.

Culture is a wider concept which includes value systems, beliefs, likes and dislikes, attitudes and perceptions. If the products or services of a firm are not in line with the culture of the place, they may not be accepted by the society. For instance, in India 'Miss' brand cigarette targeted at the women was a failure because it is against the cultural ethos of the society. Likewise at the international level, many brands have failed because they are out of tune with the respective cultures. At the same time, it may be remembered that certain products and services also affect the culture of a place. The satellite television and the cell phone that made deep inroads into the Indian culture, and how certain values particularly in the Indian youth are changing makes a good example.

As such, an organization cannot insulate itself from the socio-cultural factors specific to a community. For example, paying bribes to obtain contracts or political favors, promotion on the basis of favoritism instead of competence, and spreading unfavorable rumors about a competitor are considered unethical and immoral business practices in many countries. In some countries such practices are seen as normal and accepted business practices because of differing socio-cultural factors. In this regard, General Electric's former chairman Reginald Jones observation is worth mentioning. He states that "organizations must be able to anticipate the changing

expectations of society; and serve them more effectively than competing firms. This means that the organization itself must change, consciously evolving into an institution adapted to the new environment”.

(d) Political Environment

The performance, growth and survival of business in general, to a larger extent, depend on the attitude of the government towards business. Since government is fully empowered to monitor and control the various institutions of the society, the policies pursued by the government affects the business in a significant way. The continuity of policies is very much essential. That depends on the stability of the government of the particular nation. For instance, the attitude of the government in India towards foreign companies has undergone dramatic change in the last two decades. In the late seventies during the Janata Party rule at the centre, Coca-Cola, IBM and a few other multinationals were forced to leave the country. There were several other restrictions on the equity holding of foreign partners. The whole thing has changed, in the last few years so much so that multinationals are not only welcome but are also offered many facilities.

The cooperation that exists between business and government in Japan has in fact helped the Japanese Companies to conquer the world markets in the last few decades. In Japan, Ministry of International Trade and Industry (MITI) extends all out support to the organizations to emerge internationally competitive. In India too, of late, we see a lot of change in the attitude of the government both at central and state level towards the business. Various state governments are weighing with each other with attractive packages to woo the foreign investment in many core sector industries.

The various factors discussed so far highlight the impact of the environment on the business. If companies like Dr, Reddy Labs, Tata Motors, Larsen & Toubro, Reliance, ITC, etc. are able to go global, it is precisely because of their ability to assess the changing environment effectively and to adapt to the changes with considerable ease. As a result, we see a few Indian companies reaching the status of being called Indian multinationals.

The study of organization and management is a must to understand the underlying principles of management. The foregoing analysis reveals that management thought is the outcome of diverse contributions of several management thinkers and practitioners. Each of this approach discussed above is an extension of the previous one. A composite or synthesis of various contributions made over a period of more than a century is the best management theory. The new trends, developments and challenges in the evolution of management thought and movement which will make new demands on managers in India are listed below:

- Growing intervention in trade, industry and commerce by the government. Growth of Trade Union Movement, profoundly influenced by political considerations only.
- Greater consciousness and growth of organizations of consumers.
- High cost economy and expansion of the services sector including the social sector, public sector and public utility services.
- Emerging growth of industry and consequent stiff competition from foreign goods, growth of multinational corporations in the context of new liberalized industrial policy.
- Rapid advancement in the field of technology.
- Utilization of information as an input and spread of Management Information System.
- Increasing Demand for participation by subordinates in decision making process. India is heading towards a business management manned by properly trained and educated persons.
- Social Responsibility and prevention of environmental pollution have aroused much public attention. This is indeed a great challenge to future and government is required to take necessary action in this regard.

TABLE- 2.9 SUMMARY OF APPROACHES AND CONTRIBUTIONS TO MANAGEMENT

Approach	Main Contributions	Main Contributors	Environment at that time
Classical Approach	<ul style="list-style-type: none"> - Scientific Management - Management Functions - Administrative Theory - Bureaucracy 	<ul style="list-style-type: none"> - F.W. Taylor, Frank Gilberth, H. Emerson - Henary L. Gantt - L.F. Urwick, Moony and Reliey, R. C. Davis - Max Weber 	<ul style="list-style-type: none"> - Expanding size of organization - Growing Market - Post-Industrial Revolution - Decline of owner/manager - Rise of professional manager
Behavioural Approach	<ul style="list-style-type: none"> - Human Relations - Hawthorne Experiments - Participation - MBO - Organizational Behaviour 	<ul style="list-style-type: none"> - F.G. Roethlisberger - Elton Mayo - Participation - D. McGregor - P.F. Drucker - C.L. Barnard 	<ul style="list-style-type: none"> - World War-II Unionization - Need for trained Managers - Govt. Regulation - Labour Unrest
Management Science Approach	<ul style="list-style-type: none"> - Operation Research - Stimulation - Game Theory - Decision Theory - Mathematical Models 	<ul style="list-style-type: none"> - W.C. Churchman - J.C. March - Forrester - H.A. Simon - Raiffa 	<ul style="list-style-type: none"> - World War-II Unionization - Need for trained Managers - Govt. Regulation - Labour Unrest
System Approach	<ul style="list-style-type: none"> - Open System - Closed System - Socio-technical system 	<ul style="list-style-type: none"> - E.L. Trist - A.K. Rice - F.E. Kast and - J.E. Rosenzweig 	<ul style="list-style-type: none"> - Turbulency - Information Technology - Robotics

	- Supra System - System Interface Mechanism	- R.A. Johnson - K. Boulding D. Katz, R.L. Khan	- Pollution Problem
Contingency Approach	- Dynamic Environment - Organic Mechanism Technology - Matrix Design and Social Responsibilities - Organizational Change - Information Systems	- Burns and Stalkar - John Woodward - Thompson - P.R. Lawrence - J.A. Lorseh	- Space race Expanding economy - High Technology - Global Trade - Social contentent - JRise of skilled profession

3.8 GLOSSARY

- *Scientific Management*: is concerned with knowing exactly what you want men to do and then see in that they do it in the best and cheapest way.
- *Job Analysis*: It is undertaken to find out the best way of doing things. The best way of doing a job is one which requires the least movement consequently less time and cost.
- *Equity*: Managers should be kind and fair to their subordinates.
- *Initiative*: Subordinates should be provided with an opportunity to show their initiative as a way to increase their skills and to inculcate a sense of participation.
- *Espirit de Corps*: Union is strength, and it comes from the harmony and mutual understanding of the personnel.

3.9 CHECK YOUR PROGRESS

1. "F.W.Taylor is said to be the father of scientific management and Henri Fayol, the father of principles of management". Critically examine the statement.

2. Why is it important for every manager to understand the many different management theories that have been developed? Describe various Schools of Thought prevalent from time to time. Which school of management thoughts makes the most sense to you? Why?

3. Describe the major factors in the environment of business and how they affect the survival of an organisation.

3.10 SUGGESTED READINGS

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PLANNING

STRUCTURE

- 4.1 Introduction
- 4.2 Objectives
- 4.3 Planning
 - 4.3.1 Definitions of Planning
 - 4.3.2 Objective of Planning
 - 4.3.3 Features and Nature of Planning
 - 4.3.4 Importance of Planning
- 4.4 Process of Planning
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4.1 INTRODUCTION

Planning is essential in every walk of life. Each and every person has to frame a plan to proceed in his schemes. A person whether he is engaged in business or not, has framed a number of plans during his life. The plan period may be short or long. According to **Arnold Toynbee**, “One of the characteristics of being human is that he makes plan”.

Planning is the first and foremost function of management. All eminent writers have said that the planning function precedes all other managerial functions. Effective planning facilitates early achievement of objectives, which depends upon the efficiency of the planner. A planner is the person who frames a plan to put his schemes into practice. The planner can develop his efficiency by preparing himself to face the future developments. One of the most important functions of management at all levels is to plan. It is concerned with the determination of future course of action in advance to achieve the desired results. It is concerned with thinking before doing and deciding in advance what is to be done, how is to be done, when is to be done how is to do it.

The necessity for the planning arises because of the fact that business organizations have to operate, survive and progress in a highly dynamic economy where change is the rule, not the exception. The change may be sudden and extensive, or it may be slow and almost unnoticeable. Some of the important

forces of change may be: changes in technology, changes in population and income distribution, changes in the tastes of consumers,

Changes in competition, changes in government policies etc. often give rise to innumerable problems and throw countless challenges. Most of these changes are thrust on managers and managers are forced to adjust their activities in order to take full advantage of favourable developments or to minimise adverse effects of unfavourable developments or to minimize adverse effects of unfavourable ones. Successful managers try to visualize the problems before they create an undesirable environment. Basically, planning at the organizational level is done to achieve protective benefits resulting from changes for error in decision-making; protective benefits in the form of increased success in reaching organizational objectives. If management is not an active participant in the competitive world the results may be disastrous. For example, by pursuing a policy of offering quality product at an economical price, a small manufacturer of NIRMA brand detergent powder could demolish the market supremacy of SURF manufactured by a multi-product multinational enterprise, Hindustan Unilever Ltd.

4.2 OBJECTIVES

After going through this lesson, you should be able to:

- Describe the meaning of planning and its characteristics
- Illustrate the types, benefits and limitations of planning
- Explain the process of planning
- Discuss the techniques and process of decision making

4.3 PLANNING

Planning is an intellectual process of thinking resorted to decide a course of action which helps achieve the predetermined objectives of the organisation in future. In simple words, planning is deciding in advance what is to be done, when, where, how and by whom it is to be done. Planning bridges the gap from where we are to where we want to go. It includes the selection of objectives, policies, procedures and

programmes from among alternatives. A plan is a predetermined course of action to achieve a specified goal. It is an intellectual process characterized by thinking before doing. It is an attempt on the part of manager to anticipate the future in order to achieve better performance. Planning is the primary function of management.

In simple term, a plan is anything that involves selecting a course of action for the future. It is the function that answers four basic questions as shown in figure 2.1.

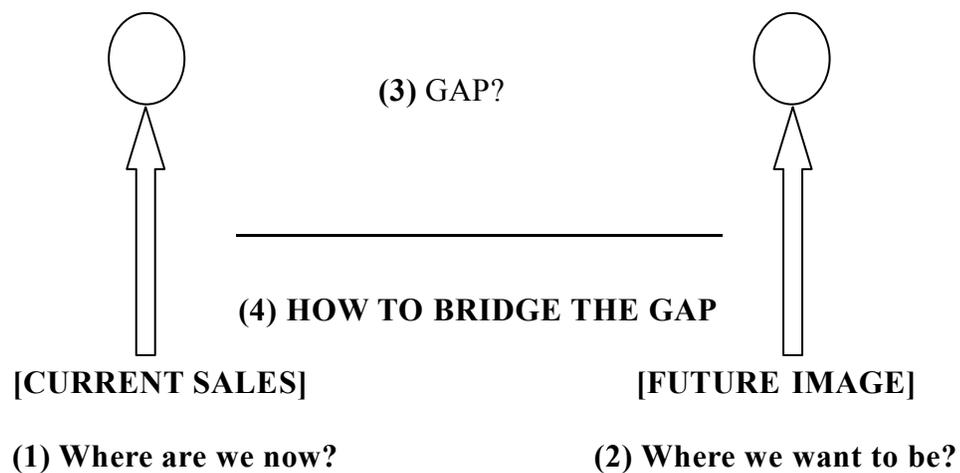


Fig. 2.1

1. Where are we now? This question concerned with making a realistic assessment of the current situation and forecasting how the picture may change in the future.
2. Where do we want to be? This is concerned with finding out the desirable objectives keeping the present as well as future requirements.
3. Gap: What is the amount of difference between where we are now and where we want to be?
4. How can we get there from here? This is a question of deciding in the present what has to be done min future. Planning is concerned with future

implications of current decisions, not with decisions to be made in the future.

The meaning of the word 'planning' is something of a paradox. To some, it is an omnibus term having convenient utility and a generalised context extending from broad philosophical considerations to precise details. They think of it as specific activity; in contrast, others believe it is a part of, perhaps even a symbol for almost everything a person does. Then, too, the upsurge in planning has created many different kinds of planning, and this array of different entities, all identified by planning has added to confusion. There are some who consider planning synonymous with decision-making. This is also erroneous. Decision-making is not the same as planning because one can make decisions in other activities also, though the role of decision making is highly important in planning.

Another confusion that arises in the concept of planning is the two words: planning and plan. Two words are similar but their meanings are different. There is fundamental difference between the two. **Planning** is an activity. It can be considered as consisting of a process hence various sub-activities. On the other hand, **Plan** is a commitment to a particular course of action believed necessary to achieve specific results. For example, Government of India prepares five-year plans which consist of various actions to be taken, results to be achieved, and resources to be used. These are plans. The plans are prepared through the planning process which involves taking various activities to arrive at what is to be achieved, how to be achieved, and when to be achieved. Therefore, planning is taken as a process.

Planning as a process involves the determination of future course of action, that is why an action, what action, how to take action, and when to take action. These why, what how, and when are related with different aspects of planning process. Why of action reveals that action has some objectives or the end result which an organisation wants to achieve; what of action specifies the activities to be undertaken; how and when generate various policies,

programmes, procedures and other related elements. Thus, all these elements speak about futurity of action. Terry has defined planning in terms of future course of action. He says that:

“Planning is the selection and relating of facts and making and using of assumptions regarding the future in the visualisation and formalisation of proposed activities believed necessary to achieve desired result.”

Thus, in planning, a manager uses facts, reasonable premises, and constraints, and from all these he visualises and formulates what necessary activities are, how they will be conducted, and what will be their contribution to achieving desired results. McFarland has defined planning in terms of actions of anticipating, influencing, and controlling the nature and direction of change as he believes that the environment in which planning process is undertaken is too dynamic and changing. He defines planning as follows: “Planning may be broadly defined as a concept of executive action that embodies the skills of anticipating, influencing and controlling the nature and direction of change.” Planning is a process which involves anticipation of future course of events and deciding the best course of action. It is a process of thinking before doing. “To plan is to produce a scheme for future action; to bring about specified results, at specified cost, in a specified period of time. It is deliberate attempt to influence, exploit, bring about and control the nature, direction, extent, speed and effects of change. It may even attempt deliberately to create change, remembering always that change (like decision) in any one sector will in the same way affect other sectors” Planning is a deliberate and conscious effort done to formulate the design and orderly sequence actions through which it is expected to reach the objectives. Planning is a systematic attempt to decide a particular course of action for the future; it leads to determination of objectives of the group activity and the steps necessary to achieve them. Thus, it can be concluded that “planning is the selecting and relating of facts and the making and using of assumptions regarding the future in the visualisation and formulation of proposed activities believed necessary to achieve desired results.”

4.3.1 Definitions of Planning

Ways of defining planning are legion in management literature. Some definitions are simple, some are long and exhaustive. Essentially, the following important definitions while defining the term 'Planning' are given below:

According to **Alford and Beatt**, "Planning is the thinking process, the organized foresight, the vision based on fact and experience that is required for intelligent action."

According to **Theo Haimann**, "Planning is deciding in advance what is to be done. When a manager plans, he projects a course of action for further attempting to achieve a consistent co-ordinate structure of operations aimed at the desired results."

According to **Billy E. Goetz**, "Planning is fundamentally choosing and a planning problem arises when an alternative course of action is discovered."

According to **Koontz and O' Donnell**, "Planning is an intellectual process, conscious determination of course of action, the basing of decision on purpose, facts and considered estimates."

According to **L.A. Allen**, "A plan is a trap laid to capture the future."

According to **G. R. Terry**, "Planning is the selecting and relating of facts and the making and using of assumptions regarding the future in the visualization and formulation of proposed activities believed necessary to achieve the desired results." Haynes and Massie, "Planning is that function of the manager in which he decides in advance what he will do, It is a decision-making process of a special kind. It is an intellectual process in which creative thinking and imagination are essential."

Kast and Rosenzweig, "A plan is a determined course of action."

H. Fayol, "Planning is deciding the best alternatives among others to perform different managerial operations in order to achieve the pre-determined goals."

J. P. Barger. “Planning is an ability to visualize a future process and its results.”

W. H. Newman, “Generally speaking, planning is deciding in advance what is to be done, that is, a plan is a projected course of action.”

L. Urwick, “Planning is fundamentally a mental pre-disposition to do things in an orderly way, to think before acting and to get in the light of facts rather than of guesses.”

Theo Haimann, “Planning is deciding in advance what is to be done.”

Peter F. Drucker, “Planning is the continuous process of making present entrepreneurial (risk taking) decisions systematically and with best possible knowledge of their futurity, organizing, systematically the efforts needed to carry out these decisions and measuring the results of these decisions against the expectations through organized, systematic feedback.”

Cyril L. Hudson, “To plan is to produce a scheme for future action; to bring about specified results, at specified cost, in a specified period of time. It is a deliberate attempt to influence, exploit, bring about and control the nature, direction, extent, speed and effects of change. It may even attempt deliberately to create change, remembering always that change (like decision) in anyone sector will in some way affect other sectors. Planning takes place at each managerial and supervisory level. Therefore, the overall plan must be made at the top and subsidiary plan making must be relevant to and consonant with the major plan. In short, planning must be a carefully controlled and co-ordinated activity.”

Hamilton Church, “Planning is, in essence, the exercise of foresight.”

According to M.S. Hurley, “Planning is deciding in advance what is to be done. It involves the selection of objectives, policies, procedures and programs from among alternatives.”

Hodge and Johnson, “Planning is an attempt to anticipate the future in order to achieve better performance.”

Hart, “Planning is the determination in advance of a line of action by which certain results are to be achieved.”

Dalton E. Mc. Farland defines planning as, “Planning may be broadly defined as a concept of executive action that embodies the skills of anticipating, influencing and controlling the nature and direction of change.

Billy E. Goetz, “Planning is fundamentally choosing and a planning that arises only when an alternative course of action is discovered.”

4.3.2 Objectives of Planning

Planning in any organisation serves to realise the following objectives:

1. Reduces uncertainty

Future is an uncertainty. Planning may convert the uncertainty into certainty. This is possible to some extent by, planning which is necessary to reduce uncertainty.

2. Brings co-operation and co-ordination

Planning can bring co-operation and co-ordination among various sections of the organisation. The rivalries and conflicts among departments could be avoided through planning. Besides, planning avoids duplication of work.

3. Economy in operation

As already pointed out, planning selects best alternatives among various available alternatives. This will lead to the best utilisation of resources. The objectives of the organisation are achieved easily.

4. Anticipates unpredictable contingencies

Some events could not be predicted. These events are termed as

contingencies. These events may affect the smooth functioning of an enterprise. The planning provides a provision to meet such contingencies and tackle them successfully.

5. Achieving the pre-determined goals

Planning activities are aimed at achieving the objectives of the enterprise. The timely achievement of objectives are possible only through effective planning.

6. Reduce competition

The existence of competition enables the enterprise to get a chance for growth. At the same time, stiff competition should be avoided. It is possible, to reduce competition through planning.

4.3.3 Features and Nature of Planning

The following are the characteristics of planning:

1. Planning is looking into the future.
2. Planning involves predetermined line of action.
3. Planning discovers the best alternative out of available many alternatives.
4. Planning requires considerable time for implementation.
5. Planning is a continuous process.
6. Planning's object is to achieve pre-determined objectives in a better way.
7. Planning integrates various activities of organisation.
8. Planning is done for a specific period,
9. Planning not only selects the objectives but also develops policies, programmes and procedures to achieve the objectives.

10. Planning is required at all levels of management.
11. Planning is an inter-dependent process which co-ordinates the various business activities.
12. Planning directs the members of the organisation.
13. Growth and prosperity of any organisation depends upon planning.

Nature of planning

There are number of ways available to complete a certain job. Planning chooses any one of the best alternatives out of the available ones. Economy and certainty are considered while selecting the best alternative. Thus, the nature of planning is briefly discussed below:

1. Primary of planning

The functions of management include planning, organising, staffing, directing and controlling. Eminent writers may add other new ones to these functions or those which have not been included in these functions. Anyway, writers unanimously accept that planning is the primary function of all the other functions. The reason is that the manager wants to achieve the pre-determined objectives in a better way.

2. Planning contributes to objectives

There is a close connection between objectives and planning. Planning is based on the objectives. If there is no link between planning and objectives, the former will only be a mental exercise and of no use. Planning contributes to the attainment of objectives.

3. Planning an intellectual activity

Planning includes the selection of the best alternative available and thinking before selection of the best alternative. It involves the ability

to foresee mishaps in future which might affect the smooth functioning of an organisation. So, planning is an intellectual activity.

4. Planning results in higher efficiency

Planning efficiency is measured in terms of input and output ratios. Planning leads to maximum output with minimum expenditure. This input and output relationship is not only determined by money, labour hours and production units but also by the degree of satisfaction available to the individual as well as the group. The high degree of human satisfaction motivates the workers to produce more within the specified time.

5. Planning is a continuous process

Planning, does not come to an end with the establishment of a business concern. Planning in other functions is also required. After the establishment of a business concern, certain decisions are taken. Planning is necessary to implement the decisions. A number of decisions are taken during the life time of the business concern. So, planning is necessary throughout the running of the business concern as a continuous process.

6. Planning is flexible

As already pointed out, while planning, any one of the available alternatives is selected. Planning selects the best alternative based on certain assumptions. If the assumptions are proved wrong, the selected alternative tends to be an incorrect one. There is a possibility of a dead log in the functions of the management. Planning has one more alternative to suit future situations.

7. Unity and consistency

Every department manager resorts to planning at different times. The planning is related to the achievement of objectives. In other words, managerial actions of different managers are unified in order to achieve

the objectives. Policies and procedures of the organisation provide a basis for the consistency of executive behaviour and action in matters of planning.

8. Planning is common to all

Planning work is done by every person who is working in a business unit. He may be a managing director or a foreman.

Being of a higher place, the planning for a managing director is to frame the policies and procedures to be adopted. Being at a lower place, planning for a foreman is to allocate the work to his subordinates. So, planning is common to all.

9. Basis for all managerial functions

Planning is found at all levels of management. Top management looks after strategic planning. Middle management looks after administrative planning and the lower level management looks after operational planning.

10. Getting co-ordination

Planning co-ordinates with various business activities. Without planning, nothing can be coordinated.

11. Considering limiting factors

Every plan is formulated after considering the limiting factors. The limiting factors may be money, skilled labour, quality materials, plant and machinery.

4.3.4 Importance of Planning

Advantages of planning to business organisations

Planning helps the organisation achieve its objectives early. In this way, planning helps the organisation in many ways. Some of the advantages of planning are briefly explained below:

1. Better utilisation of resources

Planning decides what to produce and how to produce. Then, there is the possibility of utilising the resources effectively.

2. Helps in achieving objectives

Planning sets goals or objectives of an organisation. This gives effective direction to the control of employees of the organisation. In this way, planning helps the organisation accomplish the predetermined goals or objectives.

3. Economy in operation

Unnecessary production, ineffective utilisation of resources and unnecessary activities of an organisation are eliminated through planning. This results in the economy of operations.

4. Minimises future uncertainties

The uncertain future increases the importance of planning. Planning foresees the changes and uncertainties taking shape in future and devices methods to face them. Some future uncertainties are thus, minimised through planning.

5. Improves competitive strength

Competitive strength is improved by adding new line of products, changes in quality and size of the product, expansion of plant capacity and changes in methods of work. These are achieved through planning.

6. Effective control

Control without planning is an impossible one. Control is used only when there is a well-chalked out plan. So, planning provides a basis for controlling.

7. Motivation

A well-prepared plan encourages the employees of an organisation and gives them a sense of effective participation. Planning motivates the employees as to what the organisation wants to achieve and defines it to the employees.

8. Co-operation

Planning helps the management pull the individual to achieve common objectives or goals. Planning provides well-defined objectives, unity of direction, well-published policies, procedures and programmes. All these facilitate to get co-ordination, which consequently avoids duplication of work and interdepartmental conflicts.

9. Promote growth and improvement

Planning sets a standard to control purpose. So, useless and aimless activities are avoided. It leads to the growth and improvement of an individual and the organisation.

10. Develops rationality among management executives

Disciplined thinking of management executives is geared up through formal planning. Management executives take action only after putting their thoughts in blueprint. In this way, planning brings rational thinking and approach among management executives.

11. Prevents hasty judgment

We can analyse a problem through a plan and consider the alternatives before taking a sound decision. It is possible to plan in advance as to what will be done and how it will be done. This process avoids hasty judgment.

12. Reduces red-tapism

Junior executive can act according to pre-planned decisions. There is no need for him to get any fresh permission for his action. It saves time, energy and cost and reduces red-tapism.

13. Encourages innovative thought

A good plan should provide a basis for new thinking in any individual. It seeks a way to encourage people to co-ordinate and to achieve common objectives. According to **D. E. Hussey** “A good planning process will provide avenues for individual participation, will throw up more ideas about the company and its environment, will encourage an atmosphere of frankness and corporate self-criticism and will stimulate managers to achieve more.

14. Improves ability to cope with change

Planning helps managers improve their ability to cope with changes but it cannot prevent changes from happening. This creates awareness among the managers regarding the incidence of change.

15. Creates forward looking attitude in management

Managers may lose their prosperity facing day to day problems. Planning helps a manager to become more prosperous and creates a forward looking attitude in him, thus such a planning ensures stability to management.

16. Development of efficient methods

Planning helps the management develops efficient methods and procedures of action.

17. Delegation of authority facilitated

A well-prepared plan will always facilitate the delegation of authority.

18. Anticipation of crisis

Careful planning will avoid the crisis which is likely to occur. In this way, management can reduce the internal organisational disturbances.

Importance of Planning

A planned action is always better as it makes possible for things to occur which would not otherwise happen. A business which carried on without planning is like a ship without rudder. If things are not planned in advance, decisions are taken haphazardly on hit or miss basis resulting into wastage of human and material resources. An organization without planning operates aimlessly. It has been rightly said that planning today avoids crisis tomorrow.

Planning has assumed great importance in all types of organizations, business or non-business, private or public sector, small or large, in developed countries, or developing countries. The system approach of management suggests interaction can better be maintained through successful and unsuccessful organizations because of planning activities undertaken by these. The organization which thinks much ahead about what it can do in future is likely to succeed as compared to one which fails to do so. For example, Reliance Industries Limited has achieved phenomenal growth within a short period of time because of its ability to plan, to take up new projects. In particular, planning contributes in the following ways:

- 1. Primacy of Planning.** Planning precedes all other managerial functions. Since managerial operations in organizing, staffing, directing, and controlling are designed to support the accomplishment of organizational objectives, planning logically precedes the execution of other managerial functions. Although all the functions intermix in practice as a system of action planning is unique in that it establishes the objectives necessary for all group effort. All other functions are performed to achieve the objectives set by the planning process. This can be presented in Fig 6.4.
- 2. Planning Avoids Haphazard Actions.** Planning avoid aimless activities. Planning is necessary for avoiding hit or miss actions or random decisions. Without planning there will be confusion and chaos. Everyone in the enterprise is aware of what is to be done for achieving the goals of an enterprise.

- 3. To Increase Organizational effectiveness.** Planning ensures organizational effectiveness in several ways. The concept of effectiveness is that the organization is able to achieve its objectives within the given resources. Thus for effectiveness, it is not only necessary that way which ensures their maximum contribution to organizational objectives. In fact this can be done by taking appropriate planning. Planning states the objectives of the organizations in the context of given resources. Therefore, each resource of the organization has specific use at a particular time. Thus planning along with control ensures that resources are put in action in a way in which these have been specified. If this is done, organization will achieve effectiveness.
- 4. Planning Brings Economy in Operations.** Planning leads to purposeful and orderly activities. The available resources are used to the best of their capacity. All activities are done in minimum possible time. All types of wastages are eliminated in all the departments resulting in the efficient and economical operations of an enterprise. The cost of operation is minimized.
- 5. To Offset Uncertainty and Change.** There is continuous change in the environment and the organization has to work in accelerating change. This change is reflected in both tangible and intangible forms. Tangible changes are in the forms of changes in technology, market forces, government regulations, etc. In order to cope up with the requirements of such changes organizations must look ahead for its future course of action which is basically provided by planning process. Planning does not stop changes in the environment but gears the organization to take suitable actions so that it is successful in achieving its objectives.

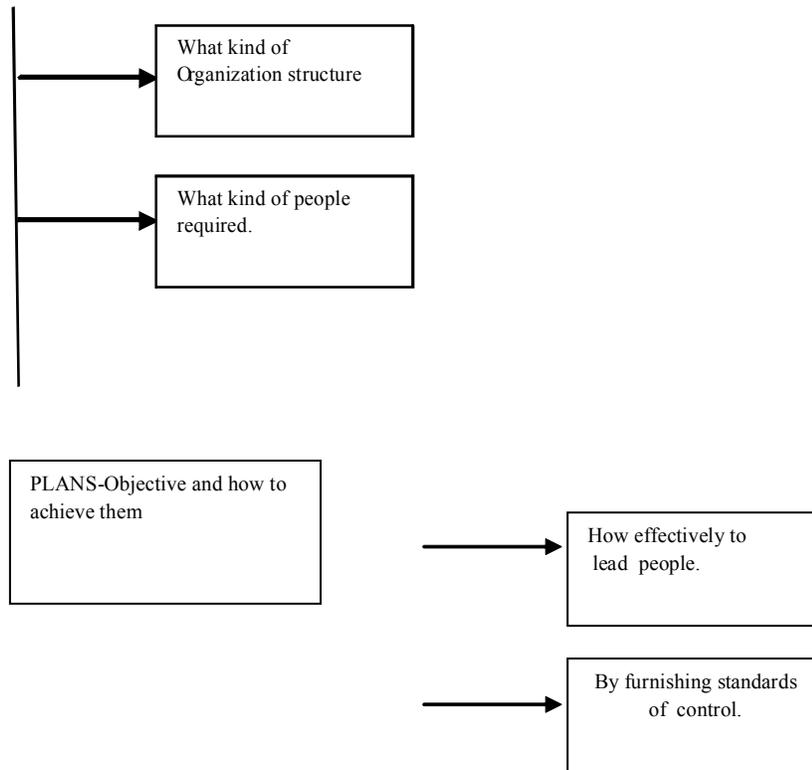


Fig. 2.4 Primacy of Planning

6. **To Focus Attention on Objectives.** Planning focuses on organizational objectives and directions of actions for achieving these objectives. Sometimes people in the organization may not be specific about its objectives because of lack of clarity and precise definitions. For example, often we take profit as the objectives of a business organization. It is too abstract to be pursued. In order to enforce managerial actions, this should be defined more precisely when planning action is taken, these objectives are made more concrete and tangible. The objectives are defined in more meaningful terms so that managerial actions are possible. For example, even if the organizational objective is profit earning, planning activity will specify how much profit is to be earned looking into all facilitating and constraining factors.

7. **To Help in Control.** Control involves the measurement of accomplishment of events against plans and the correction of deviations to assure the achievement of objectives as set by the plans. Thus control exercised the context of planning actions as standards against which actual results are to be compared are set up through planning. At the control stage an attempt is made to monitor the performance on continuous basis so that immediate action is taken if anything goes wrong.
8. **To Help in Coordination.** Though all managerial functions lead to the coordination in the organization, real beginning is made at the level of planning stage. Well considered overall plans unify interdepartmental activities and consequently restrict the area of freedom in the development of purely departmental plans. Thus various departments work in accordance with the overall plan, and harmony achieved. It is true to say that coordination is the essence of management and planning is the basis for it.
9. **Planning Provides Direction.** Planning provides direction and a sense of purpose for the organization. Once the organization is able to find out what it cannot do over the next one to four years, it can begin setting meaningful objectives. Day-to-day operational thinking gives way to more fruitful long-run designs. It helps in knowing what to do and when to do it. It reduces aimless activity and makes action more purposeful. Planning actually compels managers to think in a future and contingency oriented manner and no wonder many people say that the experience and knowledge gained throughout the development of a plan is more important than the plan itself.
10. **Planning Provides a Unifying Framework.** Planning forces people to continually address their efforts to the most important work, rather than the least important. In the absence of a plan, a unifying focus on company objectives may be missing. A plan,

tells everyone what the organization hopes to achieve and what the contributions of each department must be, and how to utilize resources to achieve the goals in the absence, the organization would be pulled in multifarious and apparently competing directions. Well-considered overall plans unify interdepartmental activities because with a clear and effective plan each department knows what it must do to contribute to the objectives of the organization. Without planning such coordination would be a dream; with planning, it is a reality.'

11. Planning Enhances the Behavioural Climate.

Planning provides a basis for team work: It provides consistent guidelines to members to contribute positively and achieve overall goals. When goals are properly defined, work assignments can be fixed and everyone can begin to contribute to the achievement of these goals. This produces improvements in morale. Once members know what is expected of them they can contribute better. They can release forces of creativity, and innovation for better management of the organization. Further planning permits employees to participate in the "thinking" process. This helps them develop a broad mentality and when the plan is actually translated into action, they feel that it is their own plan. Positive attitudes are developed, there is less friction between departments and there is greater personal commitment to the plan.

12. Planning educates people: Planning orients people. It gives them a sense of direction and the stimulating feeling that their efforts are being put to useful purpose, rather than being wasted. They begin to feel that they are worthy partners in a productive enterprise.

13. Facilitated Delegation. Delegation of authority is facilitated by the planning process. Well established plans act as a guide to subordinates and reduce the risk involved in delegation of authority.

4.4 PROCESS OF PLANNING

Determining objectives and outlining the courses of action needed to achieve these objectives is referred to as the planning process. The actual steps in the planning process are difficult to specify for all organizations because of wide differences in size and complexity. However, it is possible to reduce the planning process to the following steps:

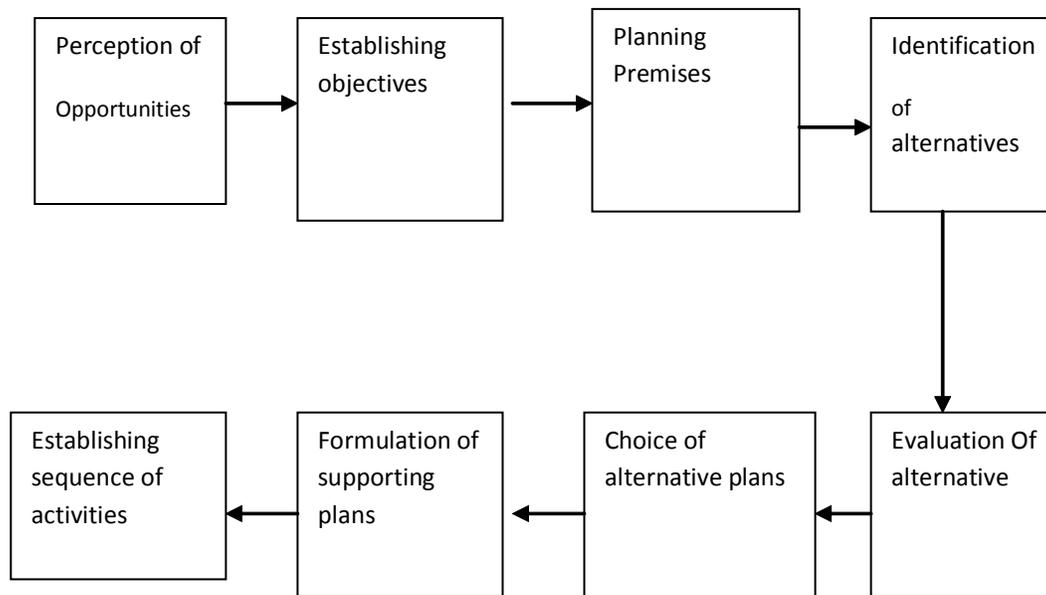


Fig. 4.2 A Basic Model of Planning Process

1. Perception of Opportunities.

Perception of opportunities is not strictly a planning process. However, this awareness is not very important for planning process because it leads to formulation of plans by providing clue whether opportunities exist for taking plans. From this point of view it can be considered as the planning process. Perception of opportunities includes a preliminary look at possible opportunities and the ability to see them clearly and completely, knowledge

of where the undertaking of why the organization wants to solve uncertainties and a vision of what it expects to gain. This provides an opportunity to set the objectives in real sense because the organization tries to relate itself with the environment. In doing so, it takes the advantages of opportunities and avoids threats. This is a preliminary stage, hence the analysis relates to the determination of opportunities at first instance. Once the opportunities are perceived to be available, the other steps of planning are undertaken.

2. Establishing Objectives.

At this stage, major organizational and unit objectives are set. Objectives specify the expected results and indicate the end point of what is to be done, where the primary emphasis is to be placed, and what is to be accomplished by the various types of plans. The organizational objectives should be specified in all key result areas. Key result areas are those which are important for organization in achieving its objectives. These are identified on the basis of organization objectives. For example, for an organization key result areas may be profitability, sales, research and development, manufacturing, and so on. Once organizational objectives give directions to the nature of all major plans which, by reflecting these objectives, define the objectives of major departments. These, in turn, control the objectives of subordinate departments, and so on down the line. Thus there will be hierarchy of objectives in the organization.

3. Planning Premises.

After determination of organization of organizational goals the next step is establishing planning premises are planning assumptions—the expected environment and internal conditions. Thus planning premises are external and internal. External premises include total factors in task environment like political, social, technological, competitor's plans and action, government policies etc. Internal factors include organizations to withstand the environment pressure. The more individuals charged with planning

understand and utilize consistent planning premises, the more coordinated planning will be. Furcating plays a major role in planning premises.

The nature of planning premises differs at different levels of planning. The top level is mostly externally focused. As one moves down the organization hierarchy, the composition of planning premises changes from external and internal. The major plans, both old and new will materially affect the future against which the managers at lower units must plan. For example, superior's plans affecting a subordinate manager's area of authority become premises for the latter's planning.

4. Identification of Alternatives.

Based on the organizational objectives and planning premises. Various alternatives can be identified. The concept of various alternatives suggests that a particular objective can be achieved through various actions. For example, if an organization has set its objective to go further, it can be achieved in several ways like expanding in the same field of business or product line, diversifying in other areas, joining hands with other organizations, or taking over another organization, and soon. Within each category, there may be several alternatives which are to be reduced so the most promising ones may be taken for detailed analysis. Since all alternatives cannot be considered for further analysis, it is necessary for the planner to reduce preliminary criteria. Preliminary criteria can be defined in several ways, such as minimum investment required, matching with the present business of the organization, control by the government, etc. for example, one company has defined preliminary criteria in terms of size of investment in new project and may not consider any project involving investment of less than Rs.40 crores.

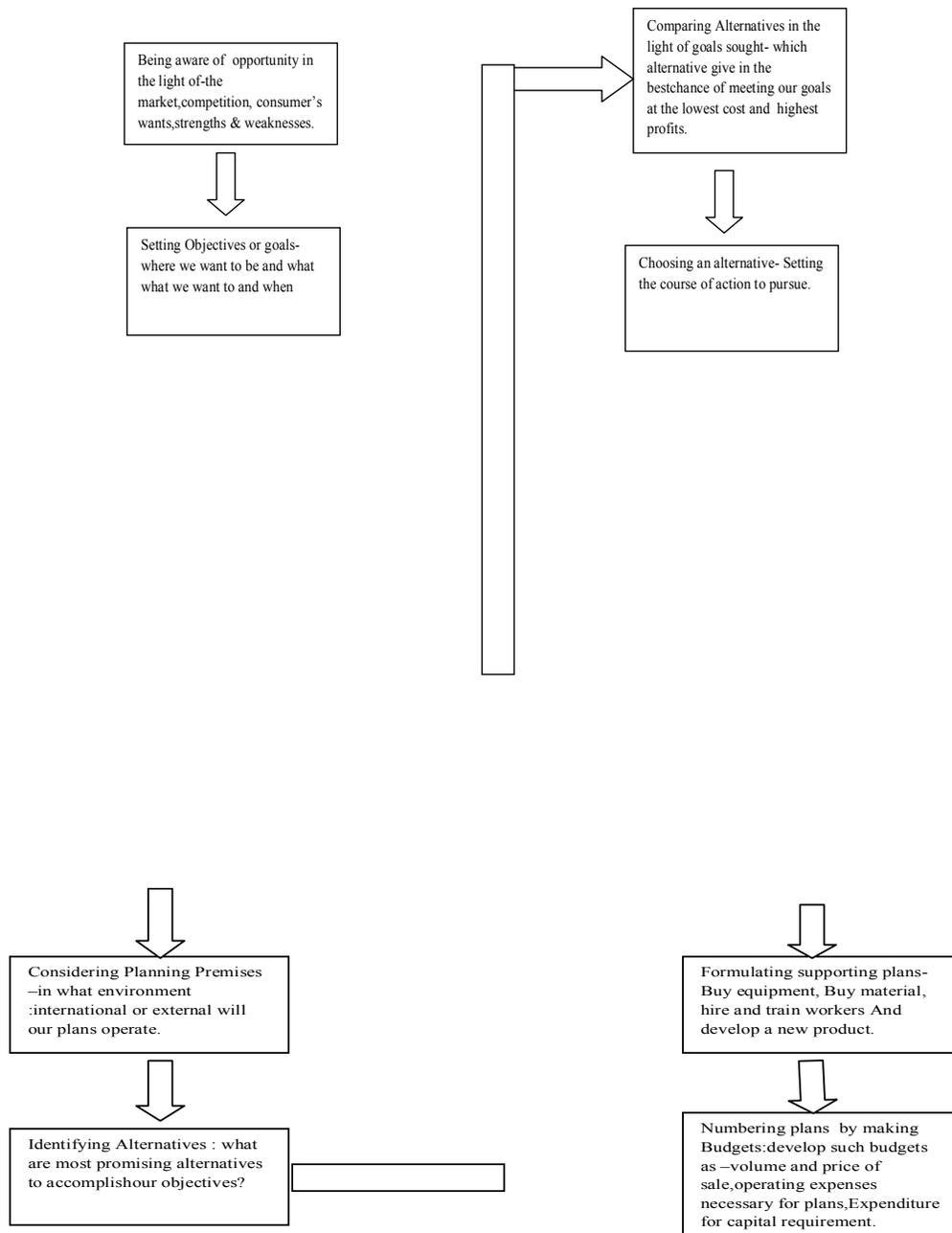


Fig. 2.3 An extended model of planning process

5. Evaluation of Alternatives.

Various alternatives which are considered feasible in terms of preliminary criteria may be taken for detailed evaluation. At this stage, an attempt is made to evaluate how each alternative contributes to the organizational objectives in the light of its resources and constraints. This presents a problem because each alternative may have certain positive points on one aspect and negative on others. For example, one alternative may be most profitable but requires heavy investment with long gestation period; another may be less profitable but also involves less risk. Moreover, there is no certainty about the outcome of any alternative because it is related with future and future is not certain. It is affected by large number of factors making the evaluation work quite complex. This is the reason why more sophisticated techniques of planning and decision making have been developed.

6. Choice of Alternative.

After the evaluation of various alternatives, the fit one is selected. Sometimes evaluation shows more than one alternative is equally good. In such a case, a planner may choose more than one alternative. There is another reason for choosing more than one alternative. Alternative course of action is to be undertaken in future which is not constant. A course of action has chosen keeping in view the various planning premises. Therefore, planner must be ready with alternatives normally known as contingency plan, which can be implemented in changed situations.

7. Formulation of Supporting Plans.

After formulating the basic plan, various plans are derived so as to support the main plan. In organization there can be various derivative plans like planning to buy raw materials, recruiting and training personnel, developing new product etc. These derivative plans are formulated out of the main plan and therefore, they support it.

8. Establishing Sequence of Activities.

After formulating basic and derivative plans, the sequence of activities is determined so that plans are put into action. Based on plans at various levels, it can be decided who will do what and at what time. Budget for various periods can be prepared to give plans more concrete and meaningful implementation.

4.5 TYPES OF PLANNING

There may be several ways in which an organisation can undertake planning process though the basic steps involved remain the same in each way. Planning can be differentiated on the basis of coverage of organisational activities, importance of contents in planning process, time dimension in planning, approach adopted in planning, and degree of formalisation in planning process, as shown in Table 2.1.

TABLE 2.1: Types of planning

Dimensions	Types of planning
1. Coverage of activities	Corporate and functional planning
2. Importance of contents	Strategic and tactical/operational planning
3. Time period involved	Long-term and short-term planning
4. Approach adopted	Proactive and reactive planning
5. Degree of formalisation	Formal and informal planning

The above classification is not mutually exclusive but iterative. For example, strategic and tactical planning may be undertaken on the basis of proactive or reactive approach, or formal or informal basis. However, in each set of classification, the type of emphasis put in planning process differs.

1. Corporate and functional planning

We have seen earlier that planning activity is pervasive and can be undertaken at various levels of an organisation. It may be for the organisation as a whole or for its different functions. Thus, based on the coverage of activities, there may be planning for the organisation as a whole, known as corporate planning or for its different functions, known as functional planning.

Corporate Planning: The term corporate planning denotes planning activities at the top level, also known as corporate level, which cover the entire organisational activities. The basic focus of corporate planning is to determine the long-term objectives of the organisation as a whole and then to generate plans to achieve these objectives bearing in mind the probable changes in environment. Because of long-term orientation involved and strategic aspects covered in corporate planning, it is also used as synonymous to long-term planning or strategic planning. However, some distinction exists among these at least at the conceptual level. Similarly, some authors use corporate planning as the total process of management. For example, David Hussey has defined corporate planning as follows:

“Corporate planning includes the setting of objectives, organising the work, people, and system to enable these objectives to be attained, motivating through the planning process and through the plans, measuring performance and so controlling progress of the plan and developing people through better decision making, clearer objectives, more involvement, and awareness of progress.”

This definition of corporate planning is quite broad and may cover many management functions not necessarily related to planning aspect of management functions. For example, planning sets future course of action and its implementation is not strictly the planning function. Therefore, the concept of corporate planning should be taken as the total planning activities in the organisation and not the total management functions.

Similarly corporate planning is used as long-range planning because long-range planning emphasises the future orientation of the process. However, there is

growing opinion which disfavours the use of long-range planning as synonymous with corporate planning because it underemphasises the comprehensive nature of corporate planning. The process of corporate planning is concerned with all aspects and not only the long range. Although the future orientation is certainly the most important argument in favour of the process, long-range planning without the back-up of short-range planning will fail. Differences between corporate planning and long-range planning can be understood by classifying the more comprehensive corporate planning further into segments. Normally, corporate planning is divided into strategic planning or long-range planning and operational, tactical, or short-range planning.

Functional Planning: As against corporate planning which is integrative, functional planning is segmental, and it is undertaken for each major function of the organisation like production/operation, marketing, finance, human resource/personnel, etc. At the second level, functional planning is undertaken for sub-functions within each major function. For example, marketing planning is undertaken at the level of marketing department and to put marketing plan in action, planning at subfunctions of marketing like sales, sales promotion, marketing research, etc., is undertaken. A basic feature of functional planning is that it is derived out of corporate planning and, therefore, it should contribute to the latter. This contribution is achieved by integrating and coordinating functional planning with corporate planning.

(2) Strategic and operational planning

Comprehensive corporate planning may be divided into strategic and operational depending on the direction of actions set in the organisation. One part of the planning sets future direction of the organisation and another part confines itself to devise actions to proceed in that direction. The former is known as strategic planning while latter is known as operational or tactical planing.

(i) Strategic Planning: Strategic planning sets the long-term direction of the organisation in which it wants to proceed in future. Anthony has defined strategic planning as: “Strategic planning is the process of deciding on objectives of the organisation, on changes on these objectives, on the resources used to

attain these objectives and on the policies that are to govern the acquisition, use and disposition of these resources.”

Examples of strategic planning in an organisation may be: planned growth rate in sales, diversification of business into new lines, type of products to be offered, and so on. This way, strategic planning encompasses all the functional areas of business and is affected within the existing and long-term framework of economic, political, technological, and social factors. Strategic planning also involves the analysis of various environmental factors particularly with respect to how organisation relates to its environment.

A basic problem in strategic planning is the period for which plan is to be formulated. Normally more than one year period is considered to be a long one. Usually for most of the organisations, it ranges between 3 and 5 years. However, there should be some logic in selecting the right time range for planning. In general, since planning and forecasting that underlies it are costly, and organisation should not plan for a longer period than is economically justifiable; yet it is risky to plan for a shorter period. The choice of period lies in the ‘commitment principle’ which suggests that logical planning encompasses a period of time in the future necessary to foresee, as well as possible, the fulfilment of commitments involved in decisions made today. What the commitment principle implies is that long-range planning is not really planning for future decisions but rather planning for the future impact of today's decisions. In other words, a decision is commitment, normally of funds, direction of action or other similar things. Therefore, the most striking application of planning period would be the setting up of time period long enough to anticipate the recovery of costs sunk in a course of action.

(ii) **Operational Planning:** Operational planning, also known as tactical or short-term planning, usually covers one year or so. It is aimed at sustaining the organisation in its production and distribution of current products or services to the existing markets. Operational planning can be defined as: “Operational planning is the process of deciding the most effective use of the resources already allocated and to develop a control mechanism to assure effective implementation of the actions so that organisational objectives are achieved.”

Operational planning is undertaken out of the strategic planning. The various examples of operational planning may be adjustment of production within given capacity, increasing the efficiency of operating activities through analysing past performance, budgeting future costs, programming the comprehensive and specific details of future short-term operations, and so on.

Difference between Strategic and Operational Planning

Apart from the period of time involved in strategic and operational planning, there are certain differences between the two. The major differences between the two can be identified as follows:

1. Range of Choice.

Strategic planning guides the choice among the broad directions in which the organisation seeks to move and concerns the general planned allocation of its managerial, financial, and physical resources over future specified period of time. Operational planning, on the other hand, focuses on the ways and means in which each of the individual functions may be programmed so that progress may be made towards the attainment of organisational objectives. Usually operational planning aims at contributing to strategic planning as the former tries to achieve results and actions suggested by the latter.

2. Type of Environment.

The type of environment for two types of planning is different. Strategic planning takes into account the external environment and tries to relate the organisation with it. It usually encompasses all the functional areas of the organisation and is affected within the existing and long-term future characteristics at various environmental factors. The nature of external environment, thus, is of prime concern of strategic planners. Operational planning mostly focuses on internal organisational environment so as to make the effective use of given resources.

3. Primacy.

Strategic planning precedes operational planning since the latter is primarily concerned with the implementation of the former. Strategic planning sets ends and direction for managerial actions; its time horizon is usually quite long. Operational planning is heavily concerned with short-term programmes implement step by step progress towards basic organisational goals. In the short term, managers have to work within the framework of given resources as the functional suitabilities of the organisation are generally restricted because in the short term, here cannot be fundamental change in these. Therefore, strategic planning must organize the limits of what operational planning can realistically be undertaken in time periods.

4. Level of Formulation.

Strategic planning is formulated usually by top level management and other specified planning staff in the organisation. At this level, management can take overall view of the organisation and have necessary capability to relate the organisation with the external environment. Operational planning is usually spread over a wide range within the organisation and is generally performed by operating managers with the help of the subordinate staff. Since two planning steps are widely separated in the organisation, some incompatibility may exist between two types of planning. Therefore, there is a need for integrating these two in order to have better planning effects. If planning is taken as an integrated system, which consists of the problems of conflict between strategic and operational planning may be outcome.

3. Long-term and short-term planning

Planning is concerned with problems of future. Thus, a planning system must involve different degrees of futurity. Some parts of the organisation have requirements that entail planning for many years into the future, while others

require planning for only a short horizon. Capital expenditure, for example, is more subject to long term planning than any other area. Such plans frequently form the basis of other planning. The planning period is divided generally into (i) short term, and (ii) long term. However, the time dimension of planning is not so obvious as it might appear. Many complex factors interact to determine planning period—the industry peculiarities the market demand, the availability of resources, the lead time involved in the product life cycle, etc. Thus, what might be a long period of planning for one organisation, might be a short period for others.

What should be an ideal planning period depends upon commitment principle. Commitment principle implies that long-range planning is not really planning for future decisions, but rather planning the future impact of today's decisions. In other words, decision is a commitment, normally of funds, direction of action, or reputation. Thus, the commitment for different parts of organisation differs. Costs incurred on purchasing a machine may be recouped in ten years and management must foresee the situation for the coming ten years. Similarly, a small manufacturer of spare parts who completes his production cycle consisting of raw material acquisition, production, inventory, sales and collection of money, in six months or so requires a commitment period of six months only and the planning period covers only this period.

- (i) **Long-term Planning:** Long-term planning, is of strategic nature and, involves more than one-year period extending to twenty years or so. However, the more common long-term period is 3 to 5 years. The long-term plans usually encompass all the functional areas of the business and are affected within the existing and long-term framework of economic, social and technological factors. Long-term plans also involve the analysis of environmental factors, particularly with respect to how the organisation relates to its competition and environment. Sometimes, basic changes in organisation structure and activities become the real output of such plans. Examples of such changes may be new product, product diversification, individuals in the organisation, development of new markets, etc.

A distinction between short-range and long-range planning is often made on the basis of the period of time involved. Though there is a clear correlation between these kinds of planning and the length of time horizons, the more important distinction is on the basis of the nature of planning.

- (ii) **Short-term Planning:** Short-term planning, also known as operational or tactical planning, usually covers one year. These are aimed at sustaining organisation in its production and distribution of current products or services to the existing markets. These plans directly affect functional groups—production, marketing, finance, etc.

Coordination of Short-term and Long-term Planning.

In fact, in a successful planning process, short-term plans are made with reference to long-term plans because short-term plans contribute to long-term plans. As such, there is a need for coordination between these two plans. The managers should consider, while preparing the short-term plans, that they are contributing to the long-term plans. For this purpose, they should scrutinise the former in the light of the latter and subordinates should also be made aware of this fact. Sometimes, the short-term plans do not contribute to long-term plans, but contribute to the organisational objectives. In such a case, the long-term plans need to be modified. This can be done when there is flexibility in planning.

4. Proactive and reactive planning

Classification of planning into proactive and reactive is based on the organisations response to environmental dynamics. We have seen earlier that planning is an open system approach and is affected by environmental factors which keep on changing continuously. However, organisations responses to these changes differ. Based on these responses, planning may be either proactive or reactive.

- (i) **Proactive Planning:** Proactive planning involves designing suitable courses of action in anticipation of likely changes in the

relevant environment. Organisations that use proactive planning use broad planning approaches, broad environmental scanning, decentralised control, and reserve some resources to be utilised for their future use. These organisations do not wait for environment to change but take actions in advance of environmental change. Most of the successful organisations, generally, adopt proactive approach in planning. In India, companies like Reliance Industries, Hindustan Lever, etc., have adopted this approach and their growth rate has been much faster than others.

- (ii) **Reactive Planning:** In reactive planning organisations responses come after the environmental changes have taken place. After the changes take place, these organisations start planning. In such a situation, the organisations lose opportunities to those organisations which adopt proactive approach because, by the time, reactors are ready with their plans, the contextual variables of planning show further changes. Therefore, their plans do not remain valid in the changed situations. This approach of planning is useful in an environment which is fairly stable over a long period of time.

5. Formal and informal planning

Classification of planning as formal and informal process is based on the degree of formalisation which is used in undertaking planning activities.

- (i) **Formal Planning:** Formal planning is in the form of well-structured process involving different steps. Generally, large organisations undertake planning in formal way in which they create separate corporate planning cell placed at sufficiently high level in the organisation. Generally, such cells are staffed by people with different backgrounds like engineers, staticians, MBAs, economists, etc., depending on the nature of organisations business. These cells monitor the external environment on continuous basis. When any event in the

environment shows some change, the cells go for the detailed study of the impact of the event and suggest suitable measures to take the advantages of the changing environment. The planning process that is adopted is rational, systematic, well-documented, and regular.

- (ii) **Informal Planning:** As against formal planning, informal planning is undertaken, generally, by smaller organisations. The planning process is based on managers' memory of events, intuitions and gut-feelings rather than based on systematic evaluation of environmental happenings. Usually, the corporate planning affairs are not entrusted to any single cell or department but become the part of managers' regular activities. Since the environment for smaller organisations is not complex, they do reasonably well with informal planning process.

6. Adhoc and standing planning

Ad-hoc planning committee may be constituted for certain specific matters, for instance, for project planning. But standing plans are designed to be used over and over again. They include organisational structure, standard procedures, standard methods, etc.

4.6 LIMITATIONS OF PLANNING

Though planning function is a primary function of management and it facilitates other functions of management, it suffers from certain limitations.

1. Inflexibility

The more detailed and widespread the plans are the greater inflexibility they are. This inflexibility arises an account of the philosophy of management. If the management has the philosophy of production of high quality goods at high cost, it may be difficult for them to plan for a cheaper quality product.

2. Limitation of forecasts

Planning is fully based on forecasts. If there is any defect in forecasts, the planning will lose its value.

3. Unsuitability

In planning, objectives, policies, procedures etc. are set after careful investigation of all the relevant factors. But in practice, business is facing new opportunities and challenges by nature. So, there is a need for modernisation or alteration of such framed objectives and policies in the light of new opportunities and challenges. Hence, planning is unsuitable.

4. Time consuming

The management cannot prepare any plan simply. It has to collect various information and hold discussions with others. So, planning is a time-consuming process.

5. Costly

Planning is preceded with collection of necessary information, careful analysis and interpretation of various courses of action, selection of the best one among them. This work cannot be completed without incurring any expenses. At the same time, there is no guarantee of getting any benefits from such planning. So, planning process is a costly one.

6. Mental ability

Planning is a mental exercise. The most careful planning is made only by an able and skilful manager. If the executives or managers do not have such ability, there will be no effective planning. According to George A. Steiner, "Planning is hard work. It requires a high level of imagination, analytical ability, creativity and fortitude to choose and become committed. Management must exert pressure to demand the best efforts in managers and the staff. Both the talents required are limited and the maintenance of high quality planning is difficult to achieve.

7. False sense of security

Future is uncertainty. Planning is concerned with future. The management people think that there is security, if planning is properly adhered to. But, this is not true in practice. So, the course of action is limited and planning becomes precise. This difficulty makes the management have a false sense of security.

8. Delay during emergency period

Planning does not give any benefits to an organisation during the emergency period. Spot decision dominates the planning. If planning is followed during the emergency period, there will be a possibility of delay in performing the work.

9. Capital Investment

If sizeable amounts are invested in fixed assets, the ability to change future course of action will be limited and planning will become precise. This difficulty continues upto the liquidation of investment or it creates a necessity to write off the investment.

10. Political Climate

Government can change its attitudes according to the changes of the political climate. Taxation policy, regulation of business and finances through financial institutions are generating constraints of the organisational planning process.

11. Trade Unions

The freedom of planning is restricted through the organisation of trade unions at the national level. Trade unions can interfere in the management activities on work rule, fixation of wages, productivity and associated benefits. Hence, managers are not free to take decisions in this area to some extent.

12. Technological changes

When there is a change in the technology, the management has to face number of problems. The problems may be high cost of production, competition in the market, etc. the management is not in a position to change its policies according to technology changes. It will affect the planning.

4.7 DECISION MAKING

A decision is a choice made between two or more available alternatives decision making is a process of choosing the best alternative for reaching objectives decision making is covered in the planning section of this text managers must also make decision when performing the other three managerial function-organizing, influencing, and controlling. Managers make decision affecting the organization daily and communicate that decision to other organizational members. Not at all managerial decision is equal significance to the organization, some affect the large number of organization members, cost a great deal of money to carry out, or have a long term effect on the organization.

Decision making is a process of selecting the best among the different alternatives. It is the act of making a choice. There are so many alternatives found in the organization and departments. Decision making is defined as the selection of choice of one best alternative. Before making decisions all alternatives should be evaluated from which advantages and disadvantages are known. It helps to make the best decisions. It is also one of the important functions of management. Without other management functions such as planning, Organizing, directing, controlling, staffing can't be conducted because in this managerial function decision is very important. According to **Stephen P. Robbins**, "Decision making is defined as the selection of a preferred course of action from two or more alternatives."

Importance of decision making

1. **Implementation of managerial function:** Without decision making different managerial function such as planning, organizing, directing,

controlling, staffing can't be conducted. In other words, when an employee does, s/he does the work through decision making function. Therefore, we can say that decision is important element to implement the managerial function.

2. **Pervasiveness of decision making:** the decision is made in all managerial activities and in all functions of the organization. It must be taken by all staff. Without decision making any kinds of function is not possible. So it is pervasive.
3. **Evaluation of managerial performance:** Decisions can evaluate managerial performance. When decision is correct it is understood that the manager is qualified, able and efficient. When the decision is wrong, it is understood that the manager is disqualified. So, decision making evaluates the managerial performance.
4. **Helpful in planning and policies:** Any policy or plan is established through decision making. Without decision making, no plans and policies are performed. In the process of making plans, appropriate decisions must be made from so many alternatives. Therefore decision making is an important process which is helpful in planning.
5. **Selecting the best alternatives:** Decision making is the process of selecting the best alternatives. It is necessary in every organization because there are many alternatives. So decision makers evaluate various advantages and disadvantages of every alternative and select the best alternative.
6. **Successful operation of business:** Every individual, departments and organization make the decisions. In this competitive world; organization can exist when the correct and appropriate decisions are made. Therefore correct decisions help in successful operation of business.

4.7.1 Techniques of Decision Making

Decision making is crucial for survival of business. Businesses have to make decision considering the limited amount of information. Decision making problems are divided into two types deterministic and probabilistic.

Deterministic model of problem solving depends on the relationship between uncontrollable factors and continuing process of optimizing system performance. A model is developed in under assumption related to existing business condition. If the variables under assumption do not truly reflect the current business conditions, the model developed also will not reflect the reality.

Mathematical optimization utilizes mathematical equation to determine the business decision. The business decision derive is in a numerical form.

A business model for decision making is constructed by analyst based on inputs of a decision maker. A business model is developed over a period of time using a progressive approach method.

Optimization Modeling Process

Optimization model is developed in three steps, 1st step is describing the problem, 2nd step is elaborating the solution and 3rd step is controlling the problem.

The optimized problem of the 1st step can be classified into linear and non-linear depending upon on nature of variables. Optimization problem has three following aspects:

- An objective function to maximize or minimize.
- A set of variables which affect the value of the objective function.
- A set of uncontrollable factors referred as parameters.

The solution of optimized problem satisfying all parameters and constraints is referred as feasible solution. The objective of an optimization process is to value of variables, which minimize or maximize objective giving out an optimal solution.

Linear programme

Linear programming is a mathematical procedure of determining linear allocation of business variables. For constructing linear program following factors are essential:

- The objective function needs to be linear.
- The objective must be to either maximize or minimize a linear function.
- The constraints in the program should also be linear.

In formulating a linear program certain variables are integer in nature, such as function with integer variable is known as integer programming.

Decision Tree

In a certain decision-making process, probability plays an important role. On the decision model based upon probability is decision trees.

Scenario Modeling

Business environment is always unpredictable and can throw up unusual situation more than often. Thus, organizations find themselves in the middle of dynamic environment. Here model and methods like sensitivity analysis, stability analysis, what-if analysis, scenario modeling, etc. is utilized.

Therefore, model under used uncertainties are as follows:

- **Scenario Analysis** : this model assumes a different scenario a business may find itself with certain value of parameters.
- **Worst Case Analysis** : this model assumes an extreme case scenario in computing different variables.
- **Monte-Carlo Model** : this model assumes uncertainty through statistical distribution.

Theory of constraints

Theory of constraints is a management concept which helps organization deal with situation, which hampers its growth and march towards higher level of performance. Theory of constraint encourages an organization to deal one constraint at a time and consist of following steps:

- Identifying constraints of the existing system.
- Identifying ways to potential extract more out of system constraints.
- Exploiting constraints to its fullest potential should be made priority.
- As the company overcomes 1st constraint, it should look forward to working upon other constraints.

4.7.2 Process of Decision Making

A lot of time is consumed while decisions are taken. In a management setting, decision cannot be taken abruptly. It should follow the following steps

1. **Identification of problems:** The first step of decision making is identification of problems. First of all, managers must identify the problem. The problem has to be found and defined. Symptoms are identified and problems should be judged, symptoms are not problems. They are warning signs of problems. So, managers should search for symptoms for identification of problems. Such symptoms can be falling of sales, profit etc. It is said that problem identified is half solved is identification of problem should be effective.
2. **Analysis of problem:** After identification of problems, the problem should be analyzed by the decision maker. It is the assembly of fact and clarifying it. Relevant information must be collected and analyzed according to the complexity and nature of problems.

3. **Developing the alternative solution:** After identification and analysis of problems different probable solutions have to be developed which is known as developing the alternative solutions. There may be many alternative past experience, expert opinion, discussions etc which may be helpful to develop the alternative
4. **Evaluation of best alternative:** After developing the alternative solution evaluation of best alternative is done. It is determined that which alternative has how much advantage and disadvantages. In other words, alternatives are evaluated in so many factors like cost factors, risk, benefits, facilities etc. therefore it is very important
5. **Selection of best alternative:** After evaluating alternative, the best alternative is to be selected from various alternatives. After developing alternative, the managers should taste each of them by imagining things that he has already put in effect. He should try to foresee the desirable consequences of adopting each alternative. It is done for best selection. therefore it is very important
6. **Implementation of best alternative:** Aafter selection of finest alternative, it must be used in the organization effectively. Effectiveness of decisions in achieving the desired goals depends upon its implementation. If they are not implemented effectively then best results can't be obtained. Therefore proper implementation of best alternative is necessary.
7. **Review of implementation:** It is the last step of decision making process. When the implementation of best alternative is reviewed, the process of decision making is finished. The result of implementation should be monitored and evaluated through which effectiveness can be measured.

4.8 MANAGEMENT BY OBJECTIVE

MBO was first popularized by Peter Drucker in 1954 in his book ‘The practice of Management’. It is a process of agreeing within an organization so that management and employees buy into the objectives and understand what they are. It has a precise and written description objectives ahead, timelines for their motoring and achievement. The employees and manager agree to what the employee will attempt to achieve in a period ahead and the employee will accept and buy into the objectives.

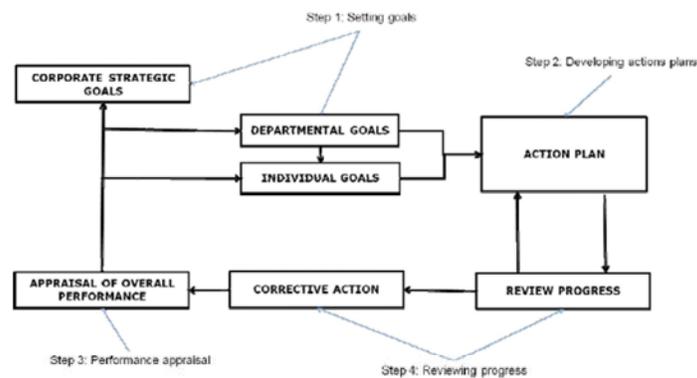
Definition

“MBO is a process whereby the superior and the managers of an organization jointly identify its common goals, define each individual’s major area of responsibility in terms of results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members.”

Features of MBO

1. MBO is concerned with goal setting and planning for individual managers and their units. 2. The essence of MBO is a process of joint goal setting between a supervisor and a subordinate. 3. Managers work with their subordinates to establish the performance goals that are consistent with their higher organizational objectives. 4. MBO focuses attention on appropriate goals and plans. 5. MBO facilitates control through the periodic development and subsequent evaluation of individual goals and plans.

4.9 STEPS IN MBO



The typical MBO process consists of: 1) Establishing a clear and precisely defined statement of objectives for the employee 2) Developing an action plan indicating how these objectives are to be achieved 3) Reviewing the performance of the employees 4) Appraising performance based on objective achievement

(1) Setting objectives:

For Management by Objectives (MBO) to be effective, individual managers must understand the specific objectives of their job and how those objectives fit in with the overall company objectives set by the board of directors. The managers of the various units or sub-units, or sections of an organization should know not only the objectives of their unit but should also actively participate in setting these objectives and make responsibility for them. Management by Objective (MBO) systems, objectives are written down for each level of the organization, and individuals are given specific aims and targets.

Managers need to identify and set objectives both for themselves, their units, and their organizations.

(2) Developing action plans

Actions plans specify the actions needed to address each of the top organizational issues and to reach each of the associated goals, who will complete each action and according to what timeline. An overall, top-level action plan that depicts how each strategic goal will be reached is developed by the top level management. The format of the action plan depends on the objective of the organization.

(3) Reviewing Progress:

Performance is measured in terms of results. Job performance is the net effect of an employee's effort as modified by abilities, role perceptions and results produced. Effort refers to the amount of energy an employee uses in performing a job. Abilities are personal characteristics used in performing a job and usually do not fluctuate widely over short periods of time. Role perception refers to the direction in which employees believe they should channel their efforts on their jobs, and they are defined by the activities and behaviors they believe are necessary.

(4) **Performance appraisal:**

Performance appraisals communicate to employees how they are performing their jobs, and they establish a plan for improvement. Performance appraisals are extremely important to both employee and employer, as they are often used to provide predictive information related to possible promotion. Appraisals can also provide input for determining both individual and organizational training and development needs. Performance appraisals encourage performance improvement. Feedback on behavior, attitude, skill or knowledge clarifies for employees the job expectations their managers hold for them. In order to be effective, performance appraisals must be supported by documentation and management commitment.

Advantages

- **Motivation** – Involving employees in the whole process of goal setting and increasing employee empowerment. This increases employee job satisfaction and commitment.
- **Better communication and Coordination** – Frequent reviews and interactions between superiors and subordinates helps to maintain harmonious relationships within the organization and also to solve many problems
- **Clarity of goals** - Subordinates have a higher commitment to objectives they set themselves than those imposed on them by another person.
- Managers can ensure that objectives of the subordinates are linked to the organization's objectives.

Limitations

- There are several limitations to the assumptive base underlying the impact of managing by objectives, including:
- It over-emphasizes the setting of goals over the working of a plan as a driver of outcomes.
- It underemphasizes the importance of the environment or context in which

the goals are set. That context includes everything from the availability and quality of resources, to relative buy-in by leadership and stake-holders.

- Companies evaluated their employees by comparing them with the “ideal” employee. Trait appraisal only looks at what employees should be, not at what they should do. When this approach is not properly set, agreed and managed by organizations, self-centered employees might be prone to distort results, falsely representing achievement of targets that were set in a short-term, narrow fashion. In this case, managing by objectives would be counterproductive.

4.10 STRATEGIES AND POLICIES

Strategic Planning Process / Strategic Formulation Process

1. **Input to the Organization :** Various Inputs (People, Capital, Management and Technical skills, others) including goals input of claimants (Employees, Consumers, Suppliers, Stockholders, Government, Community and others) need to be elaborated.
2. **Industry Analysis:** Formulation of strategy requires the evaluation of the attractiveness of an industry by analyzing the external environment. The focus should be on the kind of compaction within an industry, the possibility of new firms entering the market, the availability of substitute products or services, the bargaining positions of the suppliers, and buyers or customers.
3. **Enterprise Profile:** Enterprise profile is usually the starting point for determining where the company is and where it should go. Top managers determine the basic purpose of the enterprise and clarify the firm’s geographic orientation.
4. **Orientation, Values, and Vision of Executives:** The enterprise profile is shaped by people, especially executives, and their orientation and values are important for formulation the strategy. They set the organizational climate, and they determine the direction of the firm though their vision. Consequently, their values, their preferences, and their attitudes toward risk have to be carefully examined because they have an impact on the strategy.

5. **Mission (Purpose), Major Objectives, and Strategic Intent:** Mission or Purpose is the answer to the question: What is our business? The major Objectives are the end points towards which the activities of the enterprise are directed. Strategic intent is the commitment (obsession) to win in the competitive environment, not only at the top-level but also throughout the organization.
6. **Present and Future External Environment:** The present and future external environment must be assessed in terms of threats and opportunities.
7. **Internal Environment:** Internal Environment should be audited and evaluated with respect to its resources and its weaknesses, and strengths in research and development, production, operation, procurement, marketing and products and services. Other internal factors include, human resources and financial resources as well as the company image, the organization structure and climate, the planning and control system, and relations with customers.
8. **Development of Alternative Strategies:** Strategic alternatives are developed on the basis of an analysis of the external and internal environment. Strategies may be specialize or concentrate. Alternatively, a firm may diversify, extending the operation into new and profitable markets. Other examples of possible strategies are joint ventures, and strategic alliances which may be an appropriate strategy for some firms.
9. **Evaluation and Choice of Strategies:** Strategic choices must be considered in the light of the risk involved in a particular decision. Some profitable opportunities may not be pursued because a failure in a risky venture could result in bankruptcy of the firm. Another critical element in choosing a strategy is timing. Even the best product may fail if it is introduced to the market at an inappropriate time.
10. **Medium/Short Range Planning, Implementation through Reengineering the Organization Structure, Leadership and Control:** Implementation of the Strategy often requires reengineering the organization, staffing the organization structure and providing leadership. Controls must also be installed monitoring performance against plans.

11. **Consistency Testing and Contingency Planning:** The last key aspect of the strategic planning process is the testing for consistency and preparing for contingency plans.

4.11 SUMMARY

Planning is a looking ahead and chalking out future courses of action to be followed. It is a preparatory step. It is a systematic activity which determines when, how and who is going to perform a specific job. Planning is a detailed programme regarding future courses of action.

It is rightly said “Well plan is half done”. Therefore planning takes into consideration available & prospective human and physical resources of the organization so as to get effective co-ordination, contribution & perfect adjustment. It is the basic management function which includes formulation of one or more detailed plans to achieve optimum balance of needs or demands with the available resources.

Decision-making is an integral part of modern management. Essentially, Rational or sound decision making is taken as primary function of management. Every manager takes hundreds and hundreds of decisions subconsciously or consciously making it as the key component in the role of a manager. Decisions play important roles as they determine both organizational and managerial activities. A decision can be defined as a course of action purposely chosen from a set of alternatives to achieve organizational or managerial objectives or goals. Decision making process is continuous and indispensable component of managing any organization or business activities. Decisions are made to sustain the activities of all business activities and organizational functioning. Decisions are made at every level of management to ensure organizational or business goals are achieved. Further, the decisions make up one of core functional values that every organization adopts and implements to ensure optimum growth and drivability in terms of services and or products offered. As such, decision making process can be further exemplified in the backdrop of the following definitions.

4.12 GLOSSARY

- **Planning :** Planning is a mental predisposition to do things in orderly way, to think before acting and to act in the light of facts rather than guesses. Planning is deciding best alternative among others to perform different managerial functions in order to achieve predetermined goals.
- **Decision :** It is a choice made between alternative courses of action in a situation of uncertainty.
- **Process :** Process is a sequence of interdependent and linked procedures which, at every stage, consume one or more resources (employee time, energy, machines & money) to convert inputs (data, material, parts, etc.) into outputs. These outputs then serve as inputs for the next stage until a known goal or end result is reached.
- **Decision Making :** Decision making is a process of selecting the best among the different alternatives.
- **Strategic Planning :** Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy. It may also extend to control mechanisms for guiding the implementation of the strategy.

4.13 SELF ASSESSMENT QUESTIONS

1. Planning is the essence of management — Elucidate.

2. Explain the various limitations of planning.

3. What is decision making and give its advantages?

4.11 LESSON END EXERCISE

1. Differentiate between planning and decision making?

2. Discuss the techniques used in effective decision making process?

4.12 SUGGESTED READINGS

- L M Prasad : Principles and Practice of Management (Sultan Chand & Sons)
- Gupta, Sharma and Bhalla : Principles and Practices of Management (Kalyani Publishers)
- T. Ramasamy: Principles of Management (Himalaya Publishing House)
- George R Terry: Principles of Management (Richard D Irwin Inc)
- Harold Koontz and Heinzwehrich: Essentials of Management (Mcgraw Hill Series in Management)
- Peter F Drucker : Frontiers of Management (Heinemann London)
- Peter F Drucker : Managing for future (Tata Mcgraw Hill)
- J.S. Chandan : Management theory and Practice (Vikas Publishing House Pvt. Ltd.)

PLANNING PREMISES

STRUCTURE

- 5.1 Introduction
- 5.2 Objectives
- 5.3 Process of Planning Premises
- 5.4 Types of Planning Premises
- 5.5 Let us Sum Up
- 5.6 Glossary
- 5.7 Check Your Progress
- 5.8 Suggested Readings

5.1 INTRODUCTION

The process of planning is based upon estimates of future. Though past guides the plans in present, plans are made to achieve the goals in future. Therefore, forecast of future events leads to efficient plans. Since future events are not known accurately, assumption is made about these events. These events may be known conditions (changes in the tax laws as announced in the budget) or anticipated events which may

or may not happen (entry of competitor in the same market with the same product).

Though these assumptions are primarily based on scientific analysis and models, managers also use their intuition and judgement to make assumptions about future events. Identifying the factors (assumptions) that affect plans is called premising and the methods used for making premises are called forecasting. The forecast or the assumptions about future which provide a base for planning in present are known as planning premises. They are “the anticipated environment in which plans are expected to operate. They include assumptions or forecasts of the future and known conditions that will affect the operation of plans.

The estimates about future markets, consumer preferences, political and economic environment are the planning premises on which business plans are developed but if plans are made and their efficiency is judged in terms of future market demands, revenues and costs, they are mere expectations of plans. Such plans provide planning premise for other plans.

5.2 OBJECTIVES

After going through this until you should be able to:

- Define Planning Premises
- To describe the process of planning premises
- Types of planning premises

5.3 PROCESS OF PLANNING PREMISES

Wrong premises can lead to failure of plans. Since environmental factors affect business plans (also non-business plans) to a great extent, premises must be developed rationally and scientifically through the following process:

1. Selection of the premises:

Though there are innumerable factors in the environment, all of them do not

affect operations of the business enterprise. Top managers should select the premises which have direct impact on developing organisational plans. There are many factors that affect business decisions, some of which are general in nature while others are selective.

The general factors affect all the firms alike but specific factors affect different firms differently. While developing premises, organisations should focus more on specific factors (or its micro environment) as they have immediate impact on making the plans.

In order to analyse the factors that affect developing the premises, two factors have to be taken into account:

I. The probability of impact of factors:

If represents whether the factors under study affect or do not affect the planning premises. This probability can be high, medium or low.

II. The degree of impact of factors:

Given the factors which have the probability of developing planning premises, it represents the degree to which these factors affect the planning premises. This can also be high, medium or low.

Based on these two broad factors, nine different combinations can be formed which broadly result into four categories:

1. Critical factors
2. High priority factors
3. Factors to be watched
4. Low priority factors

1. Critical factors:

These are the factors with:

- (i) High probability of impact, and
- (ii) High degree of impact.

These factors must be thoroughly analysed as they significantly affect making of the planning premises.

2. High priority factors:

Though these factors are not as important as critical factors, they rank high in priority in developing the planning premises.

These are the factors with:

- (i) Medium probability of impact, and High degree of impact
- (ii) High/Medium probability of impact, and Medium degree of impact

These factors also must be thoroughly analysed by managers as they significantly affect the making of planning premises.

3. Factors to be watched:

These are the factors with:

- (i) Low probability of impact, and
- (ii) High degree of impact.

Thus, while these factors may not affect the planning premises, but if they affect, their degree of impact is high. A close watch must be kept on these factors so that their impact may not be ignored.

4. Low priority factors:

These factors rank low in priority in affecting the planning premises as either their probability of impact is low or the degree of impact is low.

These are the factors with:

- (i) Low probability of impact, and Medium degree of impact
- (ii) High/Medium/Low probability of impact, and Low degree of impact.

These factors do not significantly affect making of the planning premises and, therefore, do not require extensive scanning by managers.

The factors covered under various categories are not generic and determination of these factors depends upon the judgement of managers, nature and size of the organisation and nature of environment in which the organisations are operating.

Probability of Impact of factors	Degree of Impact of factors		
	High	Medium	Low
High	Critical	High priority	Low Priority
Medium	High Priority	High Priority	Low Priority
Low	To be watched	Low Priority	Low Priority

2. Development of alternative premises:

Since factors affecting organisational plans cannot be perfectly predicted, managers should develop alternative premises i.e., plans under different sets of assumptions about the future events. This helps in developing contingent plans. Contingent plans are the alternative plans for alternative premises. Since the premises keep changing, some slowly and some fast, to keep pace with such changes, alternative plans must be developed.

As developing too many plans is costly in terms of time and money, the following factors should be considered in developing contingent plans:

- (a) They should be made for those factors which are important for corporate decisions like economic factors, competitors' policies, consumers' tastes etc.

They should be made in the order of priority of factors like:

- (i) Critical factors,
- (ii) High priority factors,

- (iii) To be watched factors,
- (iv) Low priority factors, and
- (b) They should be made on the basis of cost-benefit analysis, that is, the alternative whose cost seems to be more than its benefits should be dropped out.
- (c) Though maximum details should be covered in each contingency plan, all the plans cannot cover extensive information. Contents or details should depend on the order of priority of plans. Important plans made for critical factors should cover maximum information while plans for low priority factors should not contain extensive details as the degree of their impact on organisational plans is low.

Collecting details or information about the factors that affect the premises is based on forecasting techniques. The choice of technique (simple or complex) depends upon the need of the organisation, resources, the period in which information is collected, the sample size, to what degree is the sample representative of the general population etc.

Every technique has costs and benefits and a thorough cost-benefit analysis should be undertaken before adopting a specific technique of forecasting. In some cases, this information is available through secondary sources like published journals, magazines and information agencies. The relevance of such information should be considered before using it for development of premises.

3. Verification of premises:

Planning staff at different levels of different departments makes plans according to their judgement. These premises are then sent to top executives for their approval. The premises which involve both staff and line managers are more consistent than those that are developed by executives alone.

4. Communication of premises:

After the premises are developed, they are supported by budgets and programmes and communicated to all those concerned with development of plans at different levels in different departments. Planning premises are contained in documents

like environmental threat and opportunity profile (ETOP) and communicated to managers concerned. The premises, thus, help to develop sound plans followed by strategies, policies, procedures etc. which further help in effective implementation of plans.

5.4 TYPES OF PLANNING PREMISES

Different types of planning premises are:

1. Internal and External premises,
2. Controllable, Semi-controllable and Non-controllable premises, and
3. Tangible and Intangible premises.

1. Internal and external Premises:

Internal premises originate from factors within the enterprise. They relate to premises about the company's internal policies and programmes, capital budgeting proposals, sales forecasts, personnel forecasts (skills and abilities of personnel) etc. These premises may be strengths or weaknesses of the organisation.

Strength represents a positive attitude which provides strategic advantage to the company over competitors and weakness is a limitation or constraint that provides strategic disadvantage. Managers analyse their strengths and weaknesses through corporate analysis and when corporate analysis (internal) is combined with environmental analysis (external), it is called SWOT analysis (Strength, Weaknesses, Opportunities, Strengths).

External premises originate from factors outside the organisation. These are the indirect- action environmental factors (social, political, technological etc.) which affect the organisation. They are also non-controllable premises beyond the control of the organisation. The external environmental factors represent opportunity or threat to the organisation.

Opportunity is a favourable environmental condition which helps the organisation to improve its operational efficiency and threat creates risk for the

company. It is the environmental challenge that weakens the organisation's competitive strength. This is done through SWOT analysis. It identifies environmental variables which help to formulate plans and policies.

2. Controllable, semi-controllable and non-controllable premises:

Controllable premises are within the control of a business enterprise, such as, men, money, materials, policies, procedures, programmes etc. They can be controlled by a business enterprise to ensure better sales of products. Such premises are usually internal to the business.

Semi-controllable premises are those which can be partially controlled by a business enterprise like, labour position in the market, prices of the product, market share of the company etc. For instance, increase or decrease in the price of the product is neither totally controllable nor non-controllable by the managers.

The extent to which prices can be increased or decreased depends upon market sentiments, prices charged by competitors, cost structure of the company etc. Thus, change in prices can be controlled but subject to constraints of the variables that affect the price of the product. Similar is the case with change in wages paid to the labour or labour turnover (labour turnover is greatly affected by the wages offered by other companies).

Non-controllable premises lie beyond the control of the business enterprise. Wars, natural calamities and external environmental factors (economic policies, taxations laws, political climate etc.) are the non-controllable premises. These premises are usually external to the business.

3. Tangible and intangible premises:

Tangible premises can be estimated in quantitative terms like, production units, cost per unit etc. For example, production forecast and sales forecast can be expressed in monetary terms. How many units of product A can be sold in a year and, therefore, produced, how much raw material is needed for production can be estimated in units and monetary terms.

Intangible premises cannot be quantified, for example, goodwill of the firm, employer-employee relationships, leadership qualities of the managers, motivational factors that affect employees' performance etc. Though the planning premises have been classified as above, this classification is not mutually exclusive.

Different types of premises tend to overlap each other. For instance, internal premises may also be controllable (organisational policies) and tangible premises (cost of product), external premises can also be non-controllable premises (economic policies).

External premises can also be tangible (rate of inflation) or intangible (value system of the society). Therefore, various types of planning premises have to be viewed in the context in which they need to be used in making the plans.

5.5 MANAGEMENT BY OBJECTIVE

MBO was first popularized by Peter Drucker in 1954 in his book 'The practice of Management'. It is a process of agreeing within an organization so that management and employees buy into the objectives and understand what they are. It has a precise and written description objectives ahead, timelines for their motoring and achievement. The employees and manager agree to what the employee will attempt to achieve in a period ahead and the employee will accept and buy into the objectives.

Definition

“MBO is a process whereby the superior and the mangers of an organization jointly identify its common goals, define each individual's major area of responsibility in terms of results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members.”

Features of MBO

1. MBO is concerned with goal setting and planning for individual managers and their units. 2. The essence of MBO is a process of joint goal setting between a supervisor and a subordinate. 3. Managers work with their subordinates to establish the performance goals that are consistent with their higher organizational objectives. 4. MBO focuses attention on appropriate goals and plans. 5. MBO facilitates control through the periodic development and subsequent evaluation of individual goals and plans.

5.6 GLOSSARY

- **Controllable, semi-controllable and non-controllable premises:**

Controllable premises are within the control of a business enterprise, such as, men, money, materials, policies, procedures, programmes etc. They can be controlled by a business enterprise to ensure better sales of products. Such premises are usually internal to the business.

- **Semi-controllable premises**

Are those which can be partially controlled by a business enterprise like, labour position in the market, prices of the product, market share of the company etc.

- **Tangible and intangible premises:**

Tangible premises can be estimated in quantitative terms like, production units, cost per unit etc. For example, production forecast and sales forecast can be expressed in monetary terms.

- Intangible premises cannot be quantified, for example, goodwill of the firm, employer-employee relationships, leadership qualities of the managers, motivational factors that affect employees' performance etc.

5.7 CHECK YOUR PROGRESS

1. What is planning premises?

2. Explain in detail the process of planning premises.

3. Explain in detail the different types of Planning premises.

5.11 SUGGESTED READINGS

1. Kootnz & O'Donnell, Principles of Management.
2. Peter F. Drucker, Practice of Management
3. J.S. Chandan, Management Concepts and Strategies.
4. Arun Kumar & Rachana Sharma, Principles of Business Management.

DECISION MAKING

STRUCTURE

- 6.1 The Concept of Decision Making
- 6.2 Objectives
- 6.3 Characteristics of Decision Making
- 6.4 Importance of Decision Making
- 6.5 Decision Making Process
- 6.6 Types of Decisions
- 6.7 Techniques of Decision Making
- 6.8 Models of Decision Making
- 6.9 Let us sum up
- 6.10 Glossary
- 6.11 Check your progress
- 6.12 Suggested Readings

6.1 THE CONCEPT OF DECISION MAKING

Decision-making and problem-solving are basic ingredients of managerial leadership. More than anything else, the ability to make sound, timely decisions separates a successful manager from a non-successful. It is the responsibility of managers to make high quality decisions that are accepted and executed in a timely fashion. On the face of it the decisions should be cohesive, conjectured, contingent, flexible, improved, influencing, intuitional, non-judgemental, objective, operational one. One of the most important functions of a manager is to take decisions. Whatever a manager does, he does through decision-making. Each managerial decision is concerned with the process of decision-making. It is because of this pervasiveness of decision-making that Professor Herbert Simon has said the process of managing as a process of decision-making. According to him, a post or position cannot be said to be managerial level until and unless the right of decision-making is attached to it. As a matter of act, it is the core of executive activities in a business organization.

Decision-making is a mental process. It is a process of selecting one best alternative for doing a work. Thus, it is a particular course of action chosen by a decision maker as the most effective alternative for achieving his goals. According to D.E. McFarland, "A decision is an act of choice- wherein an executive forms a conclusion about what must be done in a given situation. A decision represents a course of behaviour chosen from a number of possible alternatives". In the words of Haynes and Massie, "A decision is a course of action which is consciously chosen for achieving a desired result".

Hence decision-making is a typical form of planning. It involves choosing the best alternative among various alternatives, in order to realize certain objectives. A decision represents a judgement, a final word, and resolution of conflicts or a commitment to act in certain manner in the given set of circumstances. It is really a mental exercise which decides what to do.

Leaders must be able to reason under the most critical conditions and decide quickly what action to take. If they delay or avoid making a decision, this indecisiveness may create hesitancy, loss of confidence, and confusion within the unit, and may

cause the task to fail. Since leaders are frequently faced with unexpected circumstances, it is important to be flexible - leaders must be able to react promptly to each situation. Then, when circumstances dictate a change in plans, prompt reaction builds confidence in them.

6.2 OBJECTIVE

The learning objectives of the lesson are to know the meaning and importance of Decision Making; to understand the characteristics and process of Decision Making; to understand the various types of Decisions and to learn the Techniques of Decision Making.

6.3 CHARACTERISTICS OF DECISION MAKING

The essential characteristics of decision making are given below:

1. It is a process of choosing a course of action from among the alternative courses of action.
2. It is a human process involving to a great extent the application of intellectual abilities.
3. It is the end process preceded by deliberation and reasoning.
4. It is always related to the environment. A manager may take one decision in a particular set of circumstances and another in a different set of circumstances.
5. It involves a time dimension and a time lag.
6. It always has a purpose. Keeping this in view, there may just be a decision not to decide.
7. It involves all actions like defining the problem and probing and analyzing the various alternatives which take place before a final choice is made.

6.4 IMPORTANCE OF DECISION MAKING

As a leader, you will make decisions involving not only yourself, but the

morale and welfare of others. Some decisions, such as when to take a break or where to hold a meeting, are simple decisions which have little effect on others. Other decisions are often more complex and may have a significant impact on many people. Therefore, having a decision-making, problem-solving process can be a helpful tool. Such a process can help you to solve these different types of situations. Within business and the military today, leaders at all levels use some form of a decision-making, problem-solving process. There are several different approaches (or models) for decision-making and problem solving. We would briefly discuss it in this lesson as well.

It is beyond doubt that the decision making is an essential part of every function of management. According to Peter F. Drucker, “Whatever a manager does, he does through decision making”. Decision making lies deeply embedded in the process of management, spreads over all the managerial functions and covers all the areas of the organization. Management and decision making are bound up and go side by side in every activity performed by manager. Whether knowingly or unknowingly, every manager makes decisions constantly.

Right from the day when the size of the organization used to be very small to the present day huge or mega size of the organization, the importance of decision making has been there. The significant difference is that in today’s complex organization structure, the decision making is getting more and more complex. Whatever a manager does, he does through making decisions. Some of the decisions are of routine and repetitive in nature and it might be that the manager does not realize that he is taking decisions whereas, other decisions which are of strategic nature may require a lot of systematic and scientific analysis. The fact remains that management is always a decision making process.

The most outstanding quality of successful manager is his/her ability to make sound and effective decisions. A manager has to make up his/her mind quickly on certain matters. It is not correct to say that he has to make spur of the moment decisions all the time. For taking many decisions, he gets enough time for careful fact finding, analysis of alternatives and choice of the best alternative. Decision making is a human process. When one decides, he chooses a course alternative

which he thinks is the best.

Decision making is a proper blend of thinking, deciding and action. An important executive decision is only one event in the process which requires a succession of activities and routine decisions all along the way. Decisions also have a time dimension and a time lag. A manager takes time to collect facts and to weigh various alternatives. Moreover, after decides, it takes still more time to carry out a decision and, often, it takes longer before he can judge whether the decision was good or bad. It is also very difficult to isolate the effects of any single decision.

6.5 DECISION MAKING PROCESS

The following procedure should be followed in arriving at a correct decision:

1. **Setting objectives :** Rational decision-making involves concrete objectives. So the first step in decision-making is to know one's objectives. An objective is an expected outcome of future actions. So before deciding upon the future course of efforts, it is necessary to know beforehand what we are trying to achieve. Exact knowledge of goals and objectives bring purpose in planning and harmony in efforts. Moreover, objectives are the criteria by which final outcome is to be measured.
2. **Defining the Problem :** It is true to a large extent that a problem well defined is half solved. A lot of bad decisions are made because the person making the decision does not have a good grasp of the problem. It is essential for the decision maker to find and define the problem before he takes any decision.

Sufficient time and energy should be spent on defining the problem as it is not always easy to define the problem and to see the fundamental thing that is causing the trouble and that needs correction. Practically, no problem ever presents itself in a manner that an immediate decision may be taken. It is, therefore, essential to define the problem before any action is taken, otherwise the manager will answer the wrong question rather than the core problem. Clear definition of the problem is very important as the right answer can be found only to a right question.

3. Analyzing the problem : After defining the problem, the next step in decision-making is analyzing it. The problem should be thoroughly analyzed to find out adequate background information and data relating to the situation. The problem should be divided into many sub-problems and each element of the problem must be investigated thoroughly and systematically. There can be a number of factors involved with any problem, some of which are pertinent and others are remote. These pertinent factors should be discussed in depth. It will save time as well as money and efforts.

In order to classify any problem, we require lot of information. So long as the required information is not available, any classification would be misleading. This will also have an adverse impact on the quality of the decision. Trying to analyze without facts is like guessing directions at a crossing without reading the highway signboards. Thus, collection of right type of information is very important in decision making. It would not be an exaggeration to say that a decision is as good as the information on which it is based. Collection of facts and figures also requires certain decisions on the part of the manager. He must decide what type of information he requires and how he can obtain this.

4. Developing Alternatives : After defining and analyzing the problem, the next step in the decision making process is the development of alternative courses of action. Without resorting to the process of developing alternatives, a manager is likely to be guided by his limited imagination. It is rare for alternatives to be lacking for any course of action. But sometimes a manager assumes that there is only one way of doing a thing. In such a case, what the manager has probably not done is to force himself consider other alternatives. Unless he does so, he cannot reach the decision which is the best possible. From this can be derived a key planning principle which may be termed as the principle of alternatives. Alternatives exist for every decision problem. Effective planning involves a search for the alternatives towards the desired goal.

Once the manager starts developing alternatives, various assumptions come to his mind, which he can bring to the conscious level. Nevertheless, development of alternatives cannot provide a person with the imagination, which he lacks.

But most of us have definitely more imagination than we generally use. It should also be noted that development of alternatives is no guarantee of finding the best possible decision, but it certainly helps in weighing one alternative against others and, thus, minimizing uncertainties.

While developing alternatives, the principle of limiting factor has to be taken care of. A limiting factor is one which stands in the way of accomplishing the desired goal. It is a key factor in decision making. If such factors are properly identified, manager can confine his search for alternative to those which will overcome the limiting factors. In choosing from among alternatives, the more an individual can recognize those factors which are limiting or critical to the attainment of the desired goal the more clearly and accurately he or she can select the most favourable alternatives.

5. **Selecting the Best Alternative** : After developing alternatives one will have to evaluate all the possible alternatives in order to select best alternative. There are various ways to evaluate alternatives. The most common method is through intuition, i.e., choosing a solution that seems to be good at that time. There is an inherent danger in this process because a manager's intuition may be wrong on several occasions.

The second way to choose the best alternative is to weigh the consequences of one against those of the others. Peter F. Drucker has laid down four criteria in order to weigh the consequences of various alternatives. They are :

- (a) *Risk* : A manager should weigh the risks of each course of action against the expected gains. As a matter of fact, risks are involved in all the solutions. What matters is the intensity of different types of risks in various solutions.
- (b) *Economy of Effort* : The best manager is one who can mobilize the resources for the achievement of results with the minimum of efforts. The decision to be chosen should ensure the maximum possible economy of efforts, money and time.
- (c) *Situation or Timing* : The choice of a course of an action will depend upon the situation prevailing at a particular point of time. If the situation has great urgency,

the preferable course of action is one that alarms the organization that something important is happening. If a long and consistent effort is needed, a slow start gathers momentum approach may be preferable.

- (d) *Limitation of Resources* : In choosing among the alternatives, primary attention must be given to those factors that are limiting or strategic to the decision involved. The search for limiting factors in decision-making should be a never ending process. Discovery of the limiting factor lies at the basis of selection from the alternatives and hence of planning and decision making. There are three bases which should be followed for selection of alternatives and these are experience, experimentation and research and analysis which are discussed below :

In making a choice, a manager is influenced to a great extent by his past experience. He can give more reliance to past experience in case of routine decisions; but in case of strategic decisions, he should not rely fully on his past experience to reach at a rational decision.

Under experimentation, the manager tests the solution under actual or simulated conditions. This approach has proved to be of considerable help in many cases in test marketing of a new product. But it is not always possible to put this technique into practice, because it is very expensive.

Research and Analysis is considered to be the most effective technique of selecting among alternatives, where a major decision is involved. It involves a search for relationships among the more critical variables, constraints and premises that bear upon the goal sought.

6. *Implementing the Decision* : The choice of an alternative will not serve any purpose if it is not put into practice. The manager is not only concerned with taking a decision, but also with its implementation. He should try to ensure that systematic steps are taken to implement the decision. The main problem which the manager may face at the implementation stage is the resistance by the subordinates who are affected by the decision. If the manager is unable to

overcome this resistance, the energy and efforts consumed in decision making will go waste. In order to make the decision acceptable, it is necessary for the manager to make the people understand what the decision involves, what is expected to them and what they should expect from the management.

In order to make the subordinates committed to the decision it is essential that they should be allowed to participate in the decision making process. The managers who discuss problems with their subordinates and give them opportunities to ask questions and make suggestions find more support for their decisions than the managers who don't let the subordinates participate. The area where the subordinates should participate is the development of alternatives. They should be encouraged to suggest alternatives. This may bring to surface certain alternatives which may not be thought of by the manager. Moreover, they will feel attached to the decision. At the same time, there is also a danger that a group decision may be poorer than the one man decision. Group participation does not necessarily improve the quality of the decision, but sometimes impairs it. Someone has described group decision like a train in which every passenger has a brake. It has also been pointed out that all employees are unable to participate in decision making. Nevertheless, it is desirable if a manager consults his subordinates while making decision.

7. Follow-up the Decisions : Kenneth H. Killer, has emphatically written in his book that it is always better to check the results after putting the decision into practice. He has given reasons for following up of decisions and they are as follows:
 - (i) If the decision is a good one, one will know what to do if faced with the same problem again.
 - (ii) If the decision is a bad one, one will know what not to do the next time.
 - (iii) If the decision is bad and one follows-up soon enough, corrective action may still be possible.

In order to achieve proper follow-up, the management should devise an

efficient system of feedback information. This information will be very useful in taking the corrective measures and in taking right decisions in the future.

6.6 TYPES OF DECISIONS

Decisions have been classified by various authorities in various ways. The main types of decisions are as follows :

1. *Programmed and non-programmed decisions* : Professor Herbert Simon has classified all managerial decisions as programmed and non- programmed decisions. He has utilized computer terminology in classifying decisions. The programmed decisions are the routine and repetitive decisions for which the organization has developed specific processes. Thus, they involve no extraordinary judgement, analysis and authority. They are basically devised so that the problem may not be treated as a unique case each time it arises.

On the other hand, the non-programmed decisions are the one-shot, ill structured, novel policy decisions that are handled by general problem- solving processes. Thus, they are of extraordinary nature and require a thorough study of the problem, its in-depth analysis and the solving the problem. They are basically non-repetitive in nature and may be called as strategic decisions.

2. *Basic and routine decisions* : Professor George Katona has made a distinction between basic decision and routine decisions. Routine decisions are of repetitive nature and they involve the application of familiar principles to a situation. Basic or genuine decisions are those which require a good deal of deliberation on new principles through conscious thought process, plant location, distribution are some examples of basic decisions.
3. *Policy and operative decisions* : Policy decisions are important decisions and they involve a change in the procedure, planning or strategy of the organization. Thus, they are of a fundamental character affecting the whole business. Such decisions are taken by the top management. On the contrary, operating decisions are those which are taken by lower levels of management for the purpose of executing policy decisions. They are generally concerned with the routine type

of work, hence unimportant for the top management. They mostly relate to the decision-makers own work and behaviour while policy decision influences the work and behaviour of subordinates.

4. *Individual and group decisions* : Individual decisions are those decisions which are made by one individual – whether owner of the business or by a top executive. On the other hand, group-decisions are the decisions taken by a group of managers – board, team, committee or a sub-committee. In India, individual decision-making is still very common because a large number of businesses are small and owned by a single individual. But in joint stock Company's group decisions are common. There are both merits and demerits of each type of decision.

6.7 TOOLS OR TECHNIQUES OF DECISION MAKING

The following are some of the important decision making techniques :

- (A) Qualitative Techniques
- (B) Quantitative Techniques
- (C) Qualitative Decision Making Techniques

There is a great importance of generating a reasonable number of alternatives, so that one can decide upon the better quality items and make better decision.

Generating a reasonable number of alternatives is very useful for solving any complex problem. There are following means of generating the alternatives :

- (a) Brainstorming
- (b) Synectics, and
- (c) Nominal Grouping

(a) Brainstorming

This technique was developed by Alex F. Osborn, and is one of the oldest and

best known techniques for stimulating the creative thinking. This is carried out in a group where members are presented with a problem and are asked to develop as many as potential solutions as possible. The member of the group may be experts, may be from other organizations but the members should be around six to eight. The duration of the session may be around 30 minutes to 55 minutes. The premise of brainstorming is that when people interact in a free and exhibited atmosphere, they will generate creative ideas. The idea generated by one person acts as a stimulus for generating idea by others. This generation of ideas is a contagious and creates an atmosphere of free discussion and spontaneous thinking. The major objective of this exercise is to produce as many deals as possible, so that there is greater likelihood of identifying a best solution.

The important rules of brainstorming are as given below :

- (i) Criticism is prohibited.
- (ii) Freewheeling is always welcome.
- (iii) Quantity is desirable.
- (iv) Combination and improvements are sought.

One session of brainstorming exercise generates around 50 to 150 ideas. Brainstorming is very useful in research, advertising, management, armed forces, governmental and non-governmental agencies.

Limitations of Brainstorming

The limitations of brainstorming are given below :

- (i) It is not very effective when a problem is very complex and vague
- (ii) It is time consuming
- (iii) It is very costly
- (iv) It produces superficial solutions.

(b) Synectics

This technique was developed by William J.J. Gordon. It is recently formalized tool of creative thinking. The word Synectics is a Greek word, meaning the fitting together of diverse elements. The basic purpose of synectics is to stimulate novel and even bizarre alternatives through the joining together of distinct and apparently irrelevant ideas.

The selection of members to synectics group is based on their background and training. The experienced leader states the problem for the group to consider, group reacts to the problem stated on the basis of their understanding and convictions. When the nature of the problem is thoroughly reviewed and analyzed, group proceeds to offer potential solutions. The leader has to structure the problem and he/she can use various methods to involve the preconscious mind, like role-playing, use of analogies, paradoxes, metaphors and other thought provoking exercises. This helps in generation of alternatives. The technical expert assists the group in evaluating the feasibility of ideas. It also suffers from some limitations of brainstorming. This is more useful and appropriate for solving complex and technical problems.

(c) Nominal Grouping :

This was developed by Andre Dellbecq and Andrew Van de Ven. Nominal group is very effective in situations where a high degree of innovation and idea generation is required. It is highly structured and follows following stages :

Stage-1 :

Around seven to ten participants with different background and training are selected, familiarized with a selected problem like what alternatives are available for achieving a set of objective.

Stage-2 :

Each member is asked to prepare a list of ideas in response to the identified problem, individually for achieving a set of objective.

Stage -3 :

After ten minutes, the member shares ideas, one at a time, in a round-robin manner. The group facilitator records the ideas on a blackboard or flip chart for all to see.

Stage-4 :

Each group member then openly discusses and evaluates each recorded ideas. At this point, it may be rewarded, combined, added or deleted.

Stage-5 :

Each member votes ranking the ideas privately. Following a brief discussion of the vote, a final secret ballot is conducted. The group's preference is the arithmetical outcome of the individual voter, these are followed by concluding meeting.

(B) Quantitative Techniques

There are a number of quantitative techniques for decision-making that are discussed below :

- (a) *Stochastic Methods* : In many management decisions, the probability of the occurrence of an event can be assumed to be known, even when a particular outcome is unpredictable. Under these conditions of risk, stochastic methods will be useful. Actually, stochastic methods merely systematize the thinking about assumptions, facts and goals that is involved in decisions under conditions of risk.

Three steps are basic to formalizing the factors to be considered in a decision involving probabilities : (i) The decision maker should first lay out, in tabular form, all the possible actions that seem reasonable to consider and all the possible outcomes of these actions (ii) The decision maker must then state in quantitative form a probability distribution, projecting chances of each outcome that might result from each act. In this step, it may only be possible to assign probabilities that are reasonable estimates. The key to this step is to state

explicitly the various probabilities that might be attached to each act-outcome situation (iii) finally, the decision maker must use some quantitative yardstick of value (usually rupees) that measures the value of each outcome. It is then possible to calculate an average of the outcome-values weighted by the assigned probabilities; the result is called the expected monetary value.

To illustrate the use of these steps, suppose that a Store Manager of Ramson Limited must decide whether to stock Brand A or Brand B. Either brand can be stocked but not both. If A is stocked and it is a success. The manager can make Rs. 200/-, but if it is a failure, there can be a loss of Rs. 500/-. If Brand B is stocked and it is a success, the manager can make Rs. 400/-, but if it is a failure, there can be a loss of Rs. 300/-. Which brand should be stocked? Without some idea of the probabilities of success and failure of these brands, the manager's thinking cannot be quantified. But assume that the manager's feelings about the probabilities of each outcome are shown in Table 5.1

Table 5.1 : Stochastic Table

	Probability of Brand A	Brand B
Success	0.80	0.50
Failure	0.20	0.50

- (b) *Payoff Table* : The Store Manager can present the above information in tabular form, showing the conditional values for each strategy (choice of brand) under each state of nature (the combination of uncontrollable factors, such as demand, that determine success or failure). The simplest payoff table as the first step in stating strategies and possible outcomes is shown in Table 5.2.

With the information in Table 5.1 the Store Manager can use subjective estimates of risks assumed above and multiply the conditional values by their probability of occurrence. This calculation will result in expected values. Table 5.2 shows the expected value pay off, using the assumed payoff in

Table 5.1 and the above feelings about the probability of success for Brands A and B.

Table 5.2 Payoff Table

State of Nature (Demand)

Strategy	Success	Failure
Stock Brand A	Rs. 200/-	Rs. 500/-
Stock Brand B	Rs. 400/-	Rs. 300/-

From the expected value payoff table 5.3, the store manager can determine the total expected value for each strategy by obtaining the sum of the expected values for each state of nature. If Brand A is stocked, the total expected value is Rs. 60/- (Rs. 160-100); if Brand B is stocked, the total expected value is Rs. 50/- (Rs. 200-150); therefore, under the assumptions in this case, the store manager would decide to stock Brand A, because its total expected value is Rs. 10/- more than if Brand B were stocked. Obviously, if the total expected value for stocking each brand had been negative, the manager would decide not to stock either, because there would probably be a loss under either strategy.

Table 5.3 : Expected Value Payoff Table

State of Nature

Strategy	Success	Failure
Stock Brand A	Rs. 160/-	Rs. 100/-
Stock Brand B	Rs. 200/-	Rs. 150/-

- (c) *Simulation Techniques* : Often, when a management problem is too complex to be answered by series of mathematical equations, it is possible to simulate the probable outcomes before taking action. In this way, the manager may rapidly try out on paper (or with a computer) the results of proposed actions

before the actions are taken. By trying out several policies, it is possible to determine which one has the best chance of providing the optimum result.

The idea of randomness represented by random numbers is at the heart of simulation. Random numbers are numbers, each of which has the same chance of being selected. Tables of random numbers are now readily available.

One type of simulation is used in queuing problems, one in which the need for personnel or equipment varies over a time period but the determination of the peak demands cannot be estimated because the occurrence is random or due to chance. With simulation, the manager can try out available strategies as they might result in different outcomes, depending upon probabilities from a table of random numbers. For example, the store manager may wish to determine the work schedules for three sales people to serve customers and to decide whether to add a fourth salesperson. The problem arises from not knowing when customers may appear in the store. Experience may indicate the probabilities that at some hours of the day all three sales people will be serving customers, but that at other times the sales people will be idle. In simulating the traffic for a day, the manager may wish to use subjective probabilities for those times in which there are no data from experience, but even if there are no experience data, it is still possible to simulate an activity by using random numbers.

In practice, simulation is carried out by electronic computers. In seconds, a computer can perform thousands of simulation trails and at the same time compile all costs. At the present time, inventory decision rules are commonly tested on computers. The executive specifies such things as reorder points and order quantity and the computer determines the costs of that policy over the same period of time. After many different policies are put through the series of simulation runs, the best policy can be selected.

- (d) *Breakeven Analysis* : The simplest approach for showing the relationship of revenue to cost is the breakeven chart. Revenue and cost can be studied by directing attention to : (i) total revenue and total cost, (ii) average revenue

and average cost per unit of output, and (iii) changes in revenue and cost. Breakeven analysis directs attention to the first of these. Breakeven analysis implies that at some point in the operations total revenue equals total cost-the breakeven point. This analysis can be handled algebraically or graphically; however, in all cases, the first step is to classify costs into at least two types-fixed and variable.

The distinction between total fixed and total variable costs stresses that only variable costs will increase with an increase in the production rate of output. However, it should be clear that when average cost per unit is considered, fixed cost per unit of output will decline as volume increases- the constant fixed costs are spread over more units of output. Variable costs per unit of output may increase proportionally with an increase in output, or they may decrease per unit of output (for example, if quantity discounts are significant), or they may increase per unit of output (if the quantity of materials is very short and thus price increases as output increases). In most industries, variable costs per unit can reasonably be assumed to be constant, and thus total variable costs will appear as a straight line (linear) when plotted against various quantities of output. The cost- volume-profit relationship can best be visualized by charting the variables. A breakeven chart is graphical representation of the relationship between costs and revenue at a given time.

The simplest breakeven chart makes use of straight lines that represent revenue, variable costs, and total costs. The construction of this chart requires only that the cost and revenue be known at two points (volumes of output), because only two points are required to draw a straight line. The point at the Y intercept (left hand side of chart) is given by definition : Revenue line will start at zero volume; variable costs also will start at zero volume; fixed costs will be given level on the Y axis because, by definition, they would continue even if there were no production. Cost and revenue data at an actual volume level provide the basis for the necessary second point. All other points on the lines are the results of the assumption of linear relationships for both revenue and costs.

The decision-making process though a logical one is a difficult task. All decisions can be categorized into the following three basic models.

- (1) The Rational/Classical Model.
- (2) The Administrative or Bounded Rationality Model.
- (3) The Retrospective Decision-Making Model.

All models are beneficial for understanding the nature of decision-making processes in enterprises or organisations. All models are based on certain assumptions on which the decisions are taken.

1. The Rational/Classical Model:

The rational model is the first attempt to know the decision-making-process. It is considered by some as the classical approach to understand the decision-making process. The classical model gave various steps in decision-making process which have been discussed earlier.

Features of Classical Model:

1. Problems are clear.
2. Objectives are clear.
3. People agree on criteria and weights.
4. All alternatives are known.
5. All consequences can be anticipated.
6. Decision makes are rational.

2. Bounded Rationality Model or Administrative Man Model:

Decision-making involve the achievement of a goal. Rationality demands that

the decision-maker should properly understand the alternative courses of action for reaching the goals. He should also have full information and the ability to analyse properly various alternative courses of action in the light of goals sought. There should also be a desire to select the best solutions by selecting the alternative which will satisfy the goal achievement.

Herbert A. Simon defines rationality in terms of objective and intelligent action. It is characterised by behavioural nexus between ends and means. If appropriate means are chosen to reach desired ends the decision is rational.

Bounded Rationality model is based on the concept developed by Herbert Simon. This model does not assume individual rationality in the decision process.

Instead, it assumes that people, while they may seek the best solution, normally settle for much less, because the decisions they confront typically demand greater information, time, processing capabilities than they possess. They settle for “bounded rationality or limited rationality in decisions. This model is based on certain basic concepts.

(a) Sequential Attention to alternative solution:

Normally it is the tendency for people to examine possible solution one at a time instead of identifying all possible solutions and stop searching once an acceptable (though not necessarily the best) solution is found.

(b) Heuristic:

These are the assumptions that guide the search for alternatives into areas that have a high probability for yielding success.

(c) Satisficing:

Herbert Simon called this “satisficing” that is picking a course of action that is satisfactory or “good enough” under the circumstances. It is the tendency for decision makers to accept the first alternative that meets their minimally acceptable requirements rather than pushing them further for an alternative that produces the best results.

Satisficing is preferred for decisions of small significance when time is the major constraint or where most of the alternatives are essentially similar.

Thus, while the rational or classic model indicates how decisions should be made (i.e. it works as a prescriptive model), it falls somewhat short concerning how decisions are actually made (i.e. as a descriptive model).

3. Retrospective decision model (implicit favourite model):

This decision--making model focuses on how decision-makers attempt to rationalise their choices after they have been made and try to justify their decisions. This model has been developed by Per Soelberg. He made an observation regarding the job choice processes of graduating business students and noted that, in many cases, the students identified implicit favorites (i.e. the alternative they wanted) very early in the recruiting and choice process. However, students continued their search for additional alternatives and quickly selected the best alternative.

The total process is designed to justify, through the guise of scientific rigor, a decision that has already been made intuitively. By this means, the individual becomes convinced that he or she is acting rationally and taking a logical, reasoned decision on an important topic.

6.9 LET US SUM UP

Having a logical thought process helps ensure that you will not neglect key factors that could influence the problem, and ultimately your decision. In fact, you should always apply a clear, logical thought process to all leadership situations that you encounter. The seven-step process is an excellent tool that can guide you in solving problems and making those sound and timely decisions. The seven steps are: 1. Identify (recognize/define) the problem. 2. Gather information (facts/assumptions). 3. Develop courses of action (solutions). 4. Analyze and compare courses of action (alternatives/solutions). 5. Make a decision; select the best course of action (solution). 6. Make a plan. 7. Implement the plan (assess the results).

In this lesson an attempt has been made to make to understand the importance of decision making in today's context. Decision making has been defined and various characteristics of decision making have also been discussed. The unit dimensional types decision i.e. Organizational vs. Personal, Routine vs. Strategic, Policy vs. Operating, Programmed vs. non Programmed and Individual vs. Group Decision are discussed. Three phases of decision making deal with identification, evaluation and selection of alternative to a problem. The decision making under different conditions has been discussed. Economic man model suggests a logical process of taking decisions, particularly when problem is routine, mechanistic and programmed or when decisions are taken under certainty of conditions.

The decision making process in a group and its difference from individuals decision making is also discussed. The various qualitative techniques : Brainstorming, Synectics, Nominal Grouping; Quantitative Techniques : Stochastic Method, Payoff Table, Decision Tree, Simulation Technique, Break-even Analysis are discussed.

6.10 GLOSSARY

- Programmed decisions: The programmed decisions are the routine and repetitive decisions for which the organization has developed specific processes
- Non-programmed decisions: are the one-shot, ill structured, novel policy decisions that are handled by general problem- solving processes.
- Routine decisions: Routine decisions are of repetitive nature and they involve the application of familiar principles to a situation.
- Basic or genuine decisions are those which require a good deal of deliberation on new principles through conscious thought process, plant location, distribution are some examples of basic decisions.

6.11 CHECK YOUR PROGRESS

1. What is decision-making? What are its basic characteristics?
-

2. "Decision-making is the primary task of the manager". Discuss and explain the scientific process of decision-making.

3. Explain the various steps in the process of decision-making. Which one is most important and why?

4. What are the principles of decision-making? Design the role of employees' participation in decision-making.

6.12 SUGGESTED READINGS

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ORGANISING AND STAFFING

STRUCTURE

- 7.1 Introduction
- 7.2 Objectives
- 7.3 Organising
 - 7.3.1 Nature
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7.4.4.1 Recruitment

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7.5 Let Us Sum Up

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7.1 INTRODUCTION

Organising is the function of management which follows planning. In this function of management the synchronisation and combination of human, physical and financial resources takes place. All the three resources are important to get results. Therefore, organisational function helps in achievement of results which in fact is important for the functioning of a concern. According to *Chester Barnard*, “Organising is a function by which the concern is able to define the role positions, the jobs related and the co-ordination between authority and responsibility. Hence, a manager always has to organise in order to get results.

Also, staffing can be defined as one of the most important functions of management. It involves the process of filling the vacant position of the right personnel at the right job, at right time. Hence, everything will occur in the right manner. It is a truth that employee is an important resource for every organisation because in any organisation all other resources like- money, material, machine etc. can be utilised effectively and efficiently by the positive efforts of human resource. Therefore, it is very important that each and every person should get right position in the organisation so as to get the right job, according to their ability, talent, aptitude, and specialisations so that it will help the organisation to

achieve the pre-set goals in the proper way by the 100% contribution of manpower. Thus, organising and staffing are two important functions of every organisation. Therefore, in this lesson, we can understand the important concepts of organising and staffing.

7.2 OBJECTIVES

After reading this lesson you would be able:

- To understand the concept of organising and staffing.
- To know about the process of recruitment and selection.
- To understand the importance of organising and staffing.

7.3 ORGANISING

The term ‘Organising’ and ‘Organisation’ are given a variety of interpretations. ‘Organising’ refers to a dynamic process and a managerial activity by which different elements or parts of an enterprise are brought together to obtain a desired result. This process places the enterprise into working order by defining and allocating the duties and responsibilities of different employees and provides it with everything useful to its functioning—raw material, tools, capital and personnel. It thus combines and co-ordinates their activities for commonness of purpose. Thus, the term ‘organising’ implies co-ordination and arrangement of men and materials of an undertaking in order to achieve a certain purpose.

When used in other sense, the term ‘Organising’ is understood as the creation of a structure of relationships among various positions and jobs for the realisation of the objectives and goals of the enterprise. In this sense, ‘Organisation’ is the vehicle through which goals are sought to be attained. The organisation structure is also viewed differently by various writers. Some of them regard it as a network of relationships, a blueprint of how the managers will assign the various activities and connect them together. Some others look upon it as a social system, consisting of human relationships existing among the people performing different activities. To some other authors, an organisation is a system with inputs (men, materials, machines, etc. in the case of business), and processes through which these are converted into

outputs (goods and services, profits, etc.). Organising is a part of management activity devoted to establish a structural relationship of the resources of an undertaking and is a mechanism that enables the employees to work together. The work of organising in this way looks to the structural as well as functional aspects of business and correlates the different factors with their functions.

All business enterprises, irrespective of their forms, require organisation for their economic operation and smooth running of business. The larger the size of a business, the more complicated and formal becomes the task of organising. 'Organisation' and 'Organising' have been defined by different authors in various ways.

Important definitions of organising and organisation are given below:

G. E. Milward, "Organisation is the harmonious inter-relation of functions and staff."

Mooney and Reiley, "Organisation is the form of every human association for the attainment of common purpose."

Louis A. Allen, "Organisation is the process of identifying and grouping the works to be performed, defining and delegating responsibility and authority and establishing relationship for the purpose of enabling people to work more effectively together in accomplishing objectives."

Kimball and Kimball, "Organising embraces the duties of designating the departments and the personnel that are to carry on the work, defining their functions and specifying the relations that are to exist between the departments and individuals."

Theo Haimann, "Organising is the process of defining and grouping the activities of the enterprise and establishing the authority relationships among them. In performing the organising function, the manager defines, departmentalises and assigns the activities so that they can be effectively executed."

Thus, 'Organising is concerned with a well-planned division of the numerous functions of an enterprise, assignment of duties and responsibilities to the individual executive and subordinate employees supported by a strong system of supervision and

co-ordinated control in order to ensure the effective execution of the plans as formulated by those in administrative authority. On the other hand, 'Organisation' is the structure in which harmonious inter-relationship of functions and personnel is created through the process of grouping the work to be performed, allocating duties and responsibilities, and delegating authority for the purpose of realising the objectives of the enterprise.

7.3.1 Nature of Organising Function

There are some common features of organisation through which a clear idea about its nature can be obtained. These are indicated below:

1. **Process:** Organisation is a process of defining, arranging and grouping the activities of an enterprise and establishing the authority relationships among the persons performing these activities. It is the framework within which people associate for the attainment of an objective. The framework provides the means for assigning activities to various parts and identifying the relative authorities and responsibilities of those parts. In simple term, organisation is the process by which the chief executive, as a leader, groups his men in order to get the work done.
2. **Structure:** The function of organising is the creation of a structural framework of duties and responsibilities to be performed by a group of people for the attainment of the objectives of the concern. The organisation structure consists of a series of relationships at all levels of authority. An organisation as a structure contains an "identifiable group of people contributing their efforts towards the attainment of goals." It is an important function of man-agement to organise the enterprise by grouping the activities necessary to carry out the plans into administrative units, and defining the relationships among the executives and workers in such units.
3. **Dividing and Grouping the Activities:** Organising means the way in which the parts of an enterprise are put into working order. In doing such, it calls for the determination of parts and integration of one complete whole on the other. In fact, organisation is a process of dividing and combining the activities of an enterprise. Activities of an enterprise are re-quired to be distributed between the departments, units or sections as well as between the persons for securing the

benefits of division of labour and specialisation, and are to be integrated or combined for giving them a commonness of purpose. L. Urwick defines organisation as: ‘determining what activities are necessary to any purpose and arranging them as groups which may be assigned to individual.’

4. **Accomplishment of Goals or Objectives:** An organisation structure has no meaning or purpose unless it is built around certain clear-cut goals or objectives. In fact, an organisation structure is built-up precisely because it is the ideal way of making a rational pursuit of objectives. Haney defines organisation as: “a harmonious adjustment of specialised parts for the accomplishment of some common purpose or purposes”.
5. **Authority-Responsibility Relationship:** An organisation structure consists of various positions arranged in a hierarchy with a clear definition of the authority and responsibility associated with each of these. An enterprise cannot serve the specific purposes or goals unless some positions are placed above others and given authority to bind them by their decisions. In fact, organisation is quite often defined as a structure of authority-responsibility relationships.
6. **Human and Material Aspects:** Organisation deals with the human and material factors in business. Human element is the most important element in an organisation. To accomplish the task of building up a sound organisation, it is essential to prepare an outline of the organisation which is logical and simple. The manager should then try to fit in suitable men. Henry Fayol says in this connection: “see that human and material organisations are suitable” and “ensure material and human order”.

From these features of organisation, it emerges that, an organisation is essentially an administrative ‘process’ of determining what activities are necessary to be performed for the achievement of objectives of an enterprise, dividing and grouping the work into individual jobs and, a ‘structure’ of positions arranged in a hierarchy with defined relationships of authority and responsibility among the executives and workers performing these tasks for the most effective pursuit of common goals of the enterprise.

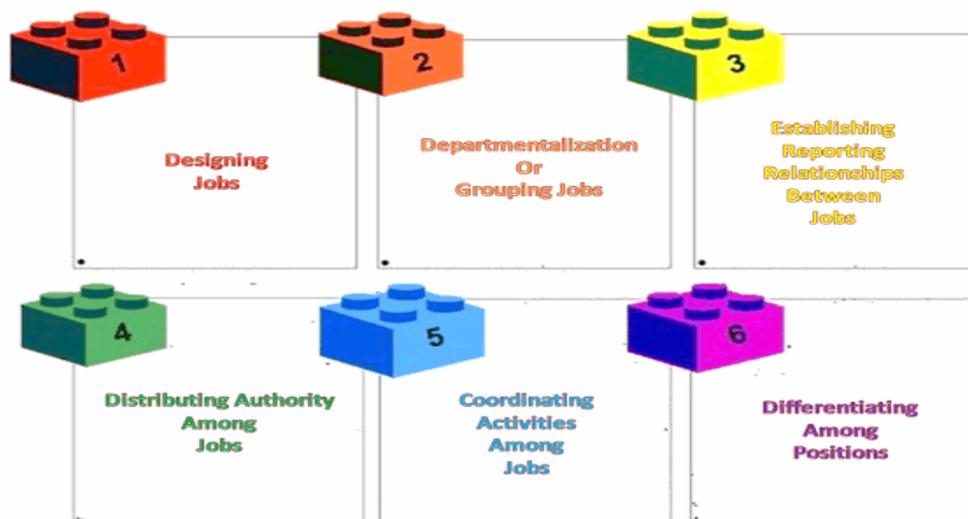
7.3.2 Elements of Organising

The organisational structure shows the corporate communication, the executive and managerial hierarchy, and creates a plan for efficient growth in the future.

For managers, organising is deciding how best to group organizational elements for a variety of structural possibilities. Managers must understand the best combination for the organisation's structure.

There are six basic building blocks that managers can use in constructing an organization which also known as elements of organizing or organizational structure. Elements of Organisational Structure are;

1. Designing jobs,
2. Departmentalisation or Grouping Jobs,
3. Establishing reporting relationships between jobs,
4. Distributing authority among jobs,
5. Coordinating activities among jobs, and
6. Differentiating among positions.



1. Designing Jobs

Job design is the first building block of organization Structure; it means-defining an individual's responsibilities at work. Job design involves defining areas of decision-making responsibility, identifying goals and expectations, and establishing appropriate indicators of success. There many tools available to a manager for designing jobs;

- **Job Specialisation:** Job specialisation is the first and the most important tool of all. Job specialization is similar to the concept of 'division of labour'. Job specialization means; breaking down the entire job or task into smaller parts and divide them accordingly.
- **Job Characteristics Model (JCM):** Job characteristics model (JCM) is also an effective tool for designing job; where job-design is conducted considering both the employees' preference and required work system. The approach suggests that job design should be done by considering five core dimensions; skill variety, task identity, task significance, autonomy, and feedback.
- **Work Teams:** Work teams are very useful for doing comprehensive and difficult jobs which require expertise from various departments or faculty or the organization.
- **Job Rotation:** As the name suggests; job rotation is systematically moving employees from one task to another. However, in practice; job rotation created more problems than solving them, like; employees' satisfaction and motivation diminishes. It is now used as a training system.
- **Job Enlargement:** Job enlargement involves increasing the total number of tasks workers assigned and performs. It also gives employees motivation as it gives them bigger chance to participate in organization's operations. It has some shortcomings too; more tasks mean more salary payments so more cost, overdoing it could lead to employees' dissatisfaction.
- **Job Enrichment:** It is similar to job enlargement but a more comprehensive approach. Job enrichment includes increasing the number of tasks and the portion

of control over these tasks. Here managers have to give authority along with the responsibility of the jobs.

2. Departmentalisation or Grouping Jobs

Departmentalisation is a grouping of jobs according to some logical arrangement, the second building block of organization structure. Departmentalisation refers to the formal structure of the organization, composed of various departments and managerial positions and their relationships to each other. As an organisation grows, its departments grow and more sub-units are created, which in turn add more levels of management. This often creates less flexibility, adaptability, and units of action within the firm. Departmentalisation is the efficient and effective grouping of jobs into meaningful work units to coordinate numerous jobs-all for the expeditious accomplishment of the organization's objectives.

There are several bases for departmentalisation. Common bases are;

- **Functional Departmentalisation:** Functional departmentalisation groups together those jobs involving the same or similar activities. Here; word 'function' indicating organizational functions such as finance and production, rather than the basic managerial functions, such as planning or controlling, manufacturing, finance, and marketing departments, each an organizational function.
- **Product Departmentalisation:** Product departmentalisation involves grouping and arranging activities around products or product groups. This method places all the resources and authority under one manager to get a product manufactured and marketed.
- **Customer Departmentalisation:** Customer departmentalization is used when great emphasis is placed on effectively serving different customer types. For instance, full-time day students and part-time night students of graduate business programs in universities usually are different in demographic profile and personal needs. Wholesale and retail are very different in many industries, as our government and private sector

customers. So, here the organization structures its activities to respond to and interact with specific customer groups. Most banks are commonly designed to meet the needs of different kinds of customers; business, consumer, mortgage, and agricultural loans.

- ***Departmentalisation by Process:*** Departmentalisation by the process is preferable when the machinery or equipment used requires special skill for operating, or is of a large capacity which eliminates organizational dividing, or has technical facilities which strongly suggest a concentrated location.
- ***Departmentalisation by Task Force:*** This arrangement involves assigning a team or task force to a definite project or block of work, which extends from the beginning to the completion of a wanted and definite type and quantity of work.
- ***Location or Territory Departmentalisation :*** Location departmentalisation logically groups jobs on the basis of defined geographic sites or areas. The defined sites or areas may range in size from a hemisphere to only a few blocks of a large city.
- ***Matrix Departmentalisation:*** Matrix management or matrix departmentalization was introduced in the early 1960's in response to the growing complexity and size of technically oriented enterprises, which needed more flexibility. Matrix departmentalization attempts to combine functional and task force (project) departmentalization designs to improve the synchronization of multiple components for a single activity (i.e., a moon launch), to improve economies of scale, and to better serve the customer and company.

3. Establishing Reporting Relationships between Jobs

Establishment of reporting relationships among positions is the third basic element of organising. Establishment of reporting relationships indicates; clarifying the chain of command and the span of management. Chain of command shows a clear distinct line of author among the positions and span of management indicates the number of people who report to a particular manager. Here; the organization's hierarchy, its positions, and lines are defined.

4. Distributing Authority

Distributing Authority is another important building block in structuring organisations. Authority in the organisation is the right in a position and, through it, the right of the person occupying the position to exercise discretion in making decisions affecting others. Authority is the power that has been legitimized by the organization. Here; the determination of how authority is to be distributed among positions. Distributing authority in the organisation means; giving decision power to employees. A warehouse-manager must have the authority to check the quality of the material coming and stored, to record the events in the storage, to check and report on the quantity of material and much more.

But he cannot make a decision on deciding the selling price for them. That's why the proper distribution of authority throughout the organisation is required for the smooth sailing of the organisation. Two specific issues that managers must address when distributing authority they are; delegation and decentralisation.

5. Coordinating Activities

Coordination is essential for management and structuring organisations. Achievement of the harmony of individual effort towards the accomplishment of group goals is the purpose of coordination. Modern organisations depend upon specialisation of functions and activities delegated to different individuals. If each individual is allowed to perform his own function efficiently without taking note of the connected function performed by another individual, it will create chaos in the organisation. It is essential that there be complete coordination, so that unity of action on the part of all is achieved. Also, the conflict between the line executives and the staff poses the problem of coordination by the chief executive. Hence, the chief executive has to coordinate not only functions and activities but also individuals performing different functions.

6. Differentiating Between Positions

Differentiating between line and staff positions in the organisation is the last building block of organisation structure. A line position is in the direct chain of command also responsible for the achievement of an organisation's goal. On the

contrary; a staff position is there only to provide expert advice, and support for line positions. However; in modern organisations, these differences are very less; in some cases, the difference is eliminated. Organisation structure is the formal pattern of interactions and coordination designed by management to link the tasks of individuals and groups in achieving organisational goals.

To establish a structure one must mix all the six elements of the organising. Any situation involving two or more persons working collectively requires organising. The act of organising involves integrating, balancing and coordinating the activities of people working together for seeking common goals. The organising process, thus, establishes working relationship among employees by assigning those tasks and giving them enough rights (i.e. authority) to perform those tasks. It is because when employees accept assigned work, they become responsible for performing it, and for discharging responsibility they are given requisite authority. The person who gives authority is called 'superior' and the person to whom authority is given are known as 'subordinate'.

Thus, the process of organising gives rise to a network of authority-responsibility relationships among members of the organisation. This network of authority-responsibility relationships is called 'organisation structure'.

7.3.3 Organising as a Process

The management function of organising consists of making a rational division of work and integration of the activities into specific groups to achieve a well co-ordinated and or-derly structure for the accomplishment of work.

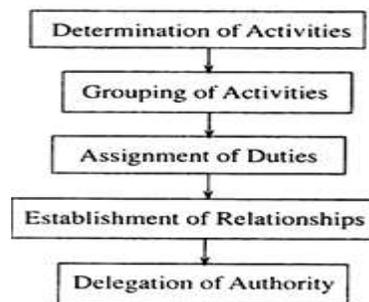


Fig. 4.1: The Organisation Process.

The various steps involved in this process are:

1. Determination of Activities

The first step in organising is to divide the total job of an enterprise into several essential activities such as-production, financing, purchasing, sales, personnel, and so on. Identification of work enables the managers to concentrate attention on important activities, to avoid duplication of work, and eliminate overlapping or wastage of effort.

2. Grouping or Classification of Activities

The various activities identified under the first step are then classified into appropriate departments, divisions, sections, sub-divisions etc. on the basis of functions, products, territories or customers. For example, the various activities connected with production may be grouped and classified as ‘production department activities.’ This will facilitate specialisation. Such grouping of activities is called ‘Departmentation.’

3. Allocation or Assignment of Duties to Individuals

After the creation of departments or divisions, the next step will be to fix suitable and qualified persons into the activities of each department. Each person in the department will be given a specific part of the job to do and will be made responsible for it. So, the task of management in this step is to appoint workers, foremen, supervisors, etc. and to define the responsibility of each one of them. While assigning duties, the requirements of the job and the competence of the individual should be properly matched together. Assignment of duties creates responsibility and ensures certainty of work performance.

4. Establishment of Relationships

Through the assignment of tasks to individuals superior-subordinate relationships between various positions are established in the enterprise. The superior manager commands his subordinates and the subordinate manager gives him the reports of his performances. Such relationships and channels of communication should be

clearly defined. Each and every individual should know clearly from whom he is to take orders and to whom he is accountable for his performance.

5. Delegation of Authority

Appropriate amount of authority is delegated to people to enable them to perform the assigned duties with confidence. No one can discharge his responsibilities regarding a particular work in the absence of requisite authority to do the same. So the manager will have to pass on authority for completing the assigned work to the sectional managers and the sectional managers to others below them. Delegation of authority means conferring of operational decision-making power by the top manager to the subordinate manager. Keeping this process of building up organisation structure in view, one will find enough reason to agree with this definition of organisation: "Organisation embraces the duties of designating the departments and the personnel that are to carry on the work, defining their functions and specifying the relations that are to exist between departments and individuals."

7.3.4 Importance of Organising

The organising process creates a network of roles and relationships and provides a framework within which each employee performs the activities that have been assigned to him. His role becomes more meaningful and he contributes effectively for achieving pre-determined objectives. Therefore, organising is regarded as a mechanism or means to achieve planned objectives. Its importance can be outlined as under:

1. Provides framework to perform management functions

Organisational structure provides a framework within which various management functions can be performed by the managers more efficiently. It is only through relationship of superior and subordinate, which is created by organising process that the manager plans, directs and controls activities of his subordinates.

2. Facilitates coordination

Organising process may also be used as a device of maintaining and achieving

coordination. In organising, the activities performed by an individual employee are related to the functioning of his department, and then functioning of various departments is harmonised for seeking common goals.

3. Leads to specialisation

Organising is based on the concept of division of work that ultimately leads to specialisation. Through it, activities are divided, grouped-up and assigned to the concerned department having requisite competence, and resources, and the department develops as a specialised centre for those activities.

4. Helps in achieving efficiency

Organising process aims at achieving higher efficiency because it helps in making efficient utilisation of both human as well as physical resources.

5. Promotes Employee development

In a highly decentralised organisational structure, each position is strengthened by delegating required authority. As a result of it, each manager makes decisions, solves problems and tackles the situation that ultimately leads to overall development in his personality.

6. Increases clarity of authority and responsibility

Division of work and delegation of authority among employees, through the process of organising, gives them a precise idea of what they are expected to perform and within what limits of authority they have to perform. It helps in boosting an employee's morale and he feels comfortable in the work- setting.

7. Facilitates adaptation

Organisational structure also provides a useful means to cope with changing environment. In the event of change, necessary modification may be made in the organising process, organisational structure and organisational goals, so as to bring them in conformity with the change. It may be done by maintaining flexibility in the structure and making it adaptive to changes.

7.3.5 Principles of Organising

The organising process can be done efficiently if the managers have certain guidelines so that they can take decisions and can act. To organise in an effective manner, the following principles of organization can be used by a manager.

1. Principle of Specialisation

According to the principle, the whole work of a concern should be divided amongst the subordinates on the basis of qualifications, abilities and skills. It is through division of work specialisation can be achieved which results in effective organisation.

2. Principles of Functional Definition

According to this principle, all the functions in a concern should be completely and clearly defined to the managers and subordinates. This can be done by clearly defining the duties, responsibilities, authority and relationships of people towards each other. Clarifications in authority-responsibility relationships helps in achieving co-ordination and thereby organization can take place effectively. For example, the primary functions of production, marketing and finance and the authority responsibility relationships in these departments should be clearly defined to every person attached to that department. Clarification in the authority-responsibility relationship helps in efficient organization.

3. Principles of Span of Control/Supervision

According to this principle, span of control is a span of supervision which depicts the number of employees that can be handled and controlled effectively by a single manager. According to this principle, a manager should be able to handle what number of employees under him should be decided. This decision can be taken by choosing either from a wide or narrow span. There are two types of span of control:-

Wide span of control: It is one in which a manager can supervise and control effectively a large group of persons at one time. According to this span, one manager can effectively and efficiently handle a large number of subordinates at one time.

Narrow span of control- According to this span, the work and authority is divided amongst many subordinates and a manager doesn't supervise and control a very big group of people under him. The manager according to a narrow span supervises a selected number of employees at one time.

Factors Influencing Span of Control

- **Managerial abilities-** In the concerns where managers are capable, qualified and experienced, wide span of control is always helpful.
- **Competence of subordinates-** Where the subordinates are capable and competent and their understanding levels are proper, the subordinates tend to very frequently visit the superiors for solving their problems. In such cases, the manager can handle large number of employees. Hence wide span is suitable.
- **Nature of work-** If the work is of repetitive nature, wide span of supervision is more helpful. On the other hand, if work requires mental skill or craftsmanship, tight control and supervision is required in which narrow span is more helpful.
- **Delegation of authority-** When the work is delegated to lower levels in an efficient and proper way, confusions are less and congeniality of the environment can be maintained. In such cases, wide span of control is suitable and the supervisors can manage and control large number of sub-ordinates at one time.
- **Degree of decentralisation-** Decentralisation is done in order to achieve specialization in which authority is shared by many people and managers at different levels. In such cases, a tall structure is helpful. There are certain concerns where decentralisation is done in very effective way which results in direct and personal communication between superiors and sub-ordinates and there the superiors can manage large number of subordinates very easily. In such cases, wide span again helps.

4. Principle of Scalar Chain

Scalar chain is a chain of command or authority which flows from top to bottom. With a chain of authority available, wastages of resources are minimised, communication is affected, overlapping of work is avoided and easy organization takes place. A scalar chain of command facilitates work flow in an organisation which helps in achievement of effective results. As the authority flows from top to bottom, it clarifies the authority positions to managers at all level and that facilitates effective organisation.

5. Principle of Unity of Command

It implies one subordinate-one superior relationship. Every subordinate is answerable and accountable to one boss at one time. This helps in avoiding communication gaps and feedback and response is prompt. Unity of command also helps in effective combination of resources, that is, physical, financial resources which helps in easy co-ordination and, therefore, effective organisation.

Authority Flows from Top to Bottom



According to the above diagram, the Managing Director has got the highest level of authority. This authority is shared by the Marketing Manager who shares his authority with the Sales Manager. From this chain of hierarchy, the official chain of communication becomes clear which is helpful in achievement of results and which

provides stability to a concern. This scalar chain of command always flow from top to bottom and it defines the authority positions of different managers at different levels.

7.3.6 Classification of Organisation

Organisations are basically classified on the basis of relationships. There are two types of organisations formed on the basis of relationships in an organisation

- 1. Formal Organisation:** This is one which refers to a structure of well defined jobs each bearing a measure of authority and responsibility. It is a conscious determination by which people accomplish goals by adhering to the norms laid down by the structure. This kind of organisation is an arbitrary set up in which each person is responsible for his performance. Formal organisation has a formal set up to achieve pre- determined goals.
- 2. Informal Organisation:** It refers to a network of personal and social relationships which spontaneously originates within the formal set up. Informal organisations develop relationships which are built on likes, dislikes, feelings and emotions. Therefore, the network of social groups based on friendships can be called as informal organisations. There is no conscious effort made to have informal organisation. It emerges from the formal organisation and it is not based on any rules and regulations as in case of formal organisation.

Relationship between Formal and Informal Organisations

For a concerns working both formal and informal organisation are important. Formal organisation originates from the set organisational structure and informal organisation originates from formal organisation. For an efficient organisation, both formal and informal organisations are required. They are the two phase of a same concern.

Formal organisation can work independently. But informal organisation depends totally upon the formal organisation. Formal and informal organisation helps in bringing efficient working organisation and smoothness in a concern. Within

the formal organisation, the members undertake the assigned duties in co-operation with each other. They interact and communicate amongst themselves. Therefore, both formal and informal organisations are important. When several people work together for achievement of organisational goals, social tie ups tends to built and therefore informal organisation helps to secure co-operation by which goals can be achieved smooth. Therefore, we can say that informal s emerges from formal organisation.

7.4 STAFFING

Staffing is the process of hiring eligible candidates in the organisation or company for specific positions. In management, the meaning of staffing is an operation of recruiting the employees by evaluating their skills, knowledge and then offering them specific job roles accordingly.



Staffing is the managerial function of recruitment, selection, training, developing, promotion and compensation of personnel. Staffing may be defined as the process of hiring and developing the required personnel to fill in the various positions in the organisation. It involves estimating the number and type of personnel required. It involves estimating the number and type of personnel required, recruiting and developing them, maintaining and improving their competence and performance. Staffing is the process of identifying, assessing, placing, developing and evaluating individuals at work.

Definition

According to Koontz and O'Donnell:

“The managerial function of staffing involves manuring the organisational structure through proper and effective selection, appraisal and development of personnel to fill the roles designed into the structure.”

Staffing is defined as, “Filling and keeping filled, positions in the organisational structure. This is done by identifying work-force requirements , inventorying the people available, recruiting, selecting, placing, promotion, appraising, planning the careers, compensating, training, developing existing staff or new recruits, so that they can accomplish their tasks effectively and efficiently.

7.4.1 Functions of Staffing

1. The first and foremost function of staffing is to obtain qualified personnel for different jobs position in the organisation.
2. In staffing, the right person is recruited for the right jobs, therefore it leads to maximum productivity and higher performance.
3. It helps in promoting the optimum utilisation of human resource through various aspects.
4. Job satisfaction and morale of the workers increases through the recruitment of the right person.
5. Staffing helps to ensure better utilisation of human resources.
6. It ensures the continuity and growth of the organisation, through development managers.

7.4.2 Nature of Staffing

1. PEOPLE-CENTERED

Staffing can broadly view as people-centered function and therefore it is relevant

for all types of organisation. It is concerned with categories of personnel from top to bottom of the organisation.

- Blue collar workers (i.e., those working on the machines and engaged in loading, unloading etc.) and white collar workers (i.e., clerical employees).
- Managerial and Non Managerial personal.
- Professionals (eg.- Chartered Accountant, Company Secretary)

2. RESPONSIBILITY OF MANAGER

Staffing is the basic function of management which involves that the manager is continuously engaged in performing the staffing function. They are actively associated with the recruitment, selection, training, and appraisal of his subordinates. Therefore the activities are performed by the chief executive, departmental managers and foremen in relation to their subordinates.

3. HUMAN SKILLS

Staffing function is mainly concerned with different types of training and development of human resource and therefore the managers should use human relation skill in providing guidance and training to the subordinates. If the staffing function is performed properly, then the human relations in the organisation will be cordial and mutually performed in an organised manner.

4. CONTINUOUS FUNCTION

Staffing function is to be performed continuously which is equally important for a new and well-established organisation. Since in a newly established organisation, there has to be recruitment, selection, and training of personnel. As we compare that, the organisation which is already a running organisation, then at that place every manager is engaged in various staffing activities. Therefore, he is responsible for managing all the workers in order to get work done for the accomplishment of the overall objectives of an organisation.

7.4.3 Importance of Staffing

1. Efficient Performance of Other Functions

For the efficient performance of other functions of management, staffing is its key. Since, if an organisation does not have the competent personnel, then it cannot perform the functions of management like planning, organising and control functions properly.

2. Effective Use of Technology and Other Resources

It is the human factor that is instrumental in the effective utilization of the latest technology, capital, material, etc. the management can ensure the right kinds of personnel by performing the staffing function.

3. Optimum Utilisation of Human Resources

The wage bill of big concerns is quite high. Also, a huge amount is spent on recruitment, selection, training, and development of employees. To get the optimum output, the staffing function should be performed in an efficient manner.

4. Development of Human Capital

Another function of staffing is concerned with human capital requirements. Since the management is required to determine in advance the manpower requirements. Therefore, it has also to train and develop the existing personnel for career advancement. This will meet the requirements of the company in the future.

5. The Motivation of Human Resources

In an organisation, the behaviour of individuals is influenced by various factors which are involved such as education level, needs, socio-cultural factors, etc. Therefore, the human aspects of the organisation have become very important and so that the workers can also be motivated by financial and non-financial incentives in order to perform their functions properly in achieving the objectives.

6. Building Higher Morale

The right type of climate should be created for the workers to contribute to the

achievement of the organizational objectives. Therefore, by performing the staffing function effectively and efficiently, the management is able to describe the significance and importance which it attaches to the personnel working in the enterprise.

7.4.4 Components or Elements of Staffing

The important components or elements required for staffing an organisation are:

7.4.4.1 Recruitment

Recruitment means inducing or attracting more and more candidates to apply for vacant job positions in the organisation. In general words recruitment means search for candidates who can perform the vacant roles and inducing them to apply and come forward for filling the vacant roles. The recruitment function is very important because the end result of recruitment function is receiving large number of applications to make selection from.

Sources of Recruitment:

There are two important sources of recruitment:

- 1. Internal Source of Recruitment:** Under Internal source of recruitment the vacant job positions are filled by inducing the existing employees of the organisation. The vacant job positions are filled by using existing employees only and no outsiders are permitted in internal sources.

Internal source of recruitment is very popular and common because of its advantages:

- (i) It is economical;
- (ii) It motivates the existing employees;
- (iii) Less amount is spent on training;
- (iv) The employees are already familiar with rules and regulations of organisation. So, less chances of turnovers.
- (v) Improve performance of employees: To get promotion employees show better performance.

- (vi) Through transfer employees get training also in the form of job rotation.
- (vii) Through transfer surplus employees can be shifted to other department.

Demerits of Internal recruitment:

- i. No fresh or new ideas will come in the organisation.
- ii. There will be limited choice.
- iii. Not suitable for new organisation.
- iv. Frequent transfer may reduce the productivity of employee.

The methods of internal recruitment are:

(a) Transfer

Transfer means shifting of employees from one job position to other at the same level of authority. Generally with the transfers there is no change in the compensation level and authority level. There is no change even in his rank, responsibilities and prestige. Only the place of working is changed. For example, transfer of clerk from accounts department to purchase department.

(b) Promotion

Promotion refers to shifting of employees from one job position to other with higher level of authority. In promotion the authority level, the rank, responsibilities of employees and prestige improve or increase. Generally with the promotions there is increase in compensation or salary also. For example, promotion of clerk to accountant posts.



2. **External Source of Recruitment:** When the candidates from outside the organisation are invited to fill the vacant job position then it is known as external recruitment. In other words, when the organisation meets its manpower requirement from outside the organisation then it is external recruitment. Whenever large numbers of job positions are vacant then external recruitment is preferred.

The advantages of external recruitment are:

1. Fresh Talent: With external recruitment fresh and new talent come to the organisation.
2. Wider Choice: Through external recruitment the organisation gets wider choice.
3. Qualified Personnel: By using external recruitment the management can get qualified and trained persons.
4. Latest Technological Knowledge: Through campus placement organisation can get employees with latest technological knowledge.
5. Competitive Spirit: Through external recruitment when outsiders join the organisation, this develops a competitive spirit in existing employees of organisation.

Demerits of External Recruitment

1. The morale of existing employees goes down or falls.
2. The new employees may not adjust in the rules and regulations of the organisation which means more chances of turnovers;
3. It is expensive as to invite the outsider to apply for the job. Companies have to bear heavy burden of advertising.
4. Lengthy Process. External recruitment takes long time.

Methods of External sources of recruitment are:

1. **Direct Recruitment:** Sometimes the organisations paste notice at the gate of

their office or factory or workshop stating the vacant job positions. The people who are interested in those jobs walk in for interview. This method of external recruitment is most suitable for unskilled job positions, e.g., sweeper, peon, etc.

2. Casual callers: Generally the large organisations maintain an application file in which they keep all the pending applications which the job seekers leave with the reception, sometimes the applications of suitable candidates who were not selected in previous year's selection process are also kept in application file. This application file is considered as a waiting list. Whenever there is a job vacancy the suitable candidates from the waiting list are called.

3. Media advertising: The most common and popular method of external recruitment is advertising about the vacant job position. The organisations select the media of advertisement keeping in mind the requirement of job position. For example, for the job of an accountant the advertisement can be given in chartered accountant journal and for unskilled and lower rank job positions the advertisement can be given in local or regional newspaper. But for high rank and skilled job position the advertisement is given in national level reputed newspapers such as Times of India, Hindustan Times etc.

4. Employment exchanges: Employment exchanges act as middlemen between the job seekers and the organisations who have vacant job positions. The job seekers leave their bio-data and details of their qualifications with the employment exchanges and when the organisations approach employment exchanges the suitable candidates are sent.

There are governments as well as private employment exchanges. Government Employment Exchanges charge no fees or commission whereas Private Employment Exchanges charge commission or receive commission according to the salary of the employee.

5. Placement agencies and Management consultant: Placement agencies provide nation-wide service of matching demand and supply of workforce. These agencies invite the bio data and record from various job seekers and send them to suitable clients. These agencies charge fees for providing such service.

6. Campus recruitment: Sometimes the senior managers of the organisations visit various professional colleges, technical institutes to get fresh graduates or the people with the latest technological know-how. This type of recruitment is more common for engineers, computer programmers, MBAs, etc. The organisations prefer fresh graduates because they can be moulded according to the requirement of the organisation.

7. Recommendations from present employees: Many firms encourage their School of Management employees to recommend the names of their relatives, friends and other known people to fill the vacant job position. The organisations prefer recommendation by trusting the goodwill of the present employees and the organisations can catch hold of existing employees if there is any problem with the new employee recommended by him.

8. Labour contractors: Jobbers and contractors are the people who keep in touch with the labour in villages and rural areas and whenever there is vacancy or requirement for labour in factory or in the construction site, they bring the labour from villages and supply to businessman. The jobbers and contractors charge commission for the same. This is suitable for labourers and unskilled workers. Labour contractors maintain close contact with labors and they can provide the required number of unskilled workers at short notice.

9. Advertising on Television: A new trend of external recruitment is telecast on various channels regarding vacant job position. They telecast the requirement of the job along with the qualification necessary to apply.

10. Web Publishing: In internet there are certain websites specifically designed provide information regarding job seekers and companies which have vacant job position. These websites can be visited by job seekers as well as companies. The common websites are: Naukri.com, Monster.com, etc.

11. Factory gate: Sometimes a number of job seekers enquire at the factory gate about the vacant job positions in the workshop or in the factory. During the severe unemployment time many job seekers assemble at the factory gate to offer their

services in the factory. This type of external recruitment is also suitable for unskilled job positions, e.g., sweeper, peon, machine operator, etc.

7.4.4.2 Selection

Selection can be defined as discovering most promising and most suitable candidate to fill up the vacant job position in the organisation. Selection process as end result of recruitment function organisations receives large number of applications and selection process begins at this stage by screening the applications. In selection the number of rejected applicants is generally more than the selected candidate that is why selection is considered as a negative process. In selection process various steps are performed which are given below:

1. Preliminary Screening

The candidates whose applications are selected are called for preliminary interviews. It is the first round of interview which is conducted by any of the personnel managers. No professional experts or specialised people are invited to take interview. Very general and basic questions related to job or statuses of person are questioned. For example, questions related to address, marital status, schooling, college etc. The preliminary interview is conducted to check the confidence level of the candidate and to find out whether the candidate can answer the question when asked one after the other.

2. Selection Test

The organisations prefer to conduct written test to find out the practical knowledge of the candidates. The type of test to be conducted depends on the requirement of the organisation. The companies can go for their own tailor- made test. The common types of tests conducted by the organisations are:

(a) Intelligence test: The intelligence test is conducted to check the efficiency level of the employee in performing the job. The performance test means assignment of job related to vacant job position and testing the ability of employee. For example, for the vacant job position of a computer programmer the candidate may be asked to develop a software package of pay roll or financial accounting etc.

(b) Aptitude test: This test is conducted to find out the potential of learning new job in the candidate. How quickly the candidate can learn new skills and new methods. This test helps to know how the candidate will be performing in future.

(c) Personality test: Personality test is conducted to find out the human behaviour of the candidate. This test relates to intelligence, aptitude, attitude and interest of the candidate. The psychological test helps in finding out the approach of the candidate whether candidate is having positive or negative approach and how much initiative he will be taking while performing the job. The motivation level of the candidate is also tested through psychological test.

(d) Trade test: Trade test is conducted to check the basic knowledge and skill of the candidate related to vacant job position. If the candidate has no basic idea then he is not allowed to go further in the selection process. In trade test only simple questions related to job are asked. For example, to check the ability of an accountant the test is conducted to know whether the person can do book keeping or whether he knows books of accounts or not.

(e) Interest test: This test is conducted to find out the type of job in which candidate has more interest as all the people have fascination for some jobs than others.

3. Employment Interview

The candidates who qualify the test are called for interviews. To conduct the final interview a panel of experts is called. The consultants who are specialised in their fields ask questions from the candidates to test his professional or specialised knowledge related to the job. The interview has many advantages over written test because in interviews you can find out the confidence level of the candidate along with his professional knowledge. Interview gives chance to candidate also to clarify their queries regarding salary, working conditions, posting etc.

4. Checking the References and Background

In the application form the candidate is asked to give the names of two references. If the candidate qualifies the interview then the organisation prefers to check with the

references about the personal character of the candidate. Most of the time the references are biased because the candidate himself has given their names. But the organisations can cross-check the information given by the candidate with the references.

5. Selection Decision

The candidates who pass the test, interview and references check are included in selection list and the managers select most suitable candidate from this list.

6. Medical Examination

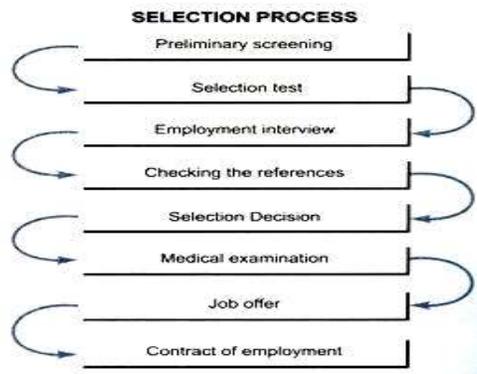
Before giving appointment letter the candidates selected are sent for medical fitness test. Some organisations appoint their own doctors to do the test and some sign contract with hospitals to do the test.

7. Job Offer

The applicants who clear the medical test are given job offer through letter of appointment. In the letter the date of joining, terms and conditions of job etc. are mentioned. Generally a reasonable time is given to the candidates to join the organisation.

8. Contract of Employment

When candidate accepts the job offer it refers to signing of contract of employment. While signing the contract of employment the employer and the candidate exchange certain documents. The common contents of contract of employment are job title duties, responsibilities, Pay, allowances, hours of work, leave rules, disciplinary rules, probation period etc.



At this stage the candidate is asked to fill up a special application form, also called attestation form. In this candidate provides some important information about himself or herself which can be used for further references. While entering into contract of employment the candidate has to submit various attested documents and organisation also provides information such as job title, duties, responsibilities, etc. Various disciplinary rules and procedures are also specified in contract of employment.

7.4.4.3 TRAINING AND DEVELOPMENT

“Training means equipping the employees with the required skill to perform the job. The candidates are sent for training so that they can perform the job in the expected manner”.

Development refers to overall growth of the employee. It focuses on personal growth and successful employees’ development. Development is much wider in concept as compared to training as training is only one part of development. If an accountant is sent to learn the new software for accounting to prepare the books of account more fast and accurate. This is called training. Whereas if he is sent for orientation programme to improve his motivational and conceptual skills then this is called development.

Benefits of Training for Organisations:

- 1. Reduced learning time:** A trained employee takes less time in learning the job as compared to untrained employee. As a result there is less wastage of resources and higher productivity in the organisation.
- 2. Better performance:** The performance of trained employees is always better than the performance of untrained employees as in the training programmes their qualities and capabilities are improved and employees get some experience of working on the job before they are actually assigned the job. This improves their performance and efficiency level.
- 3. Attitude formation:** The training and development aim at moulding the employees so that they can develop positive attitude for the organisation, and to motivate them

to be ready to take the initiative and result in better support and co-operation among the employees.

4. Aids in or help in solving operational problems: While performing various activities in the organisation, the organisation faces various problems such as problem of absenteeism, wastage of resources, dissatisfaction of employees, lack of team work, etc. Through the supervisory level training these operational problems can be avoided or removed in the organisation because supervisors are trained for improvement of superior-subordinate relationship and for encouraging and motivating their subordinates.

5. Managing manpower need: Some organisations have specialised technique of production and the ready staff is not available. In that case the organisations hire untrained people and train them with the required skill according to their organisation's need. By training they solve long term problem of manpower requirement.

6. Helps to adapt changes: Training helps the employees to adopt environmental changes.

Benefits to the Employees:

1. Better Career Options. Improved skill and knowledge due to training bring better career options for employees.
2. Earning More. Improvement in efficient performance of employees helps the employees to earn more.
3. Boost up the Morale. Training increases the satisfaction and morale of employees.
4. Less Chances of Accidents. Training makes employees more efficient so there are less chance of accidents.

Another concept related with training and development is education.

Methods of Training

There are mainly two methods of training:

1. On-the-Job Training

When the employees are trained while they are performing the job then it is known as On-the-job training. Under this method the employees learn by doing. This method is suitable only for technical jobs and the advantage of this method is employees can learn the practical problems while working on the job. The biggest disadvantage of on-the-job training is that it results in wastage of resources. Whenever employees are dealing with expensive and sophisticated machinery then on-the-job methods of training should be avoided.

2. Off-the-job Training

Off-the-job training means training the employees by taking them away from their work position which means employees are given a break from the job and sent for training. This method of training is more suitable for managerial job positions as conferences, seminars are held to train the managers.

The Techniques of Training under On-the-job Method are:

(a) Apprenticeship programme/training: The workers seeking to enter skilled jobs are sent for apprenticeship training programme which is an on-the-job method of training. In the Apprenticeship Programme, a master worker or a trainer is appointed who guides the worker or learner regarding the skill of job. The master worker performs the job and the trainee (learner) observes him performing. When the learner learns all the skills then slowly he starts taking up the job step by step and master worker becomes the observer.

When the trainee becomes perfect in doing the job then master worker goes and trainee gets full charge of job position. It is suitable for people seeking to enter skilled traits for example-plumbers, electricians, iron workers, etc.

(b) Job rotation: Job rotation is an on-the-job method of training in which the employee is shifted from one job position to other for short interval of time to make him aware of requirements of all the job positions. For example, in banks the employees are shifted from one counter to other so that they learn the requirements of all the counters.

(c) Internship: Internship is an agreement between the professional institutes and the corporate sector where professional institutes send their students to various companies so that they can practice the theoretical knowledge acquired by them through professional institutes. Under this training programme the organisations get people with fresh ideas and latest knowledge and the companies have to pay very less amount of salary which is called stipend. On the other hand, the students get chance to practice under the real work situation.

In short, we can say under internship the class room sessions are backed with practical training.

(d) Coaching: In this method superior guides and instructs the trainee as a coach. He guides employee, how he can overcome his weaknesses and make his strength more strong, superior suggests the changes required in the behaviour and performance of the employee. The coach gives due importance to the objectives of individuals as well as objectives of organisation. Through effective coaching you can motivate the employees to perform to their best ability.

(e) Induction or orientation training: Induction or orientation is a process of receiving and welcoming an employee when he first joins the company and giving him the basic information he needs to settle down quickly and happily and start work.

The purpose of this training program is to make the new employee feel at home and develop a feeling of belongingness. Proper orientation enables the new employee to have a good start and develop his/her overall effectiveness on the job. The basic objectives of an induction and orientation programme are:

1. To help the newcomer to overcome his/her shyness and nervousness in meeting new people.
2. To build up the confidence of new employee.
3. To develop a sense of belongingness and loyalty.
4. To develop cordial relationship between the newcomer and old employees and their superiors.

5. To ensure newcomers do not form negative attitude towards the organisation or the job.
6. To give the newcomers necessary information such as location of washrooms, rest periods, cafeteria, and leave rules etc.

A formal induction programme must provide following information to the employee:

- (i) Brief history and operation of the company
- (ii) Products and services of the company.
- (iii) Company's organisational structure.
- (iv) Rules, regulations, policies and procedures of the company.
- (v) Responsibilities and authorities of employee.
- (vi) Grievance procedures and safety rules.
- (vii) Suggestion schemes.
- (viii) Terms and conditions of service such as wages, working hours, holidays etc.
- (ix) Disciplinary procedures.
- (x) Opportunities for training, promotions transfer etc.

Techniques of Training Under Off the Job Method are:

- i. Conferences/class room lectures:** Literal meaning of conference is consultation. It is a highly structured way to convey a message or specific information with the help of audio-visual aids formal classroom sessions of training can be made more interesting.
- ii. Vestibule School:** Vestibule school means duplicate model of organisation. Generally when the expensive and delicate machineries are involved then

employers avoid using on-the-job methods of training. A dummy model of machinery is prepared and instead of using original machinery employees are trained on dummy model. Sometimes the accountants who have to make entries in inventory register or cash register they are first supplied the duplicate registers with the same columns as in original registers and when they become perfect in making entries in duplicate register then they are handed over original register. Vestibule school is an off-the- job method of training which makes use of benefit of on-the-job method.

- iii. **Films:** Showing films is also a very effective method in certain cases. Films can give important information on various techniques through demonstrative skill.
- iv. **Case Study:** Under this method managers discuss real problems that they have faced and trainees are asked to give their suggestions and alternatives to solve that problem. Case study helps the trainees to decision under real work situation. The case study provides the bridge between theoretical knowledge and its practical applications. The managers are generally invited to discuss the case in the class-room and the facts are presented by a capable instructor. The participants are expected to join the discussion and arrive at conclusion. The trainees develop the power of reasoning, analysis and presentation by participating the discussion.
- v. **Computer Modeling and Programmed Instruction:** Under this method a computer is programmed to show real problems of job and how to overcome such problems. In this method the employees can learn a lot without incurring much cost. Under this method a learning package is prepared to give general instructions and specific skills. The information is broken into sequence of meaningful units.

7.4.5 Process of Staffing

Staffing is one of the most important managerial function which helps in obtaining and fulfilling various positions in the organisation with most suitable and capable persons. In this process the following steps are involved.

1. Estimating Manpower Requirements

Before starting the work, the manpower requirement of the organisation is assessed. Here, two aspects need to be taken into account while determining the requirement of manpower i.e. type of employees & number of employees. Also the job requirement, desired qualification, relationship between different jobs etc. is clearly drawn out.

Manpower planning involves two techniques: (a) Workload analysis and (b) Workforce analysis. Workload analysis would enable an assessment of the number of and the types of human resources necessary for the performance of various jobs and accomplishment of organisational objectives. Workload analysis ensures that there is no burden and wastage of resources and work is completed on time. Whereas, workforce analysis would reveal that whether an organisation is understaffed, overstaffed or optimally staffed. Workforce analysis is for the existing employees. It sees manpower employed and number of manpower to be employed.

2. Recruitment

Recruitment is the process of searching and motivating a large number of prospective employees for a particular job in an organisation.

It includes the following activities:

- (i) Determining the various sources of supply.
- (ii) Evaluation of the validity of these sources.
- (iii) Selecting the most suitable source or sources.
- (iv) Inviting applications from the candidates for the vacancies.

3. Selection

Under the process of selection, better applicants are selected out of a large number of them. It must be kept in mind that the ability of the applicant & the nature of work must match. It means that right man should be selected for the right job. This

will lead to better performance on all fronts i.e. quality, quantity, time, cost etc.

It includes the following steps

- i. Preliminary Screening
- ii. Selection Test
- iii. Employment interview
- iv. Reference & Background checks
- v. Selection Decision
- vi. Medical Examination
- vii. Job Offer
- viii. Contract of Employment

4. Placement and Orientation

Placement involves putting the selected man at the right place considering his aptitude and ability. It is the actual posting of an employee to a particular job for which he/she has been selected. Orientation is also known as induction. It means introducing the newly selected employee i.e. to various facets of the company his job, other jobs, nature of products, policies, rules and existing employees etc. It aims at inducting new employees into the organisation smoothly.

5. Training and Development

The term training implies a systematic procedure of imparting knowledge and skills for a specific job. It benefits both the enterprise & the employee. Training increases the skills and abilities of employees to perform specific jobs. Training can be given for improving the current job or to prepare the employees for some intended jobs. The enterprise also gets the advantage of training in the form of reduction in the production cost, best usage of tools & machine and improvement in the quality etc.

6. Performance Appraisal

At this step, the capability of an employee is judged and for that, his actual work performance is compared with the work assigned to him. If the results are unfavourable, he is again given training and after that also if results are again unfavourable, the employee is put on some other work.

7. Promotion

It is a process through which employees get better salary, status, position, more responsibility etc. In this step, employees earn their promotion to higher posts on the basis of their performance.

8. Compensation

The organisation should have fair salary or wage structure and should give incentives to those who deserve it. This means that jobs must be evaluated and ranked in a manner which contributes to that contribution.

9. Separation

It is the last step in the process of staffing. It means separating the employees from their job. This takes place in four ways i.e. through retirement, termination, retrenchment or death.

7.5 LET US SUM UP

Organising refers to the way in which the work of a group is arranged and distributed among members to efficiently achieve the objectives of an organisation. • The process of organising consists of the following steps: a) Determining the activities to be performed. b) Identification of the major functions to which these activities relate. c) Grouping and sub-dividing activities within each department on the basis of similarity or relatedness. d) Establishing relationships among different individuals and departments. • Responsibility is the obligation of a subordinate to perform the assigned duties. • Authority includes the right to decide, issue orders and take action in case orders are not carried out. • Accountability means answerability. Each person

has to report to his superior how the work has been done and how authority has been used. Organisation Structure • Structure refers to the arrangement of parts and interrelationships among activities and people. Business Studies 44 • The structure of an organisation mainly involves the following a) The number of departments, sections and positions in which an organisation has been divided. b) The levels of management. c) The relationships among different parts and levels. In most organisations, structure is created on the basis of functions. A small manufacturing organisation may have only two departments to perform the functions of production and sale. These two functions are known as line functions. In large organisations, there are staff officers and staff departments to help the line departments. Staff departments may be created at any level in the organisation • The principle of span of control states that there is a limit to the number of subordinates who can be effectively supervised by a manager. The span of control gives rise to management levels. • There are three types of authority relationships viz. line, staff and functional. a) Line authority is the authority to issue orders and to see that these orders are carried out. b) Staff officers are appointed to help line managers. Their main job is to give advice. c) Functional authority is the authority of a manager over a person who is not his immediate subordinate. The main reason of using functional authority is to take advantage of the special knowledge and skill of functional specialists.

Staffing may be defined as the process of hiring and developing the required personnel to fill in the various positions in the organisation. It involves estimating the number and type of personnel required. It involves estimating the number and type of personnel required, recruiting and developing them, maintaining and improving their competence and performance. Recruiting involves attracting candidate to fill the positions in the organization structure. Before recruiting, the requirement of positions must be cleared identified. It makes easier to recruit the candidates from the outside. Enterprises with a favourable public image find it easier to attract qualified candidates.

Methods of recruitment:

- Employment agencies
- Advertisement

- Deputation
- Word of mouth
- Raiding

Selection is the process of choosing the most suitable person for the current position or for future position from within the organization or from outside the organisation. Training is an instrument of developing the employees by increasing their skills and improving their behaviour. Training is required to be given to new employees as well as existing employees. The methods to be used for training and the duration for which training should be given is decided by the management according to the objectives of the training, the number of persons to be trained and the amount of training needed by the employees. Performance appraisal is the judgment of an employee's performance in a job. It is also called as merit rating. All managers' are constantly forming judgment of their subordinates and are continuously making appraisals.

7.6 CHECK YOUR PROGRESS

Q 1. What do you mean by work load analysis?

Q 2. What are the various sources of internal recruitment?

Q 3. Differentiate between Training and development.

Q 4. Differentiate between on the job and Off-the-job methods of training.

Q 5. "External sources of recruitment are better than internal sources of recruitment," Do you agree with this statement? Give four reasons in support of your answer.

7.7 GLOSSARY

- **Organising:** Organising or Organising in management refers to the relationship between people, work and resources used to achieve the common objectives (goals).
- **Staffing:** *It is the process of hiring eligible candidates in the organization or company for specific positions. In management, the meaning of staffing is an operation of recruiting the employees by evaluating their skills, knowledge and then offering them specific job roles accordingly.*
- **Recruitment:** Recruitment refers to the overall process of attracting, short listing, selecting and appointing suitable candidates for jobs (either permanent or temporary) within an organization.
- **Selection:** Selection is the process of selecting a qualified person who can successfully do a job and deliver valuable contributions to the organisation.
- **Performance Appraisal:** A performance appraisal is a regular review of an employee's job performance and overall contribution to a company.

7.8 SUGGESTED READINGS

- Brech, E.F.L. *Principles and practice of Management*”, 3rd edition, Longman, 1975.
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ORGANISATION STRUCTURE

STRUCTURE

- 8.1 Introduction
- 8.2 Objectives
- 8.3 Organizing
 - 8.3.1 Concept of Organising
 - 8.3.2 Objectives (or purpose) of Organising
 - 8.3.3 Nature of Organisation
 - 8.3.4 Types of Organising Structure
- 8.4 Summary
- 8.5 Glossary
- 8.6 Self Assessment Questions
- 8.7 Lesson End Exercise
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8.1 INTRODUCTION

The origin of organisation has been spontaneous. It came into existence in the early stages of human evolution when persons began to co-operate and combine together to achieve a common goal. A sound management is based on proper organisational structure which is concerned with determining responsibility and assigning of authority to different superiors and establishing proper inter-relationship among them for achieving the desired objectives. An organisation is not an end in itself, it is only acts as a means towards an end i.e., the accomplishment of firm's goals.

8.2 OBJECTIVES

After completion of this lesson you shall be able to know :

- Concept, objectives, nature and types of organising
- Delegation of Authority
- Authority and Responsibility
- Centralisation and decentralisation
- Span of Control

8.3 ORGANIZING

8.3.1 Concept of Organising

Organising refers to the way in which the work of a group of people is arranged and distributed among group members. The function of organising includes the determination of the activities to be performed; creation of departments, sections and positions to perform those activities; and establishing relationships among the various parts of an organisation. The purpose is to create a framework for the performance of the activities of an organisation in a systematic manner. It is important to note that the term organisation should not be used in the same sense as organising. Organising is a function of management, while organisation refers to a group of

persons who have come together to achieve some common objectives. In other term “organisation” has been defined in a number of ways viz., a system of communication, a means of problem solving and a means of facilitating decision-making. In the broad sense, organisation is defined as a group of persons working together for a common purpose. Some important definitions of the term organisation are being discussed.

“To organise a business is to provide it with everything useful to its functioning—raw materials, tools, capital and personnel.” —**Henry Fayol**

“A group of people who are co-operating under the direction of leadership for the accomplishment of a common end.” —**Ralph C. Davis**

“It is grouping of activities necessary to attain enterprise objectives and the assignment of each grouping to a manager with authority necessary to supervise it.” —**Koontz and O’ Donnell**

“Organisation is the process of so combining the work which individuals or groups have to perform with the facilities necessary for its execution, that the duties so formed provide the best channels for the efficient, systematic, positive and co-ordinated application of the available efforts.” — **Oliver Sheldon**

“It is the framework of duties and responsibilities through which an undertaking works.” —**M.A. Cameron**

From the above mentioned definitions, it is clear that organising is the process of determining the total activities to achieve a given objective, grouping and assigning of activities to individuals, delegating them authority necessary to perform the activities assigned and establishing authority relationship among different positions in the organisation.

8.3.2 Objectives (or purpose) of Organising

Every economic activity which is deliberately done has some purpose. When a group of people assemble without any pre-planned aim or purpose, it is not an organisation but just a mob. But when, for instance, they are invited to participate in

a conference, an element of purpose has been introduced. According to **Bertrain M. Gross.**, *a purpose refers to commitment to desired future*. Objectives and purposes, generally, are interchangeable terms.

Why should a business enterprise organise itself? The answer to this question brings out its objectives. Objectives of a business organisation are distinguished from the objectives of other social organisations. To put it more precisely, the nature of an organisation (*i.e.* political, social, religious or economic) can only be known by studying its objectives.

The following may be, generally speaking, the objectives (or purpose) of organising:

- 1. Effective management of the enterprise:** Effective management largely depends upon effective organisation. It is the effective organisation which ensures proper balance between authority and responsibility. It achieves a clear line of communication, and defines the areas of work. It is the organisation which allows the top management to concentrate on over-all planning and supervision, leaving the routine work for the lower levels of administration. It saves the entire enterprise from ad-hocism, over-lappings and inefficiency.
- 2. Maximum production at minimum cost:** The activities are allotted according to the principle of division of labour. The efficient system of organisation encourages every employee to make his best contribution in raising output. The increase in output and control of wasteful expenditure helps to decrease the cost of production. The profitability of the concern can also go up.
- 3. Sustained growth and diversification:** A business enterprise should be a growing organism. With the passage of time, an enterprise must expand its activities. It should also aim at diversification of products and markets. It is an age of competition and struggle.

A static business soon grows stable and disappears. It should grow from a small scale concern to a medium one and from a medium scale concern to a large scale one. Organisation plays an important role in this respect. Execution of policies in organisation manner builds the necessary capacity and confidence in undertaking bigger activities.

4. **Co-operation of employees:** The organisational structure will succeed only if employees co-operate in the work. The employee learn working in closer co-operation of others. The management introduces various incentive schemes and gives monetary and other benefits to their employees, so that they work in a team spirit.
5. **Discharging social responsibility:** Maximisation of profits, no doubt, is the motive of every business. Without profit, no business can exist. But business is a part and parcel of a society at large. It cannot survive for a long by exploiting consumers and society. It has to serve the society by providing it with products of good quality at reasonable prices. It has to ensure smooth supply of goods as per the needs of consumers. The ‘service motto’ cannot be realized without a well-knit organisation structure. So, to discharge social obligation is an important objective of building up a sound organisation.

The purpose of sound organisation is

- (i) to establish an activity-authority environment in which people can perform most effectively.
- (ii) to make group action efficient and effective by providing centres for decision making and a system of communication to effectively coordinate individual efforts towards group-goals.
- (iii) to create relationships that will minimise friction, focus on the objectives, closely define the responsibilities of all parts and facilitate the attainment of the objectives.
- (iv) to sub-divide the management process by which plans are translated into actions so as to make management most effective.

Thus, we can quote **Knootz and O’ Donnell** to sum up the chief goals of organisation by stating that *organisation is a process by which the manager brings order out of chaos, removes conflicts between people over work or responsibility, and establishes an environment suitable for teamwork.*

8.3.3 Nature of Organisation

Basically, the nature of organisation can be viewed in two ways:

- (1) Organisation as a process; and
- (2) Organisation as a structure or framework of relationship.

(1) Organisation as a process

As a process, organisation is an executive function. It becomes a managerial function involving the following activities:

- (i) Determining activities necessary for the accomplishment of the business objectives,
- (ii) Division of work,
- (iii) Grouping of inter-related activities,
- (iv) Assigning duties to persons with requisite competence,
- (v) Delegating authority, and
- (vi) Co-ordinating the efforts of different persons and groups.

When we consider organisation as a process, it becomes the function of every manager. Organising is a continuous process and goes on throughout the life-time of an enterprise. Whenever there is a change in the circumstances or material change in situation, new type of activities spring up. SO, there is a need for constant review and re-assignment of duties. Right persons have to be recruited and necessary training imparted to make them competent to handle the jobs.

The process of organisation thus, involves dividing the work in a rational way and integrating the activities with work situations and personnel. It also represents humanistic view of the enterprise since it is the people who are uppermost in the process of integration of activities. Continuous review and adjustment makes it dynamic as well.

(2) **Organisation as a structure (or, framework of relationships)**

As a structure, organisation is a network of internal authority, responsibility relationships. It is the framework of relationships of persons operating at various levels to accomplish common objectives. An organisation structure is a systematic combination of people, functions and physical facilities. It constitutes a formal structure with definite authority and clear responsibility. It has to be first designed for determining the channel of communication and flow of authority and responsibility. For this, different types of analysis have to be done.

Peter F Drucker suggests following three types of analysis:

- (i) Activities analysis,
- (ii) Decision analysis, and
- (iii) Relations analysis.

A hierarchy has to be built-up *i.e.*, a hierarchy of positions with clearly defined authority and responsibility. The accountability of each functionary has to be specified. Therefore, it has to be put into practice. In a way, organisation can be called a system as well.

The main emphasis here is on relationships or structure rather than on persons. The structure once built is not liable to change so soon. This concept of organisation is, thus, a static one. It is also called classical concept. Organisation charts are prepared depicting the relationship of different persons.

In an organisation structure, both formal and informal organisations take shape. The former is a pre-planned one and defined by the executive action. The latter is a spontaneous formation, being laid down by the common sentiments, interactions and other interrelated attributes of the people in the organisation. Both formal and informal organisations, thus, have structure.

Characteristics of an organisation

The following characteristics of an organisation:

1. It is a group of individuals which may be large or small.

2. The group in the organisation works under the executive leadership.
3. It is a machine or mechanism of management.
4. It has some directing authority or power which controls the concerted efforts of the group.
5. The division of labour, power and responsibilities are deliberately planned.
6. It implies a tructure of duties and responsibilities.
7. It is established for accomplishment of common objectives.
8. It is a functional concept.

8.3.4 Types of Organising Structure

The adoption of a particular form of organisational structure largely depends upon the nature, scale and size of the business. The organisational structure is primarily concerned with the allocation of activities or tasks and delegation of authority. The following are three important forms or types of organisation/ organisational structure:

1. Line organisation.
2. Functional organisation.
3. Line and staff organisation.

1. Line Orgnisation

Line organisation is the simplest and the oldest type of organisation. It is also known as scalar organisation or military type of organisation. In other words of **J.M. Lundy**, “It is characterised by direct lines of authority flowing from the top to the bottom of the organisational hierarchy and lines of responsibility flowing in an opposite but equally direct manner.” An important characteristic of such type of organisation is Superior-Subordinate relationship. Superior delegates authority to another subordinate and soon, forming a line from the very top to the bottom of the organisation structure. The line of authority so established is referred as “line authority”. Under this type of

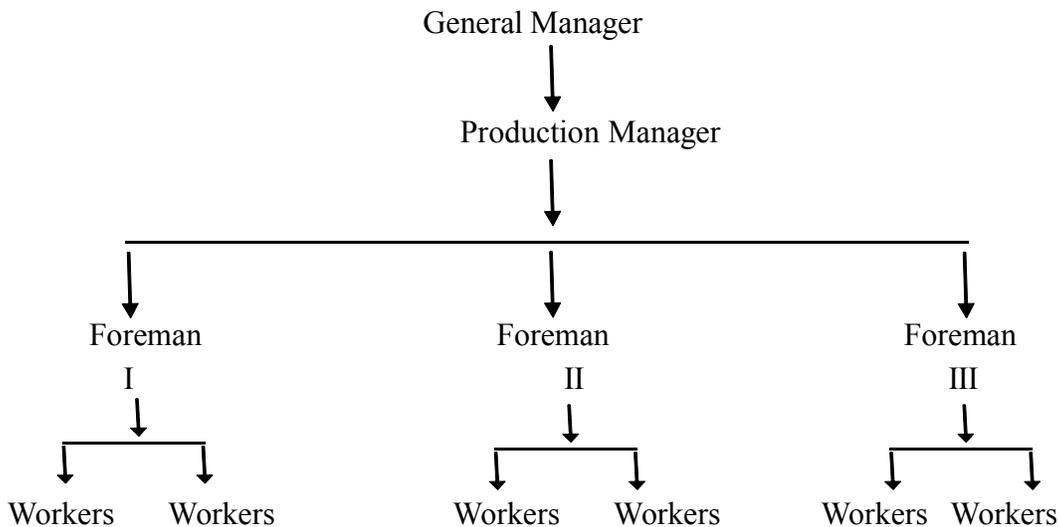
organisation authority flows downwards, responsibility move upwards in a straight line. Scalar principle and unity of command are strictly followed in line organisation.

This type of organisation resembles with the army administration or military type of organisation. As in case of military, commander-in-chief holds the most position and has the entire control over the army of the country which in turn is developed into main area commands under major-generals. Each area has brigade under brigadier-generals, each brigade is fabricated into regiments under its colonels, each regiment into battalions under majors, each battalion into companies under captains, each company sub-divided under its lieutenants and so on drawn to corporal with his squad.

Types of line organisation. Line organisation is of two types viz.

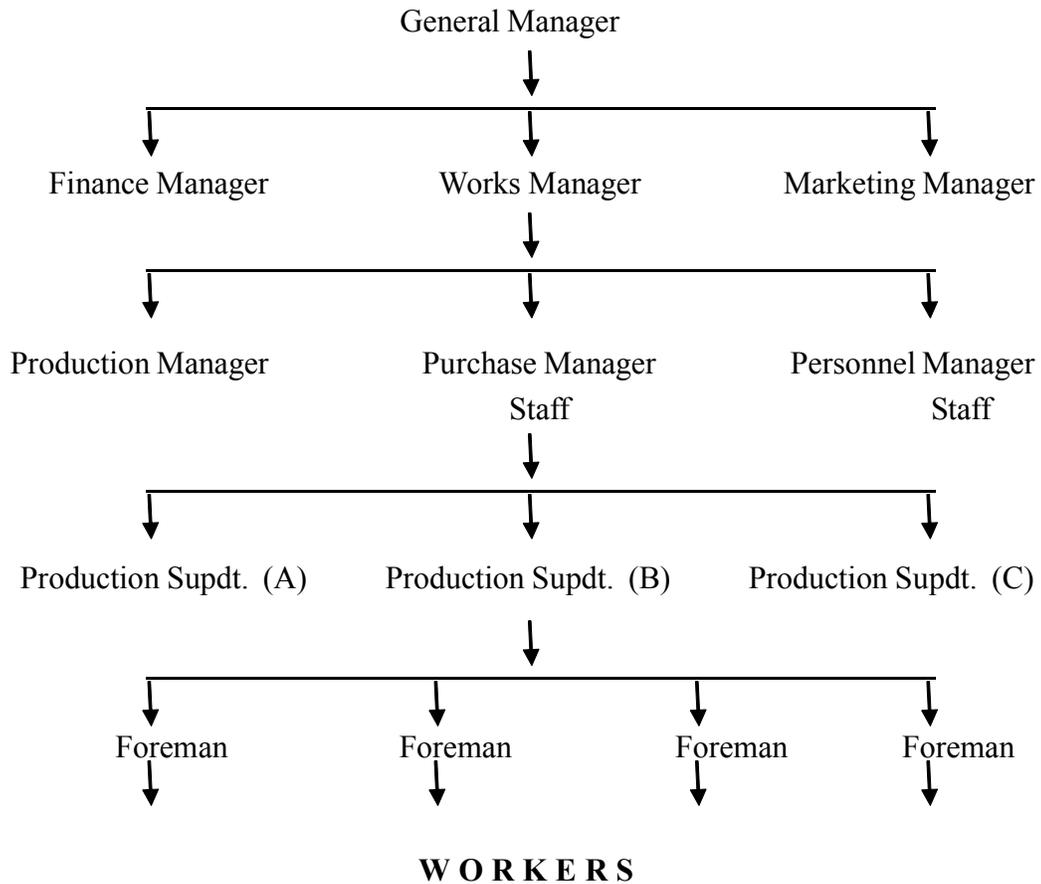
- (a) Simple or Pure Line Organisation
- (b) Departmental Line Organisation

(a) **Simple or Pure Line Organisation :** Under this type of organisation (at any level of management) the activities of every executive are the same for the similar type of work and the divisions primarily exist for the purpose of control and direction. In particular, such type of organisation rarely exist. The following diagram shows the pure line organisation:



- (b) **Departmental Line Organisation** : Under this type of organisation, an organisation is divided into various departments headed by different departmental heads. All the departments operate under the ultimate control of general manager. The orders flow directly from the general manager to all the departmental heads who in turn pass on their respective subordinates.

The following diagram shows the departmental line organisation:



Suitability of line organisation :

The line organisation can be successfully followed where

- (a) scale of operations is limited or business is on small scale basis
- (b) work is simple and routine in nature

- (c) business is being done in continuous type of industries like oil refining, sugar, spinning and weaving etc.
- (d) the labour management problems are not complex and can be easily resolved
- (e) the machinery is automatic, and
- (f) the workers are disciplined.

Characteristics of line organisation :

The main features of line organisation are:

1. Orders and instructions flow from top to the bottom, whereas requests and suggestions move from bottom to top.
2. The principle of unity of command is the most salient feature of this type of organisation. In simple words, the orders are received by the subordinates from one boss.
3. The subordinates are accountable to their immediate superior.
4. There are limited number of subordinates under one superior.
5. This is simple to operate and control.
6. Co-ordination can be easily achieved.

Advantages of line organisation :

Following are the main advantages of line organisation:

1. **Simplicity :** It is very simple to establish and operate. It can be easily understood by the employees.
2. **Fixed responsibility :** Duties and responsibilities are clearly defined for each individual with reference to the work assigned to him. As a result everybody knows to whom he is responsible and who are responsible to him. Nobody can avoid responsibility.
3. **Discipline :** This type of organisation ensures better discipline in the enterprise. Singleness of responsibilities facilitates discipline in the organisation. The workers

at the lower levels will be more loyal and responsible to one single boss rather than to a number of bosses.

4. **Flexibility** : It is flexible in the sense that it is subject to quick adjustments to suit to changing conditions. In the words of **Wheeler**, “It permits rapid and orderly decisions in meeting problems at various levels of organisation”. In simple words, it is more adaptive to the changed circumstances.
5. **Co-ordination** : It helps to achieve effective co-ordination. All the activities pertaining to single department are controlled by one person.
6. **Direct communication** : As there will be direct communication between the superior and the subordinates at different levels it would be helpful in achieving promptness in performance.
7. **Unity of command** : Every worker is accountable to new boss in the department under this type of organisation. In this manner it is in accordance with the principle of unity of command.
8. **Economical** : It is not complex and expensive. It is simple and economical in operation. It does not need any expert and specialised personnel.
9. **Quick decisions** : On account of its simple operation and unified control and responsibility, decisions can be taken promptly. The process of decision-making is further quickened as the decision is taken by one person.

Disadvantages of line organisation :

Following are the main drawbacks/disadvantages of line organisation:

1. **Overloading** : The main disadvantage of this system is that it tends to overload the existing executive with too many responsibilities. The work may not be performed effectively on account of innumerable tasks before the single executive.
2. **Lack of specialisation** : Absence of managerial specialisation is the major drawback of this system. On account of many functions and complexities it is very difficult for a single individual to control all the matters effectively. The executive may not be expert in all aspects of managerial activities. The

burden of responsibilities on the shoulders of the manager can crush him under the heavy workload.

3. **Scope of favouritism :** There may be a good deal of favouritism and nepotism under this type of organisation. As the concerned officer will judge the performance of the persons at work according to his own norms, it is possible that efficient people may be left behind and efficient or 'yes men' may get higher and better posts.
4. **Lack of co-ordination :** In reality it is very difficult to achieve proper co-ordination among various departments operating in an organisation. This is because each departmental manager or head carries the functioning of his department in accordance with the ways and means suitable to him. This leads to lack of uniformity in operation among various departments which is detrimental in achieving proper co-ordination in the overall functioning of the various departments operating in the organisation.
5. **Lack of initiative.** Under line organisation ultimate authority lies in the hands of top management, departmental managers or heads have little powers. This adversely affects their initiative and enthusiasm to motivate the subordinates working under them.
6. **Lack of communication from lower ranks.** Under line organisation suggestions move from down to upwards. The superiors usually do not pay attention to suggestions sent by lower ranks. This leads to inadequacy of communication from subordinates to superiors.

2. Functional (Or Staff) Organisation

F. W. Taylor, who is better known as the *father of scientific management* developed the concept of 'Functional Organisation'. As the very name suggests, functional organisation implies that the organisation should be based on various functions. Taylor's functional approach is mainly based on principle of specialisation and tries to bring about organisational balance.

Taylor's concept of Functional Foremanship (as he puts it) , is a system comprising of eight different foremen discharging different functions. Every worker in the organisation is directly connected with these foremen. The eight specialist foremen are:

(a) Route clerk, (b) Instructions Card Clerk, (c) Time and Cost Clerk, (d) Shop Disciplinarian, (e) Gang Boss, (f) Speed Boss, (g) Repair Boss, and (h)Inspector. The first four bosses operate from Planning Department, whereas the other four are known as Executive Functional Bosses. They function in the production department. A brief explanation of these functional foremen is given below :

- (a) **Route Clerk** - He lays down the exact path or route to be followed by raw material transforming it into finished product.
- (b) **Instruction Card Clerk**- He prepares detailed instructions to be followed in doing the work as per the route laid down by the route clerk.
- (c) **Time and Cost Clerk**- He determines the total time to be taken in the completion of a product and also works out the cost of production per unit and total cost. He prepares various work schedules and cost sheets in order to have proper control over time and cost incurred in producing goods.
- (d) **Shop Disciplinarian**-He is responsible for maintaining proper discipline in the organisation. He is the guardian of orderliness in the factory. In the words of **Kimball and Kimball Jr.** "*The shop disciplinarian is responsible for discipline and good order. He is also the peacemaker and assists in adjusting wages.*" He is helpful in resolving minor disputes regarding wages, holidays, working conditions and hours of work etc. He initiates a proper code of conduct in the organisation.
- (e) **Gang Boss**- He makes the availability of different machines and tools required by workers to carry out their work. He also provides various production designs, drawings raw materials etc.
- (f) **Speed Boss**- He controls the speed of different machines operating in the organisation. He sometimes demonstrates the workers the proper speed

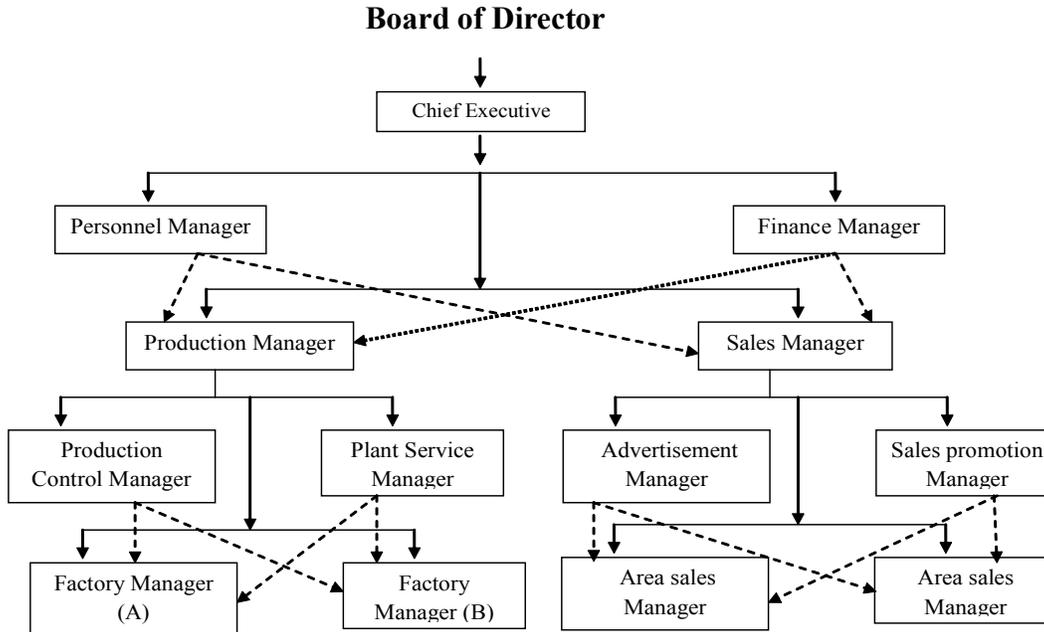
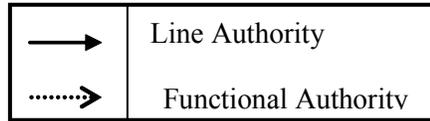
with which the machines should operate. He undertakes proper supervision over speed of the machines.

- (g) **Repair Boss-** He is concerned with proper maintenance and repairs of machines for keeping them in working order. In the words of **Spriegel**, *“His job of maintenance includes cleaning the machine, keeping it free from rust and scratches, oiling it properly and preserving the standards which have been set up for the auxiliary equipment connected with the machine such as belts, counter shafts, and clutches.”* His main task is to undertake immediate repair of the defective machines so that the work may not suffer.
- (h) **Inspector-** He checks and certifies the quality of work whether or not it is up to pre-determined standards. Achievement of pre-set standards is confirmed by the inspector. He develops the feeling of quality consciousness among the workers. In order to carry out his job effectively, an inspector must possess proper knowledge of the technicalities involved in quality control.

Spriegel has nicely explained Functional Organisation. *“Each worker, instead of coming into contact with one superior, would receive his orders from a group of specialised supervisors, each of whom performs a particular function.”*

Functional organisation also operates at higher level of management. The whole work in the organisation is divided in various departments. Similarly types of work and transactions are put in one department under the control of a departmental manager or head. Various departments are also known as functional areas of management viz., Purchases, Sales, Finance, Production, and personnel etc. The respective managers of these departments will be responsible for carrying out various activities of their departments in the organisation. For example, marketing manager will be responsible for carrying out marketing activities and personnel manager will be responsible for looking after the personnel matters in all the departments of the organisation. The underlying idea of functional organisation at the top level of management is that a subordinate anywhere in the organisation will be controlled and commanded directly by number of managers operating in different department.

The diagram shows the functional management at the top level:



Advantages of functional organisational :

Following are the main benefits derived from functional organisation:

- (1) **Specialisation**—It ensures a greater division of labour and enables the concern to take advantage of specialisation of functions.
- (2) **More efficiency**—Efficiency of workers is increased as the workers and other have to perform a limited number of operations and they get suggestions and instructions from specialists.
- (3) **Separation of mental and physical functions**—It ensures the separation of mental and physical functions. This ensures better control of the working of the different sections.

- (4) **Economy**—Standardisation and specialisation in various fields facilitates production on a large-scale resulting in economy in production.
- (5) **Scope for expansion**—It offers a greater scope for expansion as compared to line organisation. It does not face the problem of limited capabilities of a few line managers. The expert knowledge of the functional managers facilitates better control and supervision in the organisation.

Disadvantages of functional organisational :

Despite the above advantages, this type of organisation suffers from the following disadvantages:

- (1) **Confusion**—The operation of functional organisation is too complicated. Workers are supervised by a number of bosses. This results overlapping of authority and thus creates confusion in the organisation.
- (2) **Lack of coordination**—Under this, the work is divided into parts and sub-parts. It poses difficulties in coordinating the functioning of different parts. Thus it is difficult to take quick decisions.
- (3) **Difficulty in fixing responsibility**—Because of multiple authority, responsibility for poor performance cannot be fixed easily on a particular person.
- (4) **Conflict**-Supervisory staff of equal rank may not always agree on certain issues. Therefore, there may be frequent conflicts which may lead to non-performance
- (5) **Expensive**- This pattern of organisation is quite impracticable and expensive. Multiplicity of experts increases the overhead expenditure. The small organisations cannot afford to install such a system.

3. Line and Staff Organisation:

The line and staff organisation is an improvement over the above mentioned two systems viz., line organisation and functional organisation. The line organisation

concentrates too much on control whereas the functional system divides the control too much.

The need was, therefore, for a system that will ensure a proper balance between the two. The need has been fulfilled by line and staff organisation. The system like line organisation also owes its birth to army.

The commanders in the field who are line officers are assisted by the staff that helps them in formulating strategies and plans by supplying valuable information. Similarly in organisation, line officers get the advice of the staff which is very helpful in carrying on the task in an efficient manner. However, staff's role is advisory in nature. Line officers are usually assisted by staff officers in effectively solving various business problems.

The staff is usually of three types viz.,

- (a) **Personal Staff:** This includes the personal staff attached to Line Officers. For example, personal assistant to general manager, secretary to manager etc. The personal staff renders valuable advice and assistance to Line Officers.
- (b) **Specialised Staff:** This category includes various experts possessing specialised knowledge in different fields like accounting, personnel, law, marketing, etc. They render specialised service to the organisation.

For example, a company may engage a lawyer for rendering legal advice on different legal matters. Similarly, it may engage a chartered accountant and a cost accountant for tackling accounting problems.

- (c) **General Staff:** This comprises of various experts in different areas who render valuable advice to the top management on different matters requiring expert advice.

Difference Between Line And Staff Organization

In line and staff organization, the line authority remains the same as it does in the line organization. Authority flows from top to bottom. The main difference is that specialists are attached to line managers to advise them on important matters. These specialists

stand ready with their specialty to serve line managers as and when their services are called for, to collect information and to give help which will enable the line officials to carry out their activities better. The staff officers do not have any power of command in the organisation as they are employed to provide expert advice to the line officers. The combination of line organisation with this expert staff constitutes the type of organisation known as line and staff organisation. The 'line' maintains discipline and stability; the 'staff' provides expert information. The line gets out the production; the staff carries on the research, planning, scheduling, establishing of standards and recording of performance. The authority by which the staff performs these functions is delegated by the line and the performance must be acceptable to the line before action is taken.

Features of line and staff organisation

1. Under this system, there are line officers who have authority and command over the subordinates and are accountable for the tasks entrusted to them. The staff officers are specialists who offer expert advice to the line officers to perform their tasks efficiently.
2. Under this system, the staff officers prepare the plans and give advice to the line officers and the line officers execute the plan with the help of workers.
3. The line and staff organization is based on the principle of specialization

Advantages of Line and Staff Organization

Important advantages of Line and Staff Organisation are:

1. **Specialisation:** This type of organisation is based on planned specialisation and brings about the expert knowledge for the benefit of the management.
2. **Better decisions:** Staff specialists help the line manager in taking better decisions by providing them adequate information of right type at right time.
3. **Lesser Burden on line officers:** The work of the line officers is considerably reduced with the help of staff officers. Technical problems and specialised

matters are handled by the Staff and the routine and administrative matters are the concern of Line Officers.

4. **Advancement of research:** As the work under this type of organisation is carried out by experts, they constantly undertake the research and experimentation for the improvement of the product. New and economical means of production are developed with the help of research and experimentation.
5. **Training for line officer:** Staff services have proved to be an excellent training medium for Line Officers.

Disadvantages of Line and Staff Organisation:

1. **Conflict between line and staff authorities:** There may be chances of conflict between line and staff authorities. Line Officers resent the activities of staff members on the plea that they do not always give correct advice. On other hand staff officials complain that their advice is not properly carried out.
2. **Problems of line and staff authority:** There may be confusion on the relationship of line and staff authorities. Line Officers consider themselves superior to Staff Officers. The Staff Officers object to it.
3. **Lack of responsibility:** As the staff specialists are not accountable for the results, they may not perform their duties well.
4. **The system is quite expensive:** The appointment of experts involves a heavy expenditure. Small and medium size organisations cannot afford such a system.
5. **More reliance on staff:** Some of the line officers excessively rely on the staff. This may considerably reduce the line control.

Comparison of Different Forms of Organisational Structures

S.No.	Line Organisation	Line and Staff Organisation
1.	It is concerned with those positions which have the responsibility of achieving the main objectives of the organisation.	It is concerned with those positions which are meant for providing advice and help to the line officers in the attainment of organisational objectives.
2.	In it there are no experts and specialists to assist and advise to the line officers.	There are experts and specialists known as staff officers to assist and advice the line officers.
3.	It is not based on specialisation.	It is based on well planned specialisation.
4.	Like a military set up there is complete discipline in it.	There is less discipline as there are two types of officers-line and staff.
5.	In it, generally there is no friction between line and staff officers.	There is friction between line and staff officers as they are not clear about their respective roles.
	Line Organisation	Functional Organisation
1.	In it authority flows from top to bottom.	In it authority is functional or diagonal
2.	There is complete unity of command.	There is no unity of command as each subordinate gets the instruction from his different respective bosses.
3.	In it there is complete discipline like military set up.	As there are too many bosses there is loose discipline.
4.	It is only applicable to small scale organisations.	It is suitable for large scale operations where specialisation and functionalisation is must.
5.	There is no specialisation	There is specialisation as functional foremen are specialists in their respective areas.

FORMAL AND INFORMAL ORGANISATION

Formal Organisation: When the managers are carrying on organising process then as a result of organising process an organisational structure is created to achieve systematic working and efficient utilization of resources. This type of structure is known as formal organisational structure.

Formal organisational structure clearly spells out the job to be performed by each individual, the authority, responsibility assigned to every individual, the superior-subordinate relationship and the designation of every individual in the organisation.

This structure is created intentionally by the managers for achievement of organisational goal.

Features of Formal Organisation:

- (1) The formal organisational structure is created intentionally by the process of organising.
- (2) The purpose of formal organisation structure is achievement of organisational goal.
- (3) In formal organisational structure each individual is assigned a specific job.
- (4) In formal organisation every individual is assigned a fixed authority or decision-making power.
- (5) Formal organisational structure results in creation of superior-subordinate relations.
- (6) Formal organisational structure creates a scalar chain of communication in the organisation.

Advantages of Formal Organisation:

1. **Systematic Working:** Formal organisation structure results in systematic and smooth functioning of an organisation.
2. **Achievement of Organisational Objectives:** Formal organisational structure is established to achieve organisational objectives.
3. **No Overlapping of Work:** In formal organisation structure work is systematically divided among various departments and employees. So there is no chance of duplication or overlapping of work.
4. **Co-ordination:** Formal organisational structure results in coordinating the activities of various departments.
5. **Creation of Chain of Command:** Formal organisational structure clearly defines superior subordinate relationship, i.e., who reports to whom.

6. **More Emphasis on Work:** Formal organisational structure lays more emphasis on work than interpersonal relations.

Disadvantages of Formal Organisation:

1. **Delay in Action:** While following scalar chain and chain of command actions get delayed in formal structure.
2. **Ignores Social Needs of Employees:** Formal organisational structure does not give importance to psychological and social need of employees which may lead to de-motivation of employees.
3. **Emphasis on Work Only:** Formal organisational structure gives importance to work only; it ignores human relations, creativity, talents, etc.

Informal Organisation: In the formal organisational structure individuals are assigned various job positions. While working at those job positions, the individuals interact with each other and develop some social and friendly groups in the organisation. This network of social and friendly groups forms another structure in the organisation which is called informal organisational structure.

The informal organisational structure gets created automatically and the main purpose of such structure is getting psychological satisfaction. The existence of informal structure depends upon the formal structure because people working at different job positions interact with each other to form informal structure and the job positions are created in formal structure. So, if there is no formal structure, there will be no job position, there will be no people working at job positions and there will be no informal structure.

Features of Informal Organisation:

- (1) Informal organisational structure gets created automatically without any intended efforts of managers.
- (2) Informal organisational structure is formed by the employees to get psychological satisfaction.

- (3) Informal organisational structure does not follow any fixed path of flow of authority or communication.
- (4) Source of information cannot be known under informal structure as any person can communicate with anyone in the organisation.
- (5) The existence of informal organisational structure depends on the formal organisation structure.

Advantages of Informal Organisation:

1. **Fast Communication:** Informal structure does not follow scalar chain so there can be faster spread of communication.
2. **Fulfills Social Needs:** Informal communication gives due importance to psychological and social need of employees which motivate the employees.
3. **Correct Feedback:** Through informal structure the top level managers can know the real feedback of employees on various policies and plans.

Strategic Use of Informal Organisation : Informal organisation can be used to get benefits in the formal organisation in the following way:

1. The knowledge of informal group can be used to gather support of employees and improve their performance.
2. Through grapevine important information can be transmitted quickly.
3. By cooperating with the informal groups the managers can skilfully take the advantage of both formal and informal organisations.

Disadvantages of Informal Organisation:

1. **Spread Rumours:** According to a survey 70% of information spread through informal organisational structure are rumours which may mislead the employees.
2. **No Systematic Working:** Informal structure does not form a structure for smooth working of an organisation.

3. **May Bring Negative Results:** If informal organisation opposes the policies and changes of management, then it becomes very difficult to implement them in organisation.
4. **More Emphasis to Individual Interest:** Informal structure gives more importance to satisfaction of individual interest as compared to organisational interest.

Difference Between Formal And Informal Organisations

S. No.	Formal Organisation	Informal Organisation
1.	It is created by the top It is not created by top management.	It arises out of the natural desire of the people to associate.
2.	It is created to get the of an organisation performed in a planned and systematic manner.	It is formed to satisfy those needs of members which cannot be satisfied through formal organisation.
3.	It is managed by officially appointed managers.	Members of the informal group select someone as their leader to take care of the interests of the group members.
4.	Managers of formal organisation have formal authority.	The authority of the leader of the informal group depends upon the combined support of group members.
5.	Formal organisation is permanent and stable.	Informal organisation is of temporary nature. It changes its size and membership from time to time.

8.4 SUMMARY

Organising as a process of management essentially relates to sub-dividing and grouping of activities. Organising becomes necessary when two or more persons work together to achieve some common objectives. The process of organising refers to identifying and grouping of activities to be performed, defining and delegating authority, casting responsibility and establishing relationships to enable people to work together effectively in accomplishing objectives. Organizing basically involves analysis of activities to be performed for achieving organizational objectives, grouping them into various departments and sections so that these can be assigned to various individuals and delegating them appropriate authority and responsibility so that they

can carry their work properly. Additionally, In centralization, concentration of decision making authority at the top level management. While In decentralization, each section has its own workers to perform activities within the department. Besides this, Span of control/ Span of management is the limitation of the number of subordinates who can be effectively supervised by a manager in the discharge of his or her management duties. The incapacity of human beings restricts the number of persons who can be managed effectively.

8.5 GLOSSARY

Organizing: Organizing is the establishing of effective behavioural relationship among persons so that they may work together effectively and gain personal satisfaction in doing selected tasks under given environmental conditions for the purpose of achieving some goal or objectives.

Delegation of Authority: Assignment of duties should be followed by delegation of authority. It is difficult to perform the duties effectively, if there is no authority to do it.

Authority: Authority is the power or command others to act or not to act in a manner deemed by the possessor of the authority to further enterprise or departmental purposes.

Responsibility: Responsibility is the obligation to perform the tasks, functions, or assignments of the organization. The essence of responsibility is obligation. If a person is entrusted with any work, he should be held responsible for the work that he completes

Centralisation: Centralisation means concentration of decision making authority at the top level management. All the decision are taken by the top management without delegating to the subordinate. As far as a big organization is concerned, it is not possible to run the organization for long period without delegating the authority.

Decentralisation: Decentralisation refers to the systematic efforts to delegate to the lowest levels all authority except that which can only be exercised at central point.

Span of Control: Span of control describes how many subordinates a manager directly supervises. Supervisors managing few employees have a narrow span of control. Those managing many subordinates have a wide span.

8.6 SELF-ASSESSMENT QUESTIONS

- Q. 1 What is Organising? Describing the steps in the Organising process.
- Q. 2 Explain the meaning of authority and responsibility. And its advantages and disadvantages.
- Q. 3 What is Functional Authority/ How is it different from the line authority?

8.7 LESSON END EXERCISE

1. What is functional authority? How it is different from the line authority?

2. Explain in detail the types of organisational structure.

8.8 SUGGESTED READINGS

1. Fundamentals of Management : Robbins, DeCenzo and Coutler
2. Fundamentals of Management : Ricky W. Griffin
3. Principle of Management : R.S. Gupta, B.D. Sharma, N.S. Bhalla

DECENTRALISATION

STRUCTURE

- 9.1 Introduction
- 9.2 Objectives
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9.1 INTRODUCTION

The origin of organisation has been spontaneous. It came into existence in the early stages of human evolution when persons began to co-operate and combine together to achieve a common goal. A sound management is based on proper organisational structure which is concerned with determining responsibility and assigning of authority to different superiors and establishing proper inter-relationship among them for achieving the desired objectives. An organisation is not an end in itself, it is only acts as a means towards an end i.e., the accomplishment of firm's goals.

9.2 OBJECTIVES

After completion of this lesson you shall be able to know:

- Concept, objectives, nature and types of organising
- Delegation of Authority
- Authority and Responsibility
- Centralisation and decentralisation
- Span of Control

9.3 CENTRALISATION AND DECENTRALISATION

Centralisation and decentralisation are tendencies like hot and cold, the extremes of both are undesirable yet both are necessary for efficient functioning of the enterprise.

9.3.1 Introduction

In every organisation of any size there are a number of different levels of executives performing various functions. The main managerial function is concerned with the responsibility of decision-making. Centralisation and decentralisation describe the manner in which decision-making responsibilities are divided among executives at different hierarchical levels. Centralisation and decentralisation constitute an important problem in an organisation and relates to whether authority should be concentrated or dispersed throughout the organisation structure.

In the words of **Henry Fayol**, *“Every thing that goes to increase the importance of subordinate’s role is decentralisation everything that goes to reduce it is centralisation.”*

Centralisation and decentralisation are both complementary to each other. There can neither be complete decentralisation nor centralisation. For example, if a manager delegates all his authority, his status as a manager would cease to exist and on the other hand if he reserves whole authority at central points, there would be no subordinates and no organisation will exist. As a result, equilibrium between the two is always necessary.

9.3.2 CENTRALISATION OF AUTHORITY

9.3.2.1 Meaning

Under centralisation, the executive reserves the work for himself instead of delegating to his subordinates and ultimately reserves authority. But where he is forced to delegate work, he may do so by not delegating adequate authority so that the subordinate must approach him to arrive at the appropriate decision.

According to **Allen**, “*Centralisation is the systematic and consistent reservation of authority at central points within an organisation.*”

Centralisation, according to **Fayol**, “*is that organisation where the role of the subordinates is reduced.*”

Thus, we see that in centralisation, decisions regarding the work are made not by those doing the work, but at a point higher in the organisation. Centralisation is normally successful in small-scale concerns.

9.3.2.2 Factors Determining Centralisation of Authority

The management of an enterprise may centralise decision-making for the following reasons:

1. **Achieving Uniformity of Action:** Uniformity of action is possible when decision-making authority is centralized. The decisions taken at the top will be implemented at every level. There may be more than one unit under the same management and it may be desired to have same types of policies and procedures. If the units take their independent decisions then uniformity of action will not be achieved. Under such situations centralized decision-making will enable unity of action.
2. **Facilitating Integration:** There may be a need to integrate all operations of the enterprise for achieving common objectives. Centralized management will facilitate integration of activities by devising common policies and programmes.

3. **Promoting Personal Leadership:** The small enterprises grow on the strength and capability of their manager. Even big concerns too depend upon the qualities of their managers during initial periods. The whole authority will be in the hands of the chief executive. This will result in quick decisions and imaginative actions. The manager will acquire more and more skill and experience which will promote their personal leadership. According to **Louis A. Allen**, “*The small company can retain the advantages of centralisation so long it continues to function as one entrepreneurial unit; that is, so long as it can operate effectively as a projection of the personality and skills of one outstanding leader.*”
4. **Handling Emergencies:** Under uncertain business conditions there is a need to take emergency decisions. Sometimes the existence of small- scale units is endangered if timely actions are not taken. Centralized authority will enable quick and timely decisions from short-term as well long-term perspective.
5. **Less skilled subordinates:** An enterprise running on the lines of centralisation need not have highly skilled subordinates. It results in the economy of wages and salaries.

9.3.2.3 Advantages of Centralisation of Authority

The following are the advantages of centralization:

1. **Standardization of Procedures and Systems:** Centralization enables standardization of procedures and systems. It facilitates smooth working in the organization. There is also a consistency in day-to-day working. The consumer service will also improve if standard policies are used.
2. **Facilitates Evaluation:** When same policies are used for all segments of the enterprise their performance can easily be evaluated. It also helps in comparing the results of different departments. This will bring a sense of competition among various segments. Ultimately the overall performance will improve.
3. **Economies:** Centralization of management will bring in economies of large scale. There will be a centralized buying and selling. This will enable bulk buying

resulting in discounts and savings in transportation expenses. When sales are done in large quantities then customers are offered better terms and low prices. There will be an economy in managerial expenses also.

- 4. Co-ordination of Activities:** Co-ordination of activities of various segments is also facilitated by centralized management. In the absence of centralization, different segments may pursue their independent policies. This may result in disunity and disintegration. Different segments may emphasize their own goals only without bothering about organizational objectives. Centralized management will help in coordinating the work of different segments in such a way that organizational goals are achieved.

9.3.2.4 Limitations of Centralisation of Authority

Centralization may be useful only up to a certain level and also under certain conditions. Beyond a certain point it creates difficulties in day-to-day working and also restricts the growth of an enterprise.

Following are some of the disadvantages of centralization:

- 1. Destroys Individual Initiative:** Centralization revolves around one person only. One man takes all the decisions and decides the modes of implementing them. Nobody is given the authority to use his own judgment even if there are glaring lacunae in the decisions. It destroys initiative of subordinates. They do not make any suggestions and just carry on with whatever has been conveyed to them.
- 2. Over Burden of Few:** This system gives all responsibilities to few persons in the organization. They remain over-burdened with routine work while subordinates do not have sufficient work. The centralization of all powers do not allow the chief executive to devote sufficient time for important tasks of planning, coordinating and motivating. In a decentralized set-up routine matters are left to the subordinates and manager concentrates on important administrative work only.

3. **Slows Down the Operations:** The operations of the enterprise are slowed down under centralized set-up. All decisions are taken only by one person and his unavailability keeps the matters pending. Even clarifications about decisions are referred to the top which destroys invaluable time in formalities. If the subordinates have powers to interpret decisions then operations can be toned up. Things move very slowly in a centralized set up because everything has to pass through the manager.
4. **Distance from Customers:** The customers do not come into contact with policy-makers. They meet only those officials who do not have the powers to take decisions. Moreover one person cannot meet and know the reactions of customers regarding products and service. This also comes in the way of intimate understanding of market situations by the chief executive.
5. **No Scope for Specialization:** Centralization does not offer any scope for specialization. All decisions are taken by one person and he may not be a specialist in all the areas. In the present competitive world there is a need for employing the services of specialists. The specialists will be able to introduce new things in their fields and they may improve the performance of the enterprise.

9.3.3 DECENTRALISATION

9.3.3.1 Meaning and Definitions

Decentralisation can be viewed as an extension of delegation. When a part of the work is entrusted to others, it is known as delegation. Decentralisation is an important segment of delegation. Decentralisation is an important segment of delegation and extends to the lowest level of the organisation.

A few definitions are given below:

1. “Decentralisation is the systematic effort to delegate to the lowest levels all authority except that which can only be exercised at central points.”

– **Louis A, Allen**

2. “Decentralisation means the division of a group of functions and activities into relatively autonomous units with overall authority and responsibility for their operation delegated to a head of each unit.”
–**Earl P. Strong**
3. “Decentralisation is simply a matter of dividing up the managerial work and assigning specific duties to the various executive skills.”
– **Newman, Summer and Warren**

Thus, ‘decentralisation’ means the decentralisation of powers of decision-making to the levels where the work is to be performed. However, it may be noted that it is not necessary to decentralise all managerial activities. For example, in an organisation, the sales function may be decentralised while the personnel function may not be. In that case, personnel function will be deemed to be centralised. Thus, centralisation implies that the decision-making prerogatives are retained by the higher managerial levels and not delegated to the levels where the work is to be performed. It may also be stated that there can be neither complete centralisation (except in the case of a one-man enterprise) nor complete decentralisation of authority. We may find that some business concerns may have a greater degree of decentralisation while some others may have less of it. Explaining decentralisation, **Fayol** has very aptly stated: “Everything that goes to increase the importance of the subordinate’s role is decentralisation and everything which goes to reduce it, is centralisation.”

9.3.3.2 Degree of Decentralisation

The degree of decentralisation is determined by:

- (a) Nature of the authority delegated,
- (b) How far down in the organisation it is delegated,
- (c) How consistently it is delegated.

So, the degree of decentralisation is determined by the authority given. For example, manager, A in a company is given the authority to buy certain material worth Rs. 1500 whereas manager B is allowed to do similar type of work to the extent of Rs. 4500. It is pertinent that the degree of decentralisation is less in case of

A. Similarly decisions about the matters referred measure the degree of decentralisation depending upon the power to take decisions vested in an officer without the need of getting consent of somebody else.

9.3.3.3 Factors Determining the Degree of Decentralisation

The degree and the kind of decentralisation in any organisation is determined by the following factors:

1. **Costliness of Decisions:** The costliness of decisions is the most important factor influencing the degree of decentralisation. In general, the decisions involving heavy cost or investment will most probably be made at the higher levels of management. This cost may be expressed in the terms of money value or it may be reckoned in such intangibles as the company's reputation, its competitive position or the effect on the employees' morale. Decisions involving risk will not be delegated but in turn will be made at the top managerial positions. The decision for the purchase of capital goods i.e., machinery or equipment will be made at higher levels, whereas the decision to purchase items of routine nature will be made by the purchasing department.
2. **Uniformity of Policy:** Uniformity of the organisation's policy determines the degree of decentralisation. If a company intends to keep uniform policies in the organisation then policies should be consistent. Where there is decentralisation, the company will not be in a position to take the advantages of uniformity of policies because of different habits and talents on the part of different persons.
3. **Economic Size:** Larger the size of a business unit, the greater will be the number of departments and as a result, decentralisation would be preferred in large sized units. The burden on the top management will be much less and they will be in a position to concentrate on crucial matters.

In other words it can be said that principle of "management by exception" if followed, will yield better results because each departmental head will be able to take better decisions regarding the work allotted to him. In a small concern the persons will be few and the decisions can be made by the owner himself.

4. **Availability of Managers:** The shortage of managerial manpower necessarily restricts the extent of decentralisation. The dispersal of decision-making and leadership requires the availability of persons who can discharge their obligations as per the authority delegated.
5. **History of the Enterprise:** To what extent authority in an organisation will be centralised depends upon the way the business has been built up. If an organisation has appointed a set of departments with the departmental heads being vested with the authority to achieve the objectives, it sets the example of decentralisation.
6. **The Philosophy of the Management:** The character of the top leader and the philosophy possessed by him will have an important influence on the extent to which authority in an enterprise is centralised or decentralised. It is necessary that the leaders should have broad vision which will have a lasting effect on the organisational structure.
7. **Decentralisation of Performance:** The nature of operations also determine the extent of decentralisation i.e., whether the operations of the organisation are concentrated at the one place or in a region or dispersed to different territories. If the enterprise activities are dispersed over to different territories it will prosper by this policy of decentralisation.
8. **Environmental Influences:** Most of the factors determining the extent of decentralisation dealt so far are related to the organisation. In addition there are many other factors which are external to the business yet have an impact on the degree of decentralisation, such as, government controls, tax policies and national unionism.

For example, if prices are regulated by Government, the sales manager cannot be given real freedom in determining them. With the high rate of taxes on corporate income, the impact of taxation is often a policy-determining factor that overshadows traditional business considerations such as plant expansion, marketing policies and economic operations. Similarly, the rise of national unions in the past has had a centralising influence on business.

9.3.3.4 Advantages of Decentralisation

1. **Reduces the burden on top executives:** Decentralisation relieves the top executives of the burden of performing various functions. Centralisation of authority puts the whole responsibility on the shoulders of an executive and his immediate group. This reduces the time at the disposal of top executives who should concentrate on other important managerial functions. So, the only way to lessen their burden is to decentralise the decision-making power to the subordinates.
2. **Facilitates diversification:** Under decentralization, the diversification of products, activities and markets etc., is facilitated. A centralised enterprise with the concentration of authority at the top will find it difficult and complex to diversify its activities and start the additional lines of manufacture or distribution.
3. **To provide product and market emphasis:** A product loses its market when new products appear in the market on account of innovations or changes in the customers demand. In such cases authority is decentralised to the regional units to render instant service taking into account the price, quality, delivery, novelty, etc.
4. **Executive development:** When the authority is decentralised, executives in the organisation will get the opportunity to develop their talents by taking initiative which will also make them ready for managerial positions. The growth of the company greatly depends on the talented executives.
5. **It promotes motivation:** To quote **Louis A. Allen**, “Decentralisation stimulates the formation of small cohesive groups. Since local managers are given a large degree of authority and local autonomy, they tend to weld their people into closely knit integrated groups.” This improves the morale of employees as they get involved in decision-making process.
6. **Better control and supervision:** Decentralisation ensures better control and supervision as the subordinates at the lowest levels will have the authority to

make independent decisions. As a result they have thorough knowledge of every assignment under their control and are in a position to make amendments and take corrective action.

7. **Quick decision-making:** Decentralisation brings decision making process closer to the scene of action. This leads to quicker decision-making of lower level since decisions do not have to be referred up through the hierarchy.

9.3.3.5 Limitations of Decentralisations

Decentralisation can be extremely beneficial. But it can be dangerous unless it is carefully constructed and constantly monitored for the good of the company as a whole.

Some disadvantages of decentralisation are:

1. **Uniform Policies not followed:** Under decentralisation, it is not possible to follow uniform policies and standardised procedures. Each manager will work and frame policies according to his talent.
2. **Problem of Co-Ordination:** Decentralisation of authority creates problems of co-ordination as authority lies dispersed widely throughout the organisation.
3. **More Financial Burden:** Decentralisation requires the employment of trained personnel to accept authority, it involves more financial burden and a small enterprise cannot afford to appoint experts in various fields.
4. **Require Qualified Personnel:** Decentralisation becomes useless when there are no qualified and competent personnel.
5. **Conflict:** Decentralisation puts more pressure on divisional heads to realize profits at any cost. Often in meeting their new profit plans, bring conflicts among managers.

9.3.3.6 Difference Between Delegation and Decentralisation

The points of distinction between the delegation and decentralisation of authority are as under:

1. **Responsibility:** In delegation, a superior delegates or transfers some rights and duties to a subordinate but his responsibility in respect of that work does not end. On the other hand, decentralisation relieves him from responsibility and the subordinate becomes liable for that work.
2. **Process:** Delegation is process while decentralisation is the end result of a deliberate policy of making delegation of authority to the lowest levels in managerial hierarchy.
3. **Need:** Delegation is almost essential for the management to get things done in the organisation i.e., delegating requisite authority for performance of work assigned. Decentralisation may or may not be practised as a systematic policy in the organisation.
4. **Control:** In delegation the final control over the activities of organisation lies with the top executive while in decentralisation the power of control is exercised by the unit head to which the authority has been delegated.
5. **Authority:** Delegation represents selecting dispersal of authority whereas decentralisation signifies the creation of autonomous and self-sufficient units or divisions.
6. **Scope:** Delegation hardly poses any problem of co-ordination to the delegator of authority. While decentralisation poses a great problem in this regard since extreme freedom of action is given to the people by creating self-sufficient or autonomous units.
7. **Good Results:** Decentralisation is effective only in big organisations whereas delegation is required and gives good results in all types of organisations irrespective of their size.

8. **Nature:** Delegation is the result of human limitation to the span of management. Decentralisation is the other hand, is the result of the big size and multifarious functions of the enterprise.

Difference Between Centralisation and Decentralisation

	Basis of Difference	Centralisation	Decentralisation
1.	Meaning	It is a systematic reservation of authority at central points.	The delegation of decision making authority at all levels of organisation
2.	Nature	Unity of purpose is promoted	Freedom of operation is promoted.
3.	Uniformity	It brings uniformity in policies and plans	It may lead to inconsistencies because uniform procedures are not followed in different departments.
4.	Suitability	It is suitable for a small organisation	It is appropriate for a large organisation.
5.	Cost	It does not involve high cost because only few official manage the whole business.	Higher cost is involved because the whole organisation is divided into self -sufficient departments.
6.	Trained and professional managers.	Only few trained and professionals are required at the top management level.	A large number are required as every department is controlled by independent manager.

9.4 SPAN OF CONTROL

9.4.1 Meaning and Definitions

Management is concerned with a number of M's *i.e.* Men, Money, Material, Machines, Methods and Markets. The ability of the manager depends upon the

successful integration of these resources. Control of human resources (men) is most important of all. The success of an enterprise depends largely upon the best utilisation of human resources. This is done through span of control.

The concept of span of control was developed in the United Kingdom in 1922 by Sir Ian Hamilton. It arose from the assumption that managers have finite amounts of time, energy, and attention to devote to their jobs. It is also known as *Span of Management* or *Span of Authority* or *Span of Supervision*. Simply stated Span of management or Span of control means the number of people managed efficiently by a single officer in an organization. It is an accepted truth that large number of subordinates cannot be supervised and their efforts coordinated effectively by a single executive. Only limited numbers of persons are allocated to the executive for dividing the work. The limit of number of members for span of control may be increased or decreased according to the levels of management.

Definitions

According to **Urwick**, “the ideal number of subordinates is four in case of higher level management and eight to twelve in case of lower level management.”

According to **Louis Allen** “Span of control refers to the number of people that a manager can supervise.”

According to **Prof. Dimock**, “The span of control is the number and range of direct, habitual communication contacts between the Chief Executive of an enterprise and his principal fellow officers.”

According to **Nicholas Henry**, “Span of control means that a manager can properly control only a limited number of subordinates, after a certain number is exceeded, communication of commands grows increasingly garbed and control becomes increasingly ineffective and loose”

9.4.2 Factors Affecting the Span of Control

The following are some of the factors which influence the span of control.

1. **Nature of work:** If the works are repetitive in nature, the supervisor can control a large number of subordinates and vice versa.
2. **Leadership qualities of the supervisor:** If the supervisor has more skill and capacity to control the subordinates, the span of management may be increase and vice-versa.
3. **Capacity of the subordinates:** If the subordinates have enough talent to perform the work assigned to them, the manager or the supervisor can control more number of subordinates.
4. **Delegation of authority:** If the authority delegates the powers of decision making, planning and execution to the subordinates, the span of control may be increased.
5. **Level of supervision:** Depending up on the requirement of supervision needed, the span of control may vary. In other words degree of span of control can be increased at bottom level and decreased at top level.
6. **Fixation of responsibility:** In case the responsibility of subordinate is clearly defined, then the superior can supervise large number of subordinates.
7. **Communication methods:** The methods used for communication is very important. If new and modern techniques are used, then lesser time is required to control and vice-versa.
8. **Using of standards:** If standards are used to detect the errors, then the executives can control more number of subordinates.

9.4.3 Advantages of Span of Control

The Span of Control should not be too wide (large) or too narrow (small). If the span is too wide, then the personal supervision is difficult and the control will be ineffective. On the other hand, if the span is too narrow, then there will be excessive (too much) supervision of the subordinates. This will affect their work. So it is desirable to select an appropriate (proper) span of control.

An appropriate span of control gives the following benefits to the organisation.

1. **Better supervision and control:** If there is an appropriate span of control, then the superior will have a limited number of subordinates under him. This will result in better supervision and control.
2. **Increases efficiency:** An appropriate span of control results in better supervision and control. This increases the efficiency, productivity and profitability of the organisation.
3. **Increases goodwill:** An appropriate span of control increases the efficiency of the organisation. Therefore, they distribute good quality goods and services at fair prices to the customers. They also give high rate of dividend to the shareholders. All this increases the goodwill of the organisation.
4. **Good professional relations:** If there is an appropriate span of control, then the superiors and subordinates will get time to develop close and good professional relations between themselves.
5. **Team spirit and morale:** An appropriate span of control creates good relations between superiors and subordinates. This improves the team spirit and morale of the employees.
6. **Good communication and co-ordination:** If there is an appropriate span of control, then superiors will get time to communicate with every single subordinate. This will improve the communication in the organisation. Good communication results in good co-ordination. Therefore, an appropriate span of control results in good communication and co-ordination.
7. **Facilitates quick action:** An appropriate span of control results in good professional relations, better communication and co-ordination. This facilitates quick action in the organisation.
8. **Less labour absenteeism and turnover:** An appropriate span of control helps to decrease the labour absenteeism and turnover in the organisation.

9. **Develops discipline and mutual trust:** An appropriate span of control helps to develop discipline and mutual trust.
10. **Superiors can concentrate on important work:** If there is an appropriate span of control, then the superior will get time to concentrate on important work. However, if the span of control is very wide, then the superior will have to spend most of his time on supervising and controlling his subordinates.

9.4.4 Limitations Affecting Span of Control

Koontz and O' Donnel mention some limitations affecting span of control. These are enumerated as under:

1. **Time and Attention Spans:** Time at the disposal of the supervisor and amount of attention he can give to the subordinates to determines the span. If he can spare more time and devote more attention on his subordinates, he can manage larger span.
2. **Personality and Energy Spans:** These factors relate to individual supervisors. These include physical, mental and nervous energies of the supervisors. Supervisors with more of these energies can command large span.
3. **Span of Knowledge:** Knowledge and information on the part of the supervisor also determines the span of control. Limited knowledge restricts the span of control.

9.4.5 Problems of Levels in Span of Control

This refers to the problems of layering in span of control. It is argued for achieving efficiency, specialisation and proper control, different levels or layers of supervision may be created. But the creation of so many levels and layers in the organisation structure creates many problems, *viz.*,

- (i) Creation of levels is expensive and involves more time and effort.
- (ii) Process of communication is complicated by creating too many levels.

- (iii) Complications in planning and control also arise.
- (iv) Morale of the workers is adversely affected due to the gap created between the top executives and the workers on account of too many levels.

9.4.6 Tall Versus Flat Spans

These are also referred as ‘wide and narrow spans’. If the span of control is narrow, then there will be many management levels. That is, there will be many managers. This organisation structure is called “Tall Organisation Structure” whereas if the span of control is wide, then there will be fewer management levels. That is, there will be fewer managers. This organisation structure is called “Flat Organisation Structure”.

The difference between tall (narrow span of control) and flat (wide span of control) organisation structure is based on following points:

1. **Formal and Informal Relations:** In Tall Organisation Structure, a manager has to manage only a few subordinates. Therefore, the relationship between them will be informal. Personal relationships are possible.

In Flat Organisation Structure, a manager has to manage many subordinates. Therefore, the relationship between them will be formal. Personal relationships are impossible.

2. **Control of Subordinates:** In Tall Organisation Structure, there is a close control because there are few subordinates.

In Flat Organisation Structure, there is a loose control because there are many subordinates.

3. **Extent of Coordination:** In Tall Organisation Structure, the coordination is good.

In Flat Organisation Structure, the coordination is not so good.

4. **Mistakes:** In Tall Organisation Structure, there are less mistakes because of close supervision and control.

In Flat Organisation Structure, many mistakes may occur because of loose supervision and control.

- 5. Discipline:** In Tall Organisation Structure, Good discipline can be maintained because there are few subordinates.

In Flat Organisation Structure, the possibility of indiscipline exists because there are many subordinates.

- 6. Cost:** Tall Organisation Structure is costly because it has many managers. Flat Organisation Structure is less costly because it has less managers.

- 7. Decision Making:** In Tall Organisation Structure, Decision making is slow because there are many levels of management.

In Flat Organisation Structure, Decision making is quick because there are few levels of management.

- 8. Guidance to Staff:** Tall Organisation is suitable for staff that needs detailed guidance.

Flat Organisation is suitable for staff that needs less guidance and more independence.

- 9. Pressure on Managers:** In Tall Organisation, there is less pressure on managers because they have only few subordinates to supervise.

In Flat Organisation, there is more pressure on the managers because they have much more subordinates to supervise.

- 10. Communication:** In Tall Organisation, communication may be distorted and delayed because there are many levels of management.

In Flat Organisation, communication will not be distorted and delayed because there are few levels of management.

9.5 SUMMARY

Organising as a process of management essentially relates to sub-dividing and grouping of activities. Organising becomes necessary when two or more persons work together to achieve some common objectives. The process of organising refers to identifying and grouping of activities to be performed, defining and delegating authority, casting responsibility and establishing relationships to enable people to work together effectively in accomplishing objectives. Organizing basically involves analysis of activities to be performed for achieving organizational objectives, grouping them into various departments and sections so that these can be assigned to various individuals and delegating them appropriate authority and responsibility so that they can carry their work properly. Additionally, In centralization, concentration of decision making authority at the top level management. While In decentralization, each section has its own workers to perform activities within the department. Besides this, Span of control/ Span of management is the limitation of the number of subordinates who can be effectively supervised by a manager in the discharge of his or her management duties. The incapacity of human beings restricts the number of persons who can be managed effectively.

9.6 GLOSSARY

Organizing: Organizing is the establishing of effective behavioural relationship among persons so that they may work together effectively and gain personal satisfaction in doing selected tasks under given environmental conditions for the purpose of achieving some goal or objectives.

Delegation of Authority: Assignment of duties should be followed by delegation of authority. It is difficult to perform the duties effectively, if there is no authority to do it.

Authority: Authority is the power or command others to act or not to act in a manner deemed by the possessor of the authority to further enterprise or departmental purposes.

Responsibility: Responsibility is the obligation to perform the tasks, functions, or assignments of the organization. The essence of responsibility is obligation. If a

person is entrusted with any work, he should be held responsible for the work that he completes

Centralisation: Centralisation means concentration of decision making authority at the top level management. All the decision are taken by the top management without delegating to the subordinate. As far as a big organization is concerned, it is not possible to run the organization for long period without delegating the authority.

Decentralisation: Decentralisation refers to the systematic efforts to delegate to the lowest levels all authority except that which can only be exercised at central point.

Span of Control: Span of control describes how many subordinates a manager directly supervises. Supervisors managing few employees have a narrow span of control. Those managing many subordinates have a wide span.

9.7 SELF-ASSESSMENT QUESTIONS

1. Write short notes on:
 - (a) Centralisation
 - (b) Decentralisation
2. Explain the factors affecting the span of control.

9.8 LESSON END EXERCISE

1. Mention the difference between Centralisation and Decentralisation

2. Name any five objectives of Decentralisation.

9.9 SUGGESTED READINGS

1. Fundamentals of Management : Robbins, DeCenzo and Coutler
2. Fundamentals of Management : Ricky W. Griffin
3. Principle of Management : R.S. Gupta, B.D. Sharma, N.S. Bhalla

DIRECTING

STRUCTURE

- 10.1 Introduction
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10.1 INTRODUCTION

Directing refers to a process or technique of instructing, guiding, inspiring, counselling, overseeing and leading people towards the accomplishment of organizational goals. It is a continuous managerial process that goes on throughout the life of the organisation. It is said to be a process in which the managers instruct, guide and oversee the performance of the workers to achieve predetermined goals. Directing is said to be the heart of management process. Planning, organizing, staffing have got no importance if direction function does not take place.

Directing initiates action and it is from here actual work starts. Direction is said to be consisting of human factors. In simple words, it can be described as providing guidance to workers is doing work. In field of management, direction is said to be all those activities which are designed to encourage the subordinates to work effectively and efficiently. According to Human, “Directing consists of process or technique by which instruction can be issued and operations can be carried out as originally planned” Therefore, Directing is the function of guiding, inspiring, overseeing and instructing people towards accomplishment of organizational goals.

10.2 OBJECTIVES

After reading this lesson you would be able:

- To state the meaning and importance of directing function of management.
- To know about the elements and principles of directing.
- To discuss the meaning, functions and importance of supervision.

10.3 DIRECTING

Directing is a very essence of management. It is the important element of management without which nothing in the managerial process can be successful. Directing helps to create an appropriate work environment that facilitates efficient discharge of duties to the employees. Directing and leading comprise the managerial functions of guiding, overseeing and leading people. The primary function of directing is to deal with human elements to build personal relationships. Directing is concerned with directing human efforts towards organizational goal achievements. The success of these directional efforts determines the satisfactory or unsatisfactory performance within the organization. Thus, directing is the function the will test the managerial capability in running the organization.

DEFINITIONS:

According to Haimann:

“Directing consists of the process and techniques utilized in issuing instructions and making certain that operations are carried on as originally planned.”

According to Koontz and O’Donnel:

“Direction is the interpersonal aspect of managing by which subordinates are led to understand and contribute effectively to the attainment of enterprise objectives”

According to Urwick and Brech:

“Directing is the guidance, the inspection, the leadership of those men and women that constitute the real course of responsibility of management.”

Directing focused on:

1. To ensures that sub-ordinates do their work.
2. The subordinates do it well not only according to plan but also as per the expectation of management in order to achieve the goals.
3. To develop interpersonal relations n a group.

10.3.1 Nature of Directing

Directing is the heart & soul of management. Without directing management may come to stand still.

- 1) **Important function of management:** Any amount of planning, organizing & staffing can be done with proper direction. Responsibility for attaining the objectives must be guided and directed for truthful result.
- 2) **Performed by all levels of management:** Direction function is performed by top level, middle level or low level. Every superior is expected to provide guidance and direction to those who lose to him for such direction.
- 3) **Continuous process:** It is an unending process. It goes with work. As long as work is there direction is there.
- 4) **Result oriented:**
 - (a) To get the work done.
 - (b) To see the management work more responsibly.

The manager's job is not only to see that the work is completed according to him and proper direction is provided but he has to ensure that the problems faced by men are solved without delay.

- 5) **Provides link between different management functions:** It provides effective link in planning, organizing, staffing in the organization with proper control.
- 6) **Involvement of human relationship:** Directing creates co-operation & harmony among the members of the group.

10.3.2 Significance of Directing

Direction is described as the heart of the management process. It is the life spark of an organisation which sets the organizational machine into motion. Directing or Direction function is said to be the heart of management of process and therefore, is the central point around which accomplishment of goals take place. A few

philosophers call Direction as “*Life spark of an enterprise*”. It is also called as an actuating function of management because it is through direction that the operation of an enterprise actually starts. Being the central character of enterprise, it provides many benefits to a concern which are as follows:-

Thus direction is an important function of management on account of following reasons.

- 1. It Initiates Actions:** Directions is the function which is the starting point of the work performance of subordinates. It is from this function the action takes place, subordinates understand their jobs and do according to the instructions laid. Whatever are plans laid, can be implemented only once the actual work starts. It is there that direction becomes beneficial.
- 2. It Ingrates Efforts:** Through direction, the superiors are able to guide, inspire and instruct the subordinates to work. For this, efforts of every individual towards accomplishment of goals are required. It is through direction the efforts of every department can be related and integrated with others. This can be done through persuasive leadership and effective communication. Integration of efforts bring effectiveness and stability in a concern.
- 3. Means of Motivation:** Direction function helps in achievement of goals. A manager makes use of the element of motivation here to improve the performances of subordinates. This can be done by providing incentives or compensation, whether monetary or non - monetary, which serves as a “Morale booster” to the subordinates. Motivation is also helpful for the subordinates to give the best of their abilities which ultimately helps in growth.
- 4. It Provides Stability:** Stability and balance in concern becomes very important for long term survival in the market. This can be brought upon by the managers with the help of four tools or elements of direction function - judicious blend of persuasive leadership, effective communication, strict supervision and efficient motivation. Stability is very important since that is an index of growth of an enterprise. Therefore a manager can use of all the four traits in him so that performance standards can be maintained.

- 5. Coping up with the changes:** It is a human behaviour that human beings show resistance to change. Adaptability with changing environment helps in sustaining planned growth and becoming a market leader. It is directing function which is of use to meet with changes in environment, both internal as external. Effective communication helps in coping up with the changes. It is the role of manager here to communicate the nature and contents of changes very clearly to the subordinates. This helps in clarifications, easy adaptations and smooth running of an enterprise. For example, if a concern shifts from handlooms to power looms, an important change in technique of production takes place. The resulting factors are less of manpower and more of machinery. This can be resisted by the subordinates. The manager here can explain that the change was in the benefit of the subordinates. Through more mechanization, production increases and thereby the profits. Indirectly, the subordinates are benefited out of that in form of higher remuneration.
- 6. Efficient Utilisation of Resources:** Direction finance helps in clarifying the role of every subordinate towards his work. The resources can be utilized properly only when less of wastages, duplication of efforts, overlapping of performances, etc. doesn't take place. Through direction, the role of subordinates become clear as manager makes use of his supervisory, the guidance, the instructions and motivation skill to inspire the subordinates. This helps in maximum possible utilization of resources of men, machine, materials and money which helps in reducing costs and increasing profits.

10.3.3 Principles of Direction

- 1. Maximum Individual Contribution:** One of the main principles of directing is the contribution of individuals. Management should adopt such directing policies that motivate the employees to contribute their maximum potential for the attainment of organisational goals.
- 2. Harmony of Objectives:** Sometimes there is a conflict between the organizational objectives and individual objectives. For example, the organization wants profits to increase and to retain its major share, whereas, the employees may perceive that

they should get a major share as a bonus as they have worked really hard for it. Here, directing has an important role to play in establishing harmony and coordination between the objectives of both the parties.

3. **Unity of Command:** This principle states that a subordinate should receive instructions from only one superior at a time. If he receives instructions from more than one superiors at the same time, it will create confusion, conflict, and disorder in the organization and also he will not be able to prioritize his work.
4. **Appropriate Direction Technique:** Among the principles of directing, this one states that appropriate direction techniques should be used to supervise, lead, communicate and motivate the employees based on their needs, capabilities, attitudes and other situational variables.
5. **Managerial Communication:** According to this principle, it should be seen that the instructions are clearly conveyed to the employees and it should be ensured that they have understood the same meaning as was intended to be communicated.
6. **Use of Informal Organisation:** Within every formal organization, there exists an informal group or organization. The manager should identify those groups and use them to communicate information. There should be a free flow of information among the seniors and the subordinates as an effective exchange of information are really important for the growth of an organization.
7. **Leadership:** Managers should possess a good leadership quality to influence the subordinates and make them work according to their wish. It is one of the important principles of directing.
8. **Follow Through:** As per this principle, managers are required to monitor the extent to which the policies, procedures, and instructions are followed by the subordinates. If there is any problem in implementation, then the suitable modifications can be made.

10.3.4 Elements of Directing

There are the four essential elements of directing. In the subsequent sections we shall discuss about the nature and significance of each of these components.

10.3.4.1 Communication

Communication is a basic organisational function, which refers to the process by which a person (known as sender) transmits information or messages to another person (known as receiver). The purpose of communication in organisations is to convey orders, instructions, or information so as to bring desired changes in the performance and or the attitude of employees. In an organisation, supervisors transmit information to subordinates. Proper communication results in clarity and securing the cooperation of subordinates.

Faulty communication may create problems due to misunderstanding between the superior and subordinates. The subordinates must correctly understand the message conveyed to them. Thus, in communication:

- There are two parties, one is known as the sender and the other is known as receiver; • there is a message sent by the sender to the receiver; and
- The receiver receives the message and understands it. Communication does not always flow from supervisor to subordinate. It can also be from a subordinate to a supervisor. For example, subordinates can pass information to the supervisor about the faults/problems at the assembly line. Thus, it is a two way process.

10.3.4.1.1 Importance of Communication

Communication in organisations is so important that it is said to be the lifeblood of the organisation. Success of direction largely depends on how effectively the manager can communicate with his subordinates. Proper communication in organisations at all levels and between all levels can improve both the quantity and quality of output. Some of the benefits of communication are as follows: • Communication helps employees to understand their role clearly and perform effectively. • It helps in achieving co-ordination and mutual understanding which in turn, leads to industrial harmony and increased productivity. • Communication improves managerial efficiency and ensures cooperation of the staff. • Effective communication helps in moulding attitudes and building up employees' morale. • Communication is the means through which delegation and decentralisation of authority is successfully accomplished in an organisation.

10.3.4.1.2 Types of Communication

In an organisation communication can be made from supervisor to subordinate, from subordinate to supervisor and also between two supervisors at the same level. Communication can be done orally or in writing or even through gestures. Communication may be made through formal or informal channels.

Thus, the various types of communication are as follows. On the basis of channel used, On the basis of direction, On the basis of mode used (i) Formal (i) Upward (i) verbal - (a) oral, (b) written (ii) Informal (ii) Downward (ii) Non-verbal (gestural) (iii) Horizontal (iv) Diagonal

(a) Formal and Informal Communication: The path through which information flows is called channel of communication. In every organisation we have both formal and informal channels. The paths of communication which are based on relationship established *formally* by management are the formal channels. For example, the General Manager communicates a decision to the production manager who may then issue orders or instructions to the foremen. It may also be like a worker applying to his supervisor for a loan from the GPF account. He/she forwards it to the Manager Accounts who finally sends it to the General Manager (Finance) for approval. Communication, which takes place on the basis of informal or social relations among staff, is called *informal* communication. For example, any sharing of information between a production supervisor and an accountant, as they happen to be friends or so. Mostly informal channels are used due to friendly interaction of members of an organisation. In fact, it may be purely personal or related to organisational matters.

(b) Upward, Downward, Horizontal and Diagonal Communication: On the basis of the flow or direction of communication in organisations, it can be classified as upward, downward, horizontal or diagonal. When employees make any request, appeal, report, suggest or communicate ideas to the superior, the flow of communication is upward i.e., from bottom to top. For instance, when a typist drops a suggestion in the suggestion box,

or a foreman reports breakdown of machinery to the factory manager, the flow of communication is upward. Upward communication encourages employees to participate actively in the operations of their department. They get encouraged and their sense of responsibility increases when they are heard by their supervisors about problems affecting the jobs. When communication is made from superiors down the hierarchy it is called a downward communication. For instance, when superiors issue orders and instructions to subordinates, it is known as downward communication. When the General Manager orders supervisors to work overtime, the flow of communication is downward i.e., from top to bottom. Similarly, communication of work assignments, notices, requests for performance, etc. through bulletin boards, memos, reports, speeches, meetings, etc, are all forms of downward communication. Communication can also be amongst members at the same level in the organisation. For instance, production manager may communicate the production plan to the sales manager. This is known as horizontal flow of communication. Here, the communication is among people of the same rank and status. Such communication facilitates coordination of activities that are interdependent. When communication is made between people who are neither in the same department nor at the same level of organisational hierarchy, it is called diagonal communication. For example, cost accountant may request for reports from sales representatives not the sales manager for the purpose of distribution cost analysis. This type of communication does take place under special circumstances.

- (c) **Verbal and Non-verbal Communication:** On the basis of the mode used, communication may be verbal or non-verbal. While communicating, managers may talk to their subordinates either face to face or on telephone or they may send letters, issue notices, or memos. These are all verbal communication. Thus, the verbal modes of communication may be oral and written. Face to face communication, as in interviews, meetings and seminars, are examples of oral communication. Issuing orders and instructions on telephone or through an intercommunication system is also oral communication. The written modes of

communication include letters, circulars, notices and memos. Sometimes verbal communication is supported by non-verbal communication such as facial expressions and body gestures. For example – wave of hand, a smile or a frown etc. This is also termed as the gestural communication.

10.3.4.2 Supervision

After the employees have been instructed regarding what they have to do and how to do, it is the duty of the manager to see that they perform the work as per instructions. This is known as supervision. Managers play the role of supervisors and ensure that the work is done as per the instructions and the plans. Supervisors clarify all instructions and guide employees to work as a team in co-operation with others. Supervisors solve most of the routine job-related problems of subordinates. Supervisor, thus, performs the following functions clarifies orders and instructions issued to subordinates and ensures that they have understand and follow these fully; • ensures that subordinates have the required facilities to perform their jobs; • keeps a watch and guides the activities of subordinates in performing their jobs; • broadens the horizon of his subordinates by making them aware of the wider aspects of their day-to-day work; • coordinates the work of different subordinates under him; and • detects errors and omissions and ensures their rectification. Though supervision is required at all levels of management, it is of great importance at the operational level i.e., at the level of first line supervisor. Managers at this level devote maximum time in supervising the work of subordinates. Though the top or middle level managers also supervise the work of their subordinate managers, but it is the first line supervisors who are in direct and constant touch with operatives i.e., workers in the factory and clerical staff in the office. Thus, they are directly responsible for getting the work done through most of the employees in an organisation.

10.3.4.2.1 Importance of Supervision

From what has been said about supervision, it must be clear to you that supervision is of great significance in getting the work done as per plans and as scheduled. On the basis of the influence on the work at operational level and human approach to the problems of workers, the supervision can ensure workers cooperation

and support in achieving organisational objectives. Supervisors are the key people among managers at different levels. They are the link between the top and middle management and the workers. Take, for example, the foreman of the factory or the office superintendent in the office. Both of them are members of the management team, and are in direct contact with operatives in the workshop and clerical staff in the office. They are the mouthpiece of management for communicating its ideas, plans and policies to the workers and employees. At the same time, they have to play the role of principal spokesmen of their subordinates to communicate their feelings and grievances to the management. Thus, it is only the supervisor who, as a member of the management team, is capable of developing links to workers. Supervisors are expected to maintain the best and friendly relations with their seniors as well as with the workers and enjoy the trust and confidence of both management and operatives.

10.3.4.3 Motivation

Motivation is one of the important elements of directing. Issuance of proper instructions or orders does not necessarily ensure that they will be properly carried out. It requires manager to inspire or induce the employees to act and get the expected result. This is called motivation. It is a force that inspire a person at work to intensify his willingness to use the best of his capability for achievement of specify objectives. It may be in the form of incentives like financial (such as bonus, commission etc.) or, non-financial (such as appreciation, growth etc.), or it could be positive or negative. Basically, motivation is directed towards goals and prompt people to act.

10.3.4.3.1 Importance of Motivation

While performing a job two things are required. The ability to work and the willingness to work. Without willingness to work, ability to work cannot produce results. The importance of motivation lies in converting this ability to work into willingness to work. Performance depends on ability as well as willingness; and willingness depends on motivation. Thus, motivation is a key element in directing people to do the job. Some of the other benefits or importance of motivation are: • with proper motivation there can be maximum utilisation of the factors of production like men, money, material etc.; • if employees are motivated it will reduce employee

turnover and absenteeism; • motivation fosters a sense of belongingness among the employees towards the organisation and also improves their morale; • motivation helps in reducing the number of complaints and grievances. The wastage and accident rate also come down; and • with proper motivational techniques management can attract competent and best quality employees.

10.3.4.3.2 How to Motivate

After learning about the importance of motivation in directing, you must be wondering as to what is normally done to motivate the employees. Actually, there is no hard and fast rule of motivating individuals in a specified way. Not all individuals are motivated in the same way. It varies from individual to individual. However, on the basis of a lot of research done in the field of motivation, the following must be kept in mind while motivating. Each employee has some needs of his own that he wants to fulfil. While directing, it is essential to ensure that any of the unfulfilled need of the individual is being taken care of. Here we must understand what is a need. A need is a feeling of lack of something and every person tries to take care of that feeling by satisfying/fulfilling what he lacks. For example, when you are hungry, you eat food to satisfy the lack of food. So here hunger is your need. The needs of the individual differ from person to person. However, there are certain common needs which are known to exist in most cases. For instance, people have basic needs like the needs for food, clothing and shelter. These are known as Physiological needs. People generally work so as to be able to earn money to satisfy such needs. Once the basic needs are satisfied, people wish to satisfy higher category of needs. They want safety and security and desire to be protected against loss of employment, sickness, accident etc. These are known as Safety and Security needs. Thereafter, people want to have a sense of belonging to the organisation and to be accepted by fellow workers. These are known as social needs. Similarly, there are people who wish to be considered important and expect that their opinions should be recognised by others. These needs are known as ego needs. Further, a person may wish to achieve what he thinks is due to him, i.e., he wants to realise his ambition fully. These needs are known as self-actualisation needs. This is called hierarchy of needs concept of motivation developed by Maslow. It is important to remember that the needs and desires of people change.

Once their basic needs are satisfied, other needs arise. Managers have thus, to understand the needs and desires of subordinates and decide how to motivate them. The knowledge of the different types of need enables a manager to adopt different ways to motivate individuals depending upon which need is unsatisfied for the individual. For example, a person whose physiological needs are not fulfilled may be motivated to work with a promise of increase in pay, whereas another person may be motivated if he is given a very challenging job to perform regardless of the pay. In fact many other approaches have been developed for motivation. But in simple terms as stated earlier it is usually in the form of incentives. Not only that, certain factors or job conditions that exist in organisations like recognition of work, advancement in career, challenging nature of the work, etc., also motivate the employees.

10.3.4.4 Leadership

While motivation is the process through which employees are made to contribute voluntarily to work, leadership is the ability to persuade and motivate others to work in a desired way for achieving the goal. Thus, a person who is able to influence others and make them follow his instructions is called a leader. For example, in an organisation the management decides to install some new machines to which the workers are resisting. In practice, the managers have to guide and lead their subordinates towards the achievement of goals, and so, to be an effective, a manager has to be a good leader. Leadership is the process, which influences the people and inspires them to willingly accomplish the organisational objectives. The main purpose of managerial leadership is to get willing cooperation of the workgroup in pursuit of the goals.

10.3.4.4.1 Importance of Leadership

The objectives of any organisation can only be fulfilled if its employees are working towards accomplishment of such objectives. To make people work in the desired manner, proper instructions and guidance are necessary. And this direction process becomes effective when the persons who give such direction have leadership qualities. Leadership is essential in functioning of any organisation and its importance and benefits are varied. Some of these benefits are: • leadership improves the

performance of the employees. Leaders can motivate the followers to work and thereby increase their performance level. • with continuous support and guidance, leaders are able to build confidence among the followers, thereby increasing speed and accuracy and decreasing wastage. • with friendly and cooperative efforts the leader is able to build employees' morale which in turn contribute to higher productivity.

10.3.4.4.2 Leadership Qualities

In order to be successful, a leader must possess certain qualities. A good leader should be professionally competent, intelligent, analytical and he/she should have a sense of fair play, including honesty, sincerity, integrity, and sense of responsibility. He must possess initiative, perseverance, be diligent and realistic in his outlook. He must also be able to communicate his subordinates effectively. Human relation skills are a must for any leader. Earlier, it was believed that the success or effectiveness of a leader depends upon his personal traits or characteristics, like physical appearance, intelligence, self-confidence, alertness, and initiative. This is no longer regarded as a correct approach. It has been established on the basis of experiments that the success or effectiveness of a person as a leader depends upon his behaviour pattern or leadership style in relation to the followers. To get things done, managers have to influence their subordinates and seek their voluntary co-operation. If their leadership is not based on suitable behaviour or style, they will not be successful. When leaders involve people in determining goals, and build up team spirit, chances are that people will follow them voluntarily.

10.3.5 Role of a Supervisor

Supervisor has got an important role to play in factory management. Supervision means overseeing the subordinates at work at the factory level. The supervisor is a part of the management team and he holds the designation of first line managers. He is a person who has to perform many functions which helps in achieving productivity. Therefore, supervisor can be called as the only manager who has an important role at execution level. There are certain philosophers who call supervisors as workers. There are yet some more philosophers who call them as managers. But actually he should be called as a manager or operative manager. His primary job is to

manage the workers at operative level of management. A supervisor plays multiplinary role at one time like -

1. **As a Planner** - A supervisor has to plan the daily work schedules in the factory. At the same time he has to divide the work to various workers according to their abilities.
2. **As a Manager** - It is rightly said that a supervisor is a part of the management team of an enterprise. He is, in fact, an operative manager.
3. **As a Guide and Leader** - A factory supervisor leads the workers by guiding them the way of perform their daily tasks. In fact, he plays a role of an inspirer by telling them.
4. **As a Mediator** - A Supervisor is called a linking pin between management and workers. He is the spokesperson of management as well as worker.
5. **As an Inspector** - An important role of supervisor is to enforce discipline in the factory. For this, the work includes checking progress of work against the time schedule, recording the work performances at regular intervals and reporting the deviations if any from those. He can also frame rules and regulations which have to be followed by workers during their work.
6. **As a Counsellor** - A supervisor plays the role of a counsellor to the worker's problem. He has to perform this role in order to build good relations and co-operation from workers. This can be done not only by listening to the grievances but also handling the grievances and satisfying the workers.

Therefore, we can say that effective and efficient supervision helps in serving better work performance, building good human relations, creating a congenial and co-operative environment. This all helps in increasing productivity.

10.3.6 Functions of a Supervisor

Supervisor, being the manager in a direct contact with the operatives, has got multifarious function to perform. The objective behind performance of these functions

is to bring stability and soundness in the organization which can be secured through increase in profits which is an end result of higher productivity. Therefore, a supervisor should be concerned with performing the following functions -

1. **Planning and Organising** - Supervisor's basic role is to plan the daily work schedule of the workers by guiding them the nature of their work and also dividing the work amongst the workers according to their interests, aptitudes, skills and interests.
2. **Provision of working conditions** - A supervisor plays an important role in the physical setting of the factory and in arranging the physical resources at right place. This involves providing proper sitting place, ventilation, lighting, water facilities etc. to workers. His main responsibility is here to provide healthy and hygienic condition to the workers.
3. **Leadership and Guidance** - A supervisor is the leader of workers under him. He leads the workers and influences them to work their best. He also guides the workers by fixing production targets and by providing them instruction and guidelines to achieve those targets.
4. **Motivation** - A supervisor plays an important role by providing different incentives to workers to perform better. There are different monetary and non-monetary incentives which can inspire the workers to work better.
5. **Controlling** - Controlling is an important function performed by supervisor. This will involve
 - i. Recording the actual performance against the time schedule.
 - ii. Checking of progress of work.
 - iii. Finding out deviations if any and making solutions
 - iv. If not independently solved, reporting it to top management.
6. **Linking Pin** - A supervisor proves to be a linking pin between management and workers. He communicates the policies of management to workers also passes

instructions to them on behalf of management. On the other hand, he has a close contact with the workers and therefore can interact the problems, complaints, suggestions, etc to the management. In this way, he communicates workers problems and brings it to the notice of management.

7. **Grievance Handling** - The supervisor can handle the grievances of the workers effectively for this he has to do the following things :-
 - i. He can be in direct touch with workers.
 - ii. By winning the confidence of the workers by solving their problems.
 - iii. By taking worker problems on humanitarian grounds.
 - iv. If he cannot tackle it independently, he can take the help and advice of management to solve it.

8. **Reporting** - A supervisor has got an important role to report about the cost, quality and any such output which can be responsible for increasing productivity. Factors like cost, output, performance, quality, etc can be reported continually to the management.

9. **Introducing new work methods** - The supervisor here has to be conscious about the environment of market and competition present. Therefore he can innovate the techniques of production. He can shift the workers into fresh schedules whenever possible. He can also try this best to keep on changing and improving to the physical environment around the workers. This will result in
 - i. Higher productivity,
 - ii. High Morale of Workers,
 - iii. Satisfying working condition,
 - iv. Improving human relations,
 - v. Higher Profits, and
 - vi. High Stability

10. Enforcing Discipline - A supervisor can undertake many steps to maintain discipline in the concern by regulating checks and measures, strictness in orders and instructions, keeping an account of general discipline of factory, implementing penalties and punishments for the indisciplined workers. All these above steps help in improving the overall discipline of the factory.

10.4 LET US SUM UP

Direction consists of the process and techniques to issue orders and instructions to the subordinates to achieve goals in prescribed time limit. It also aims in to carry the operations as per plan.

Nature of direction

- Important function of management
- Performed by all levels of management
- Result oriented
- Continuous process
- Acts as a link between management functions

Principles of Directing

- Principles of efficiency
- Principle of communication
- Principles of leadership
- Principle of command
- Principle of supervision.

Elements of direction

- Motivation
- Leadership

- Communication
- Co-ordination
- Supervision

From the above discussion, one can justify that direction, surely, is the heart of management process. Heart plays an important role in a human body as it serves the function pumping blood to all parts of body which makes the parts function. In the similar manner, direction helps the subordinates to perform in best of their abilities and that too in a healthy environment. The manager makes use of the four elements of direction here so that work can be accomplished in a proper and right manner. According to Earnest Dale, “Directing is what has to be done and in what manner through dictating the procedures and policies for accomplishing performance standards”. Therefore, it is rightly said that direction is essence of management process.

10.5 CHECK YOUR PROGRESS

Q 1. Define the term Directing.

Q 2. List any four activities your friend is expected to do as a supervisor of a publishing house.

Q 3. Explain in detail the various elements of directing.

10.6 GLOSSARY

- **Directing:** *Directing* refers to a process or technique of instructing, guiding, inspiring, counselling, overseeing and leading people towards the accomplishment of organizational goals.
- **Communication:** *Communication* is the act of conveying meanings from one entity or group to another through the use of mutually understood signs, symbols, and semiotic rules.
- **Supervision:** *Supervision* is the act or function of overseeing something or somebody. A person who performs *supervision* is a “supervisor”, but does not always have the formal title of supervisor. A person who is getting *supervision* is the “supervisee”.
- **Leading:** *Leading* is the use of influence to motivate employees to achieve organizational goals.

10.7 SUGGESTED READINGS

- Newman, Warren and summer. *The process of Management: Concept, Behaviour and Practice*.

- Michael, J. Stahl. *Management: Total Quality in a Global Environment* (Blackwell Business).
- Kootz, O. Donnel, *Weighrich: Essentials of Management*.
- Stooner, Freeman, Gilbert Jr. : *Management* (Pearson Education).

COORDINATION

STRUCTURE

- 11.1 Introduction
- 11.2 Objectives
- 11.3 Concept of Coordination
- 11.4 Need for Coordination
- 11.5 Importance of Coordination
- 11.6 Principles of Coordination
- 11.7 Coordination Process
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- 11.9 Techniques of Coordination
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11.1 INTRODUCTION

Coordination plays a very important role in every field of human activity. Coordination as the essence of management function, achieves the objectives of an enterprise by directing and unifying group efforts. The coordinator of an enterprise must also direct and coordinate the activities of various personnel so as to bring unified element in the task of managing and must be effected through the various functions of the management

11.2 OBJECTIVES

After studying this unit, you will be able to:

- Explain the concept of coordination
- Need for coordination
- Discuss process of coordination
- Type of coordination

11.3 CONCEPT OF COORDINATION

According to Mooney and Reiley, “Coordination is the orderly arrangement of group efforts to provide unity of action in the pursuit of a common purpose.”

According to Henry Fayol, “To coordinate, means to unite and correlate all activities”.

According to McFarland, “Coordination is the process whereby an executive develops an orderly pattern of group efforts among his subordinates and secures unity of action in the pursuit of common purpose.”

On the basis of the above stated definitions, we can state the following as the essential elements of coordination:

1. Coordination implies deliberate efforts to bring fulfillment of goal.

2. Coordination applies to the synchronised arrangement of the productivity of a group and not any individual.
3. Coordination is needed only when there is an involvement of a group over a task. It would not be required if an individual were to work in isolation.
4. Coordination is a continuous effort which begins with the very first action, the process of establishment of business and runs through until its closure.
5. Coordination is necessary for all managerial functions. In organising work, managers must see that no activity remains unassigned. In staffing, managers must ensure the availability of competent people to handle assigned duties. In directing organisational activities, managers must synchronise the efforts of subordinates and motivate them through adequate rewards. In controlling organisational activities, managers must see that activities are on the right path, doing right things, at the right time and in the right manner. Thus, coordination transcends all managerial functions.

11.4 NEED FOR COORDINATION

The need for coordination arises from the fact that literally all organisations are a complex aggregation of diverse systems, which need to work or be operated in concert to produce desired outcomes. In a large organisation, a large number of people process the work at various levels. These people may work at cross purposes if their efforts and activities are not properly coordinated. To simplify the picture, one could decompose an organisation into components such as management, employees, customers, suppliers and other stakeholders. The components perform interdependent activities aimed at achieving certain goals. To perform these activities, the actors require various types of inputs or resources. It may be difficult to communicate the policies, orders and managerial actions on a face-to-face basis. Personal contact is, rather, impossible and formal methods of coordination become essential.

11.5 IMPORTANCE OF COORDINATION

Coordination is important to the success of any enterprise. It helps an organisation in the following ways:

Coordination pulls all the functions and activities together. Waste motions, overlapping and duplication of efforts, misuse of resources are, thus, prevented. Coordination, enables an organisation to use its resources in an optimum way. The resources flow through productive channels, paving the way for required quality and quantity of output. Efficiency is thus improved. Coordination brings unity of action and direction. Members begin to work in an orderly manner, appreciating the work put in by others. They understand and adjust with each other by developing mutual trust, cooperation and understanding. They move closer to each other. In short, it improves human relations.

According to Fayol, where activities are well-coordinated, each department works in harmony with the rest. Production knows its target; maintenance keeps equipment and tools in good order; Finance procures necessary funds; Security sees to the protection of goods and service personnel and all these activities are carried out in a smooth and systematic manner. Coordination, thus, creates a harmonious balance between departments, persons and facilities. This in turn, helps in meeting goals efficiently and effectively. The importance of coordination, largely lies in the fact that it is the key to other functions of management like planning, organising, staffing, directing and controlling. The different elements of a plan, the various parts of an organisation and phases of a controlling operation must all be coordinated. Coordinating makes planning more purposeful, organisation more well-knit, and control more regulative and effective.

11.6 PRINCIPLES OF COORDINATION

Mary Parker Follet has brought forth various principles of coordination in the following fashion:

1. Principle of direct contact: In the first principle, Mary Parker Follet states that coordination can be achieved by direct contact among the responsible people concerned. She believes, that coordination can be easily obtained by direct interpersonal relationships and direct personal communications.
2. Early stage: Coordination should start from the very beginning of planning process. At the time of policy formulation and objective setting, coordination

can be sought from organisational participants. Obviously, when members are involved in goal-setting, coordination problem is ninety percent solved.

3. Reciprocal relationship: As the third principle, Mary Follet states, that all factors in a situation are reciprocally related. In other words, all the parts influence and are influenced by other parts.
4. Principle of continuity: The fourth principle, advocated by Follet, is that coordination is a continuous and never-ending process. It is something which must go on all the times in the organisation. Further, coordination is involved in every managerial function.
5. Principle of self-coordination: In addition to the four principles listed by Follet above, Brown has emphasised the principle of self-coordination. According to this principle, when a particular department affects other function or department, it is in turn, affected by the other department or function. This particular department may not be having control over the other departments.

11.7 COORDINATION PROCESS

Coordination cannot be achieved by force or imposed by authority. Achieving coordination through executive orders is a futile exercise. It can be achieved through person-to-person, side-by-side relationships. Achieving effective coordination is a sequential process. It is possible only when the following conditions are fulfilled.

1. Clearly defined and understood objectives: Every individual and each department must understand what is expected of them by the organisation. Top management must clearly state the objectives for the enterprise, as a whole. As pointed out by Terry, “there must be commonness of purpose, in order to unify efforts”. The various plans formulated in the enterprise must be interrelated and designed to fit together.
2. Proper division of work: The total work must be divided and assigned to individuals in a proper way. Here, it is worth noting the principle, ‘a place for everything and everything in its place’.

3. Good organisation structure: The various departments in the organisation must be grouped in such a way that work moves smoothly from one phase to another. Too much specialisation may complicate the coordination work.
4. Clear lines of authority: Authority must be delegated in a clear way. The individual must know, what is expected of him by his superior(s). Once authority is accepted, the subordinate must be made accountable for results, in his work area. There should be no room for overlapping of authority and wastage of effort(s).
5. Regular and timely communication: Personal contact is generally considered to be the most effective means of communication for achieving coordination. Other means of communication such as records, reports, may also be used in order to supply timely and accurate information to various groups in an organisation. As far as possible, common nomenclature may be used so that individuals communicate in the 'same language'.
6. Sound leadership: According to McFarland, real coordination can be achieved only through effective leadership. Top management, to this end, must be able to provide (i) a conducive work environment, (ii) proper allocation of work, (iii) incentives for good work, etc. It must persuade subordinates, to have identity of interests and to adopt a common outlook.

11.8 TYPES OF COORDINATION

On the basis of scope and flow in an organisation, coordination may be classified as internal and external; vertical and horizontal.

1. Internal and external coordination: Coordination between the different units of an organisation is called 'internal coordination'. It involves synchronisation of the activities and efforts of individuals, in various departments, plants and offices of an organisation. The coordination between an organisation and its external environment, consisting of government, customers, investors, suppliers, competitors, etc., is known as 'external coordination'. No organisation operates in isolation. In order to survive and succeed, it must set its house in order, and

interact with outside forces in a friendly way.

2. Vertical and horizontal coordination: Coordination between different levels of an organisation is called 'vertical coordination'. It is achieved by top management, through delegation of authority. When coordination is brought between various positions, at the same level in the organisation (i.e., between production, sales, finance, personnel, etc.) it is called 'horizontal coordination'. Horizontal coordination is achieved through mutual consultations and cooperation

11.9 TECHNIQUES OF COORDINATION

The following are the important techniques of co-ordination which are widely used by modern management:

1. Co-ordination by common purpose: The oldest as well as the most important device for achieving co-ordination is the supervisor. The main duty of a supervisor is to see that his subordinates are working in an efficient manner. He directs them, commands them and controls their efforts. According to Webber, by commanding, managers and supervisors can co-ordinate the efforts of their instructions and by direction and motivation they can co-ordinate their efforts. If the span of management is limited, this technique will be very effective in comparison to others.

In the words of L.A. Allen, "A manager, in managing, must co-ordinate the work for which he is accountable, by balancing, timing and integrating it."

2. Co-ordination through managerial functions: Of the different phases of managerial functions, some aspects like communication, leadership and authority delegation also have unique contribution towards co-ordination. Effective communication is basic to proper co-ordination. Communication of information is necessary both for making adjustments in plans and for preparing programmes for future.
 - (a) Planning is necessary to ensure proper utilization of human & non-human resources.

In this pursuit, it brings about coordination in the organization.

- (b) Organizing relates to determining and providing human and non-human resources to the organizational structure. For this, coordination is needed.
 - (c) Staffing involves manning the organization structure through proper and effective selection, appraisal & development of personnel to fill the roles designed in the structure. Effective staffing involves coordinating these sub-functions effectively.
 - (d) Direction is that inert-personnel aspect of management which deals directly with influencing, guiding, supervising, motivating sub-ordinate for the achievement of organizational goals, one of which is coordination.
 - (e) Controlling is the measurement and correction of performance activities of subordinates in order to make sure that the enterprise objectives and plans desired to obtain them as being accomplished. Effective controlling paves way for effective coordination.
3. **Co-ordination by simplified organisation:** Organisation is a very important device for achieving co-ordination. In the modern large-scale organisations, there is tendency towards over-specialisation. It leads to bureaucracy and division in different departments. So, some benefits of specialisation should be sacrificed and such an organisational structure should be developed in which the authority and functions of several departments will be clearly defined but interacting. Re-arrangement of departments may also be considered to bring about a greater harmony among the various wings of the organisation.
4. **Harmonised programmes and policies:** Excellent opportunities for co-ordination are provided by the process of planning. The plans prepared by different individuals and departments should be checked up for consistency. The management must ensure that all plans add up to the unified programme.
5. **Co-ordination by group meetings:** Group meetings are also effective for achieving a high quality of co-ordination. Such meetings bring the officials together and provide opportunities for co-ordination.

6. Co-ordination through liaison men: For external co-ordination it is a very important and a popular device nowadays. Mostly, large organisation employs liaison officers to maintain relations with government and other agencies.
7. Voluntary co-ordination: Co-ordination by self-co-ordination was proposed by A. Brown and Sinon. Co-ordination should not be imposed from the above. Ideal co-ordination is the voluntary co-ordination. This can be secured by installing dominant objectives among people, developing, generally accepted customs, encouraging informal contacts, providing for inter-personal and inter-departmental contacts and using committees for informal exchange of ideas and views.

11.10 SUMMARY

Organisations and their HR departments are open systems and are affected by the environment in which they operate. The workforce is becoming increasingly diverse and organisations are doing their best to address employee concerns and to maximise the benefits of different kinds of employees with diverse educational, cultural and religious backgrounds. The process by which a manager brings unity of action in an organisation is coordination. It is a conscious and deliberate blending of activities to achieve unity of action. Coordination pulls all the functions and activities together, improves human relations and increases inter-departmental harmony. Coordination is easy to achieve through direct interpersonal relationships and communications. The process of coordination involves a series of steps: clear goals, proper allocation of work, sound organisation structure, clear reporting relationships, proper communication and sound leadership.

11.11 GLOSSARY

Coordination: The act of coordinating, making different people or things work together for a goal or effect. **Horizontal coordination:** linking of activities across departments at similar levels.

Vertical coordination: linking of activities at the top of the organisation with those at the middle and lower levels in order to achieve organisational goals.

11.12 CHECK YOUR PROGRESS

1. Describe your experience with facilities and space planning or coordination.

2. Illustrate the concept of self coordination by the help of an example.

3. Coordination is the very essence of management”. Do you agree? Give reasons.

11.13 SUGGESTED READINGS

1. Kootnz & O'Donnell, Principles of Management.
2. Peter F. Drucker, Practice of Management
3. J.S. Chandan, Management Concepts and Strategies.
4. Arun Kumar & Rachana Sharma, Principles of Business Management.

CONTROLLING

STRUCTURE

- 12.1 Introduction
- 12.2 Objectives
- 12.3 Controlling
 - 12.3.1 Concept of Controlling
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 - 12.4.1 Process and Techniques of Controlling
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12.1 INTRODUCTION

The objective of every organisation is to use scarce resources in a best possible way. Plans are framed to achieve better results. Control is the process of checking whether the plans are being adhered to or not, keeping a record of progress and then taking corrective measures if there is any deviation. Control is one of the managerial functions. These functions start with planning and end at controlling. The other functions like organising, staffing, directing act as the connecting link between planning and controlling. Planning involves setting up of goals and objectives while controlling seeks to ensure performance in accordance with plan.

12.2 OBJECTIVES

After completion of this lesson you shall be able:

- to know the concept and principles of controlling.
- to assess the process and techniques of controlling.
- relationship between planning and controlling.

12.3 CONTROLLING+

12.3.1 Concept

Controlling consists of verifying whether everything occurs in conformities with the plans adopted, instructions issued and principles established. It ensures that there is effective and efficient utilization of organizational resources so as to achieve the planned goals. It measures the deviation of actual performance from the standard performance, discovers the causes of such deviations and helps in taking corrective actions.

The following are a few definitions of controlling:

“Controlling is a systematic exercise which is called as a process of checking actual performance against the standards or plans with a view to ensure adequate progress and also recording such experience as is gained as a contribution to possible future needs.”

– Brech

“Controlling as the measurement and correction of the performance of activities of subordinates in order to make sure that enterprise objectives and the plans devised to attain them are being accomplished.”

– **Koontz and O’Donnel**

“Control is the process of checking to determine whether or not, proper progress is being made towards the objectives and goals and acting if necessary to correct the deviations.”

–**Haimann**

“Controlling is determining what is being accomplished that is evaluating the performance, and if necessary, applying correct measures so that the performance takes place according to plans.”

–**George R. Terry**

“In an undertaking, control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and principles established. It has for object to point out weakness and errors in order to rectify them and prevent recurrence. It operates on everything—things, people and actions.”

–**Henry Fayol**

In simple words, managerial function of control implies measurement of actual performance, comparing it with the standards set by plans and correction of deviations to assure attainment of objectives according to plans. Managerial control seeks to compel events to conform to plans as closely as possible. Control is applicable to all activities of business viz., finance, purchasing, production marketing, personnel, cost, quality, material etc.

Characteristics of Controlling

The nature or characteristics of controlling can easily be understood from the following facts:

- (1) **Controlling is a Fundamental Management Function:** There are many functions of management like planning, organizing, staffing, directing and controlling. Out of all these functions, controlling is the most important. If controlling is excluded, all other functions of management are rendered meaningless.

- (2) **Essential Function of Every Manager:** The controlling is a pervasive function of management as it is performed in all organisations (business and non-business) and at all the managerial levels. It is that function of management under which every manager at every level assures that the actual progress is in conformity with the plans.
- (3) **Controlling is a Continuous Activity:** Control does not mean any activity which is performed only for once or is repeated after a long interval but it is needed at all times. Under controlling, the progress has to be assessed continuously.
- (4) **Controlling is related to Results:** Control is related to results because we assess progress on the basis of results and take corrective action after finding out the deviations.
- (5) **Controlling is Forward-Looking:** Control is forward looking because one can control future happenings and not the past. It seeks to improve future events through past experience. A control system is formulated to minimise wastage, losses and undesirable deviations from the fixed standards. Control also helps in innovations and improvements in the set standards.
- (6) **Control is Closely Linked with Planning:** Planning and controlling are closely linked. The two are rightly called as ‘Siamese twins’ of management. Every objective, every goal, every policy, every procedure and every budget become standard against which actual performance is compared.

Planning sets the ship’s course and controlling keeps it on course. When the ship begins to veer off the course, the navigator notices it and recommends a new heading designed to return the ship to its proper course. Once control process is over its findings are integrated into planning to prescribe new standards for control.

- (7) **Purpose of Controlling is Goal Oriented and hence Positive:** Control is there because without it the business may go off the track. The controlling has positive purpose both for the organization (to make things happen) and

individuals (to give up a part of their independence for the attainment of organizational goals).

12.3.2 Principle of Controlling

An ideal system of control is that which makes the controlling function easy, effective and smooth. The following are the essentials or basic requirements or principles or characteristics of an ideal control system.

1. **Suitability:** The control system should be appropriate to the needs, kind of activity and circumstances of an enterprise. Control is executed through managerial position. The flow of information concerning current performance should correspond with the organisational structure employed. So that deviations may be reported according to job positions at different levels of the organisation.
2. **Simplicity:** To be effective, control system must be clear, easy to understand and operate. Unless the control system is understood properly by those responsible for its implementation it cannot succeed. A complex system will not only create hurdles in the performance of activities, but it will also not bring the results expected of it.
3. **Objectivity:** The fixation of standards, measurement of performance and corrective action must be objective and impersonal. Subjective and arbitrary control cannot be effective. It is essential that the standards to judge the actual performance are clear, definite and stated in numerical terms.
4. **Economical:** The systems of control must be worth their costs. They must justify the expenses involved. The cost of control system should not exceed the possible savings for its use. The complicated control system should be avoided to keep a check on the costs of control. It, therefore, becomes essential to concentrate the control system on factors which are important to keep the costs down and make the system economical.
5. **Flexibility:** The system of control must be flexible, i.e., workable even if the plans have to be changed. A good control must keep pace with the continuously

changing pattern of a dynamic business world. It must be responsive to changing conditions. Control system should be flexible so that it can be adjusted to suit the need of any modification or alteration in a plan.

6. **Quick Reporting:** Time is an important element in enforcing a control system, Subordinates should inform their superior quickly with actual results and all deviations from standards. Delays in reporting of information will make control ineffective. Promptness is also needed in initiating the corrective action. Quick reporting helps in the timely disposal of deviations.
7. **Suggestive:** A control system should not only measure performance and detect deviations, it should suggest remedial measures as well. In other words, good control system should be self-correcting. In fact, a control system can be effective only when it is considered as part of the internal working and not as a mechanism operating from outside.
8. **Forward-Looking:** The control system should be directed towards future. In fact, the control system can at times be so devised as to anticipate possible deviations or problems. It should be preventive and not only merely corrective. Ideal control is spontaneous. Cash forecasts and cash control is an example where a financial manager can forecast the future cash needs and provide for in advance.
9. **Individual Responsibility:** Control can be effective when it focuses on individuals rather than on jobs or works.
10. **Strategic Point Control:** All deviations from standards are not of equal importance, Hence, to control all deviations is not desirable. Therefore, the control system should focus on key, critical or strategic points which require management attention. Effective and efficient control is control by exception. Uncontrollable deviations need not be given much care and thought.
11. **Self-Control:** Different departments may be asked to control themselves. If a department can have its own control system, much of the detailed controls can be handled within the department. These subsystems of self control can then be tied together for an overall control system.

- 12. Feedback:** It means information on previous performance. For effective control, regular flow of information regarding the actual performance is necessary. Feedback can be supplied through personal contact, observation or reports. Automatic feedback assists in taking corrective action at the right time or in adjusting future operations.

12.4 PROCESS AND TECHNIQUES OF CONTROLLING

12.4.1 Process or Steps of Controlling

The various steps in controlling may broadly be classified into four parts: (i) establishment of control standards; (ii) measurement of performance, (iii) comparison between performance and standards and the communication, and (iv) correction of deviations from standards.

- 1. Establishment of Control Standards:** Every function in the organisations begins with plans, which are goals, objectives, or targets to be achieved. In the light of these, standards are established which are criteria against which actual results are measured. For setting standards for control purposes, it is important to identify clearly and precisely the results which are desired. Precision in the statement of these standards is important. In many areas, great precision is possible. However, in some areas, standards are less precise. Standards may be precise if they are set in quantities - physical, such as volume of products, man-hour or monetary, such as costs, revenues, and investment. They may also be in other qualitative terms, which measure performance. After setting the standards, it is also important to decide about the level of achievement or performance, which will be regarded as good or satisfactory. There are several characteristics of a particular work that determine good performance. Important characteristics, which should be considered while determining any level of performance as good for some operations are: (i) output, (ii) expense, and (iii) resources. Expense refers to services or functions, which may be expressed in quantity, for achieving a particular level of output. Resources refer to capital expenditure, human resources, etc. After identifying these characteristics the desired level of each characteristic is determined.

The desired level of performance should be reasonable and feasible. The level should have some amount of flexibility also, and should be stated in terms of range - maximum and minimum. Control standards are most effective when they are related to the performance of a specific individual, because a particular individual can be made responsible for specific results. However, sometimes accountability for a desired result is not so simply assigned; for example, the decision regarding investment in inventory is affected by purchase, rate of production and sales. In such a situation, where no one person is accountable for the levels of inventories, standards may be set for each step that is being performed by a man.

2. **Measurement of Performance:** The second major step in control process is the measurement of performance. The step involves measuring the performance in respect of a work in terms of control standards. The presence of standards implies a corresponding ability to observe and comprehend the nature of existing conditions and to ascertain the degree of control being achieved. The measurement of performance against standards should be on a future basis, so that deviations may be detected in advance of their actual occurrence and avoided by appropriate actions: Appraisal of actual or expected performance becomes an easy task, if standards are properly determined and methods of measuring performance which can be expressed in physical and monetary terms, such as production units, sales volume, profits, etc. can be easily and precisely measurable. The performance, which is qualitative and intangible, such as human relations, employee morale, etc., cannot be measured precisely. For such purposes, techniques like psychological tests and opinion surveys may be applied. Such techniques draw heavily upon intuitive judgement and experience, and these tools are far from exact. According to **Peter Drucker**, it is very much desirable to have clear and common' measurements in all key areas of business. It is not necessary that measurements are rigidly quantitative. In his opinion, for measuring tangible and intangible performance, measurement must be (i) clear, simple, and rational, (ii) relevant, (iii) direct attention and efforts, and (iv) reliable, self-announcing, and understandable without complicated interpretation or philosophical discussions.

3. **Comparing Actual, and Standard Performance:** The third major step in control process is the comparison of actual and standard performance. It involves two steps: (i) finding out the extent of deviations, and (ii) identifying the causes of such deviations. When adequate standards are developed and actual performance is measured accurately, any variation will be clearly revealed. Management may have information relating to work performance, data, charts, graphs and written reports, besides personal observation to keep itself informed about performance in different segments of the organisation. Such performance is compared with the standard one to find out whether the various segments and individuals of the organisation are progressing in the right direction. When the standards are achieved, no further managerial action is necessary and control process is complete. However, standards may not be achieved in all cases and the extent of variations may differ from case to case. Naturally, management is required to determine whether strict compliance with standards is required or there should be a permissible limit of variation. In fact, there cannot be any uniform practice for determining such variations. Such variations depend upon the type of activity. For example, a very minute variation in engineering products may be significant than a wide variation in other activities. When the deviation between standard and actual performance is beyond the prescribed limit, an analysis is made of the causes of such deviations. For controlling and planning purposes, ascertaining the causes of variations along with computation of variations is important because such analysis helps management in taking up proper control action. The analysis will pinpoint the causes, which are controllable by the person responsible. In such a case, person concerned will take necessary corrective action. However, if the variation is caused by uncontrollable factors, the person concerned cannot be held responsible and he cannot take any action. Measurement of performance, analysis of deviations and their causes may be of no use unless these are communicated to the person who can take corrective action. Such communication is presented generally in the form of a report showing performance standard, actual performance, deviations between those two tolerance limits, and causes for deviations. As soon as possible, reports containing control information should be sent to the person whose performance

is being measured and controlled. The underlying philosophy is that the person who is responsible for a job can have a better influence on final results by his own action. A summary of the control report should be given to the superior concerned because the person on the job may either need help of his superior in improving the performance or may need warning for his failure. In addition, other people who may be interested in control reports are (i) executives engaged in formulating new plans; and (ii) staff personnel who are expected to be familiar with control information for giving any advice about the activity under control when approached.

4. **Correction of Deviations:** This is the last step in the control process, which requires that actions should be taken to maintain the desired degree of control in the system or operation. An organisation is not a self regulating system such as thermostat which operates in a state of equilibrium put there by engineering design. In a business organisation this type of automatic control cannot be established because the state of affairs that exists is the result of so many factors in the total environment. Thus, some additional actions are required to maintain the control. Such control action may be (i) review of plans and goals and change therein on the basis of such review; (ii) change in the assignment of tasks; (iii) change in existing techniques of direction; (iv) change in organisation structure; provision for new facilities, etc. In fact, correction of deviation is the step in management control process, which may involve either all or some of the managerial functions. Due to this, many persons hold the view that correcting deviations is not a step in the control process. It is the stage where other managerial functions are performed. **Koontz and O'Donnell** have emphasised that the overlap of control function with the other merely demonstrates the unity of the manager's job. It shows the managing process to be an integrated system.

12.4.2 Technique of Controlling

Some of these important control techniques are as under:

- (I) Budgeting or Budgetary Control

- (II) Cost Accounting and Cost Control
- (III) Statistical Data/ Statistical Quality Control.
- (IV) Special Reports and Analysis.
- (V) Personnel Observation.
- (VI) Internal or Operational Audit/Management Audit.
- (VII) Break Even Analysis
- (VIII) Programme Evaluation and Review Technique (PERT) and Critical Path Method (CPM)
- (IX) Management Information System (MIS)

All these techniques of control are explained below:

- (I) **Budgeting or Budgetary Control:** Budgetary control is the process of determining various actual results with budgeted figures for the enterprise for the future period and standards set then comparing the budgeted figures with the actual performance for calculating variances, if any. First of all, budgets are prepared and then actual results are recorded.

The comparison of budgeted and actual figures will enable the management to find out discrepancies and take remedial measures at a proper time. The budgetary control is a continuous process which helps in planning and co-ordination. It provides a method of control too. A budget is a means and budgetary control is the end-result.

Definitions

According to **Brown and Howard**, “*Budgetary control is a system of controlling costs which includes the preparation of budgets, coordinating the departments and establishing responsibilities, comparing actual performance with the budgeted and acting upon results to achieve maximum profitability.*” Weldon

characterizes budgetary control as planning in advance of the various functions of a business so that the business as a whole is controlled.

According to **Koontz and O' Donnell**, "*Budgets are statements of anticipated results, in financial terms.....as in revenue and expenses and capital budgets or in non-financial terms as in budgets of direct labour-hours, materials, physical sales volume, or units of production.*"

In the words of **G.R. Terry**, "*A budget is an estimate of future needs arranged according to an orderly basis, covering some or all of the activities of an enterprise for a definite period of time*".

The analysis of these definitions shows that budget is:

- (i) a statement of estimated or expected results;
- (ii) stated in quantitative (physical or financial) terms;
- (iii) always framed for a well-defined future period of time; and
- (iv) prepared to achieve certain objectives.

Objectives of Budgetary Control

Budgetary control is essential for policy planning and control. It also acts an instrument of co-ordination. The main objectives of budgetary control are the follows:

1. To ensure planning for future by setting up various budgets, the requirements and expected performance of the enterprise are anticipated.
2. To operate various cost centres and departments with efficiency and economy.
3. Elimination of wastes and increase in profitability.
4. To anticipate capital expenditure for future.
5. To centralise the control system.
6. Correction of deviations from the established standards.

7. Fixation of responsibility of various individuals in the organization.

Essentials of budgetary control

There are certain steps which are necessary for the successful implementation budgetary control system. These are as follows:

1. Organization for Budgetary Control
2. Budget Centres
3. Budget Manual
4. Budget Officer
5. Budget Committee
6. Budget Period
7. Determination of Key Factor.

- 1. Organization for Budgetary Control:** The proper organization is essential for the successful preparation, maintenance and administration of budgets. A Budgetary Committee is formed, which comprises the departmental heads of various departments. All the functional heads are entrusted with the responsibility of ensuring proper implementation of their respective departmental budgets.

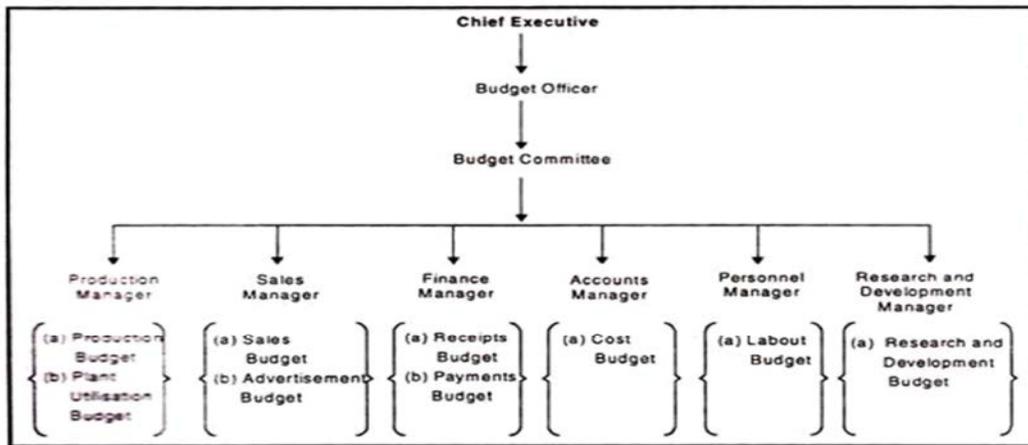
The Chief Executive is the overall in-charge of budgetary system. He constitutes a budget committee for preparing realistic budgets A budget officer is the convener of the budget committee who co-ordinates the budgets of different departments. The managers of different departments are made responsible for their departmental budgets.

- 2. Budget Centres:** A budget centre is that part of the organization for which the budget is prepared. A budget centre may be a department, section of a department or any other part of the department. The establishment of budget centres is essential for covering all parts of the organization. The budget centres

are also necessary for cost control purposes. The appraisal performance of different parts of the organization becomes easy when different centres are established.

3. **Budget Manual:** A budget manual is a document which spells out the duties and also the responsibilities of various executives concerned with the budgets. It specifies the relations amongst various functionaries.
4. **Budget Officer:** The Chief Executive, who is at the top of the organization, appoints some person as Budget Officer. The budget officer is empowered to scrutinize the budgets prepared by different functional heads and to make changes in them, if the situations so demand. The actual performance of different departments is communicated to the Budget Officer. He determines the deviations in the budgets and the actual performance and takes necessary steps to rectify the deficiencies, if any.

He works as a coordinator among different departments and monitors the relevant information. He also informs the top management about the performance of different departments. The budget officer will be able to carry out his work fully well only if he is conversant with the working of all the



5. **Budget Committee:** In small-scale concerns the accountant is made responsible for preparation and implementation of budgets. In large-scale concerns a committee known as Budget Committee is formed. The heads of

all the important departments are made members of this committee. The Committee is responsible for preparation and execution of budgets. The members of this committee put up the case of their respective departments and help the committee to take collective decisions if necessary. The Budget Officer acts as convener of this committee.

- 6. Budget Period:** A budget period is the length of time for which a budget is prepared and employed. The budget period depends upon a number of factors. It may be different for different industries or even it may be different in the same industry or business.

The budget period depends upon the following considerations:

(a) The type of budget i.e., sales budget, production budget, raw materials purchase budget, capital expenditure budget. A capital expenditure budget may be for a longer period i.e. 3 to 5 years purchase, sale budgets may be for one year.

- (b) The nature of demand for the products.
- (c) The timings for the availability of the finances.
- (d) The economic situation of the country.
- (e) The length of trade cycles.

All the above-mentioned factors are taken into account while fixing period of budgets

- 7. Determination of Key Factor:** The budgets are prepared for all functional areas. These budgets are inter-dependent and inter-related. A proper co-ordination among different budgets is necessary for making the budgetary control a success. The constraints on some budgets may have an effect on other budgets too. A factor which influences all other budgets is known as Key Factor or Principal Factor.

There may be a limitation on the quantity of goods a concern may sell. In this case, sales will be a key factor and all other budgets will be prepared by

keeping in view the amount of goods the concern will be able to sell. The raw material supply may be limited, so production, sales and cash budgets will be decided according to raw materials budget. Similarly, plant capacity may be a key factor if the supply of other factors is easily available.

The key factor may not necessarily remain the same. The raw materials supply may be limited at one time but it may be easily available at another time. The sales may be increased by adding more sales staff, etc. Similarly, other factors may also improve at different times. The key factor also highlights the limitations of the enterprise. This will enable the management to improve the working of those departments where scope for improvement exist.

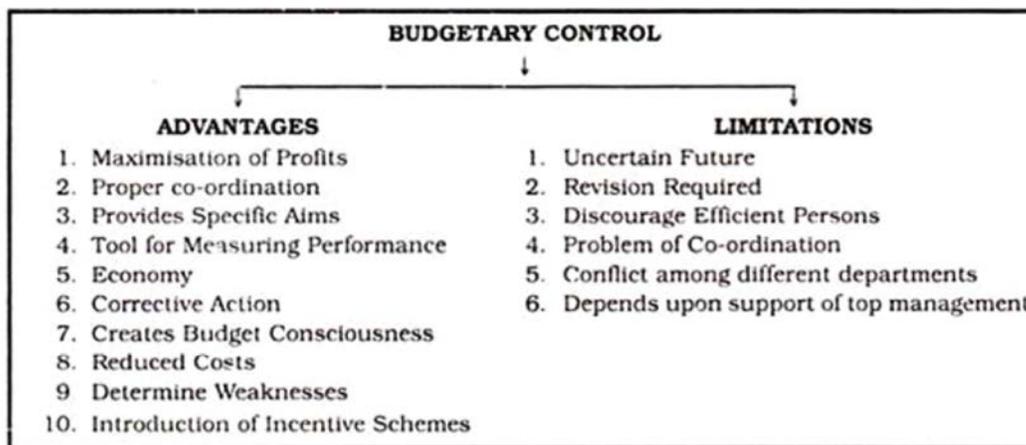
ADVANTAGES OF BUDGETARY CONTROL:

The budgetary control system help in fixing the goals for the organization as whole and concerted efforts are made for its achievements. It enables economies in the enterprise.

Some of the advantages of budgetary control are:

- 1. Maximization of Profits:** The budgetary control aims at the maximization of profits of the enterprise. To achieve this aim, a proper planning and coordination of different functions is undertaken. There is a proper control over various capital and revenue expenditures. The resources are put to the best possible use.
- 2. Co-ordination:** The working of different departments and sectors is properly coordinated. The budgets of different departments have a bearing on one another. The co-ordination of various executives and subordinates is necessary for achieving budgeted targets.
- 3. Specific Aims:** The plans, policies and goals are decided by the top management. All efforts are put together to reach the common goal, of the organization. Every department is given a target to be achieved. The efforts are directed towards achieving some specific aims. If there is no definite aim then the efforts will be wasted in pursuing different aims.

4. **Tool for Measuring Performance:** By providing targets to various departments, budgetary control provides a tool for measuring managerial performance. The budgeted targets are compared to actual results and deviations are determined. The performance of each department is reported to the top management. This system enables the introduction of management by exception.
5. **Economy:** The planning of expenditure will be systematic and there will be economy in spending. The finances will be put to optimum use. The benefits derived for the concern will ultimately extend to industry and then to national economy. The national resources will be used economically and wastage will be eliminated.
6. **Determining Weaknesses:** The deviations in budgeted and actual performance will enable the determination of weak spots. Efforts are concentrated on those aspects where performance is less than the stipulated.
7. **Corrective Action:** The management will be able to take corrective measures whenever there is a discrepancy in performance. The deviations will be regularly reported so that necessary action is taken at the earliest. In the absence of a budgetary control system the deviations can be determined only at the end of the financial period.
8. **Consciousness:** It creates budget consciousness among the employees. By fixing targets for the employees, they are made conscious of their responsibility. Everybody knows what he is expected to do and he continues with his work uninterrupted.
9. **Reduces Costs:** In the present day competitive world budgetary control has a significant role to play. Every businessman tries to reduce the cost of production for increasing sales. He tries to have those combinations of products where profitability is more.
10. **Introduction of Incentive Schemes:** Budgetary control system also enables the introduction of incentive schemes of remuneration. The comparison of budgeted and actual performance will enable the use of such schemes.



LIMITATIONS OF BUDGETARY CONTROL

Despite of many good points of budgetary control there are some limitations of this system.

Some of the limitations are discussed as follows:

1. **Uncertain Future:** The budgets are prepared for the future period. Despite best estimates made for the future, the predictions may not always come true. The future is always uncertain and the situation which is presumed to prevail in future may change. The change in future conditions upsets the budgets which have to be prepared on the basis of certain assumptions. The future uncertainties reduce the utility of budgetary control system.
2. **Budgetary Revision Required:** Budgets are prepared on the assumptions that certain conditions will prevail. Because of future uncertainties, assumed conditions may not prevail necessitating the revision of budgetary targets. The frequent revision of targets will reduce the value of budgets and revisions involve huge expenditures too.
3. **Discourage Efficient Persons:** Under budgetary control system the targets are given to every person in the organization. The common tendency of people is to achieve the targets only. There may be some efficient persons who can exceed the targets but they will also feel contented by reaching the targets. So budgets may serve as constraints on managerial initiatives.

4. **Problem of Co-ordination:** The success of budgetary control depends upon the co-ordination among different departments. The performance of one department affects the results of other departments. To overcome the problem of co-ordination a Budgetary Officer is needed. Every concern cannot afford to appoint a Budgetary Officer. The lack of co-ordination among different departments results in poor performance.
5. **Conflict Among Different Departments:** Budgetary control may lead to conflicts among functional departments. Every departmental head worries for his department goals without thinking of business goal. Every department tries to get maximum allocation of funds and this raises a conflict among different departments.
6. **Depends Upon Support of Top Management:** Budgetary control system depends upon the support of top management. The management should be enthusiastic for the success of this system and should give full support for it. If at any time there is a lack of support from top management then this system will collapse.

Classifications of Budgetry Control

Some of types of Budgets are:

- (i) Sales Budget
 - (ii) Production budget
 - (iii) Financial budget
 - (iv) Overheads budget
 - (v) Personnel budget and
 - (vi) Master budget.
- (i) **Sales Budget:** A sales budget is an estimate of expected total sales revenue and selling expenses of the firm. It is known as a nerve centre or

backbone of the enterprise. It is the starting point on which other budgets are also based. It is a forecasting of sales for the period both in quantity and value. It shows what product will be sold, in what quantities, and at what prices.

The forecast not only relates to the total volume of sales but also its break-up product wise and area wise. The responsibility for preparing sales budget lies with the sales manager who takes into account several factors for making the sales budget.

Some of these factors are:

- (a) Past sales figures and trend ;
- (b) Estimates and reports by salesmen ;
- (c) General economic conditions ;
- (d) Orders in hand ;
- (e) Seasonal fluctuations ;
- (f) Competition ; and
- (g) Government's control.

(ii) Production budget: Production budget is prepared on the basis of the sales budget. But it also takes into account the stock levels required to be maintained. It contains the manufacturing programmes of the enterprise. It is helpful in anticipating the cost of production.

The nature of production budget will differ from enterprise to enterprise. For practical purposes, the overall budget should be divided into production per article per month, looking into the estimate of the likely quantity of demand. It is the responsibility of production department to adjust its production according to sales forecast.

It is made by the production manager keeping in mind the following important factors:

- (a) The sales budget ;
- (b) Plant capacity ;
- (c) Inventory policy ; and
- (d) Availability of raw-materials, labour, power, etc.

The production budget is often divided into several budgets:

- (a) **Material Budget-** which fixes the quantity, quality and cost of raw materials needed for uninterrupted production ;
 - (b) **Labour Budget-**which specifies the requirements of labour in terms of the number and type of workers for various jobs ;
 - (c) **Plant and equipment Budget-** which lays down the needs of machines, equipment and tools including their repairs and maintenance; and
 - (d) **Research and Development Budget-**which specifies the estimated cost on research and development for developing new products and for improving existing ones.
- (iii) **Financial budget:** This budget shows the requirement of capital for both long-term and short-term needs of the enterprise at various points of time in future. Its objective is to ensure regular supply of adequate funds at the right time. An important part of the financial budget is the cash budget. Cash budget contains estimated receipts and payments of cash over the specified future period. It serves as an effective device for control and co-ordination of activities that involves receipt and payment of cash. It helps to detect possible shortage or excess of cash in business. The financial budget also contains estimates of the firm's profits and expenditure i.e., the operating budget.
- (iv) **Overheads budget:** It includes the estimated costs of indirect materials, indirect labour and indirect factory expenses needed during the budget

period for the attainment of budgeted production targets. In other words, an estimate of factory overheads, distribution overheads and administrative overheads is known as the overheads budget. The capital expenditure budget contains a forecast of the capital investment.

This budget is prepared on departmental basis for effective control over costs. The factory or manufacturing overheads can be divided into three categories: (i) fixed, (ii) variable, (iii) semi-variable. This classification helps in the formulation of overhead budgets for each department.

(v) **Personnel budget:** It lays down manpower requirements of all departments for the budget period. It shows labour requirements in terms of labour hours, cost and grade of workers. It facilitates the personnel managers in providing required number of workers to the departments either by transfers or by new appointments.

(vi) **Master budget:** The Institute of Cost and Management Accountants, England defines master budget as the summary budget incorporating all the functional budgets, which is finally approved, adopted and applied. Thus, master budget is prepared by consolidating departmental or functional budgets.

It is a summarised budget incorporating all functional budgets. It projects a comprehensive picture of the proposed activities and anticipated results during the budget period. It must be approved by the top management of the enterprise. Though practices differ, a master budget generally includes, sales, production, costs-materials, labour, factory overhead, profit, appropriation of profit and major financial ratios.

(II) COST ACCOUNTING AND COST CONTROL

Cost Accounting is concerned with cost determination and shows what is likely cost of a process or a product under existing conditions. Control through costing involves the control over costs in the light of certain predetermined costs usually known as standard costs. Such standards are set in respect of total costs as a whole and its various components-material, labour and overheads. Thus, standard costs is a

technique of Cost Accounting in which standard costs are used in recording certain transactions and the actual costs are compared with the standards costs to find out the reasons of variation from the standard. Essentially control through standard costing involves the following steps.

1. The first step involves the fixation of standards. The standards are fixed for different components of cost separately. Such standards can be laid down on the basis of past records or through experiments are known as engineering methods.
2. The second step consists in determining the actual costs to make a comparative study. This is taken from the cost accounting records.
3. A comparison between standard costs and actual costs is made in order to find the variation between the two. If there is no variation or if it is within prescribed limit, no further action is needed.
4. If the variation is beyond the specified limit, it is taken to further analysis and an attempt is made to locate the reasons for such a variation.
5. In the light of the reasons identified, further course of action is planned so that in future there is no such variation. This may require perusal and revision of standards also if they are not realistic.

ADVANTAGES OF CONTROL THROUGH STANDARD COSTING

Standard costing offers many advantages as follows:

1. **Standard costs provide basis for measuring operating performance:** As standards are developed from the study of cost operations and existing conditions, they become a pointer to the weaker aspect of operation. The efficiency or inefficiency can be ascertained easily by comparing actual and standard costs.
2. **Standard costs provide easy comparability:** Because of standards, cost control exercises influence on all factors of operation. Measurement, comparison, and evaluation of current performance becomes more effective.

3. **Standard costing is basically an economic tool:** It helps in cost reduction by putting effective check over inefficiency in operations and by eliminating undue paper work. It suggests standard cost cards and accordingly the needed resources are arranged.
4. **Standard costing is basis for budgeting:** Budgets are prepared on the basis of standard costs. Thus, budgeting and standard costing together provide effective control device and make managers cost conscious.
5. **Standard costing also provides basis for adopting incentive wage system and bonus plan:** Since standard cost is set up from careful analysis and study, it provides basis for work simplification and other methods of standardisation.

Limitations of Control through Standard Casting

Standard costs have certain disadvantages and limitation as follows:

1. **Standard costs are expensive to set up and difficult to operate:** Double Accounting record (*i.e.*, financial and cost record) have to be maintained making record-keeping more difficult. Thus, the system is not suitable for smaller organisations.
2. **Standard costs need regular revisions:** The business conditions keep on changing but standard costs are applicable in a particular condition. As such, standard costs are confined to those organisations which work under more or less stable conditions having standardised mass production.
3. **Limitation of budgetary control also apply in the case of cost control:** Budgets are made by taking figures of standard costing. Therefore, all the limitations of budgetary control also apply to this method.

(III) STATISTICAL DATA/ STATISTICAL QUALITY CONTROL

Statistical data are being widely used for the purpose of managerial control. Statistical data may be presented in the form of statistical tables and graphical charts. The data presented can be meaningful provided it is presented in such a way as to make a comparison with some preconceived standards. Since past events cannot be altered,

the managers must ensure that statistical reports show correct trends so that the persons who view them can easily understand the way things are moving. This necessitates the presentation of the data on charts in time averages to avoid the possible variations arising out of accounting periods, seasonal factors, accounting adjustments and other variations pertaining to given times. Moving average serves as one of the simplest and best device for this purpose.

Statistical analysis of the innumerable aspects of a business operation is important for control. Analysis in terms of averages, percentages, ratios correlation provide help for control. Such areas of control are production planning and control, quality control, inventory control, etc. It indicates the deviation from the standard and suitable managerial actions in respect of these. Although the statistical data and techniques have been widely applied in the field of quality control, the managers cannot afford to ignore some of its limitations. it is better to take the services of a duly qualified and trained statistician to overcome such limitations.

Statistical Quality Control

Statistical quality control has assumed tremendous importance in industrial technology in the recent past. Highly industrialised countries are making maximum use of this device. **Walter S. Schewhart and Harold F. Dodge** of the **Bell Laboratories** U.S.A. introduced SQC shortly after World War I. This method is based upon the laws of probability and may be described as a system for controlling the quality of production. The application of these techniques of manufacturing gained momentum during World War II. The armed services in U.S.A. successfully applied these techniques.

This techniques makes use of statistical methods and techniques which aim at assessing not only the magnitude of “Chance Cause Variation” but also detect assignable cause variations. Since assignable cause variations may be detected, it becomes easy for an industrial undertaking to install statistical control at various stages in the production or manufacturing of a product.

Statistics is the science which is concerned with measuring, analysing and interpreting quantitative facts. In the words of **Alford and Beatty**, “*Statistical quality*

control (SQC) is the technique of applying statistical methods based upon the mathematical theory of probability to quality control problems, with the purpose of establishing quality standards and maintaining adherence to these standards in the most economical manner.”

Techniques and Tools of Stastical Quality Control

There are two important techniques of applying statistical quality control viz.,

- (A) Quality Control Charts.
- (B) Acceptance Sampling.

These can be explained as follows :

(A) Quality Control Charts: A quality control chart is a graphic presentation of the expected variations in quality. Certain presumptions are taken into consideration before drawing these charts e.g., inherent nature of certain variables in a product, tolerance limits and probability of chance in variations etc. Tolerance limits are clearly shown by these charts with regard to a particular product. Variations in quality beyond these limits clearly disclose that the production process is out of control and the quality of the product has not been achieved in accordance with the pre-determined standards. On the other hand, a process is said to be in control if the finished product remains within the tolerance limits.

Quality control charts are very helpful in spotting the causes responsible for variations from the set standards on the basis of information disclosed by these charts. Different types of quality control charts may be used for recording different types of analysis.

Some of the important quality control charts are chart of averages and that of range etc. Information disclosed by these charts is very accurate and an authentic one.

(B) Acceptance Sampling: This is another technique of statistical quality control. his is also referred as ‘Sampling Inspection plan.’ This method is usually followed after goods have been produced or are in the final stage of production.

Thus, it can be said that it is a post mortem of the quality of the product that has already been produced. Under this method, a sample of the product produced is selected at random to study in detail whether the product conforms to the pre-determined standards or not. A limited percentage of defective products are allowed. But it has been observed that sometimes the sample selected turns out to be good, but the lot represented by the sample may be defective or sub-standard. In order to have more accurate and exact results, more than one sample of the product should be selected for carrying out the Sampling Inspection Plan.

The technique Acceptance Sampling undertakes two limiting levels of quality viz.,

- (i) The Acceptable Quality Level (AQL) i.e. the least number or percentage of defective products that the buyer expects to purchase and the seller expects to sell and
- (ii) The Lot Percentage Tolerance Defective (LPTD) refers to that limit where the buyer wants to be certain about the rejection of the lot.

This technique can be greatly helpful for improving relations between vendor and the customer which may be adverse on account of disputes relating to quality. Both the parties may sit together and mutually decide the limits within which quality should be accepted.

Advantages of Statistical Quality Control

Following are the important benefits derived from the technique of statistical quality control :

- (1) **Lesser cost of inspection:** Statistical quality control is based on sampling technique which involves lesser cost of inspection thereby cost of production is considerably reduced.
- (2) **Increase in profits:** By minimising rejections, statistical quality control ensures the production of standard products which bring higher profits for the producer

- (3) **Setting tolerance limits:** Quality control charts clearly lay down the tolerances limits beyond which the product is to be rejected. The results shown by these charts are more authentic and correct.
- (4) **Develops quality consciousness:** Statistical quality control is greatly helpful in developing the feeling of quality consciousness among the workers working in an organisation. This improves their functioning and reduces the number of defective operations undertaken by them,
- (5) **Enhances reputation of the concern:** By adopting the techniques of statistical quality control, pre-determined quality of the product is achieved and consumers get desired quality products. This brings good name to the firm and increases its goodwill among the people.
- (6) **Improved relations between vendor and customers:** It is greatly helpful in improving relations between supplier and the purchaser of material, by clearly fixing the tolerance limits with regard to quality of the goods supplied. This minimises the possibility of any dispute between both the parties.

Besides the above mentioned benefits, statistical quality control ensures smooth and unrestricted production by removing breakdown of machinery and work stoppages as it greatly helps in detection of the troubles soon, which are immediately corrected without delay.

(IV) SPECIAL REPORTS AND ANALYSIS

For control purposes reports and analysis help only in some particular problem areas. While routine accounting and statistical reports provide necessary information for control in general, there may be some areas where these may fall short of requirements, particularly in the case of specific problems of contingency. For this purpose, an investigating group may be assigned the job to go into details of the problem and to prepare a report for this purpose. The problem in this case is generally of non-routine type.

(V) PERSONNEL OBSERVATION.

Though various devices of managerial control such as budgets, standard cost, statistical tools, audit reports and recommendations are quite helpful in managerial control, managers should not forget the importance of control through personal observation. Managers need to hold discussion with the persons whose work is being controlled and they should visit the actual operations. There are certain kinds of impressions and information that can be conveyed only through face-to-face contact, personal observation and conversation. When a man is new to the job, a supervisor will like to watch his work more closely than that of an experienced operator. Managers, after all, have responsibility of achieving organisational objectives, whatever control devices they may use. This largely involves measuring of human performance. Thus, the success of personal observation as a control method depends upon how much information a manger can collect through this process.

(VI) INTERNAL OR OPERATIONAL AUDIT/MANAGEMENT AUDIT

Internal audit, now largely called operational audit is an effective tool of managerial control. Internal audit is carried out by mangers themselves or by special staff appointed for this purpose. In contrast to external audit which remains unconcerned with the operational aspects of the organisation, internal audit is much broader in scope and encompasses the whole range of activities of the organisation. Thus internal audit, in addition to ensuring that accounts properly reflect the facts, also appraises policies, procedures, use of authority, quality of management, effectiveness of methods, special problems, and other phases of operations; the latter aspects being more emphasised in present day internal audit. However, there are certain problems in broadening the scope of internal audit in these areas because of the limited ability of an organisation.

Internal audit provides managers with a perennial or everlasting supply of control information. By measuring performance and evaluating results in the light of the standard, internal audit makes suitable recommendations for managerial actions. It also scrutinizes the applicability and relevance of policy, procedure, and method which have a tendency to become obsolete. Such a scrutiny helps in choosing a suitable

working procedure and methods. The introduction of internal audit tones up morale fibres and working efforts of all members in the organisation as it involves the risk of being exposed before the management and people try to avoid errors of omission and commission.

The internal audit is not free from its limitations. Its installation and operation require extra costs which may be too much for smaller organisations. Sometimes, the reports of internal audit team may not be acceptable to the manager because of some deficiency. The audit people have a tendency to look at every aspect of business operations from accounting point of view. This not only affects the scope of internal audit, but also leads to faulty conclusions. However, in recent years, the system of internal audit has been raised to new heights by organising a centralized audit unit for the purpose of supplying greater and wider control information to managers. In managing such a unit, accounting qualification alone are not adequate, but the greater emphasis is being given to managerial skill and experience. To avoid accounting bias, internal auditors in many organisations are selected from the rank of line managers.

Management Audit

Management Audit is an evaluation of the management as a whole. It critically examines the full management process, i.e. planning, organising, directing, and controlling. It finds out the efficiency of the management. To check the efficiency of the management, the company's plans, objectives, policies, procedures, personnel relations and systems of control are examined very carefully. Management auditing is conducted by a team of experts. They collect data from past records, members of management, clients and employees. The data is analysed and conclusions are drawn about managerial performance and efficiency.

(VII) BREAK EVEN ANALYSIS

Break even analysis is another tool of control available to management. It is a technique for finding a point at which a project will cover its costs, or break even. It is often used to make an initial decision on whether to proceed with a project. Breakeven analysis is also a technique of financial control in the sense that further analyses may be necessary as conditions change.

For example, an initial breakeven analysis may have indicated that sales of 80,000 units would be needed for a division to breakeven. Midway through the project, however, material costs could rise, anticipated demand could change, or price for the product could drop.

Any or all of these changes would alter the breakeven point. This in turn would signal to the organisation that it might wish to cancel the project to minimise losses. Hence, breakeven analysis can be used initially for decision-making and later for control.

Break-Even Chart

The objective of most private firms is to make profits — or at least to avoid losses. All business firms need to know at what point their sales revenue or income will permit them to meet all their obligations — fixed (contractual) and variable (non-contractual). This point is called the breakeven point. They are also interested in knowing at what point income from sales will exceed expenses, thus yielding a profit.

Break-even analysis, also known as cost-volume-profit analysis, is a useful tool that permits firms to visualize more clearly the revenue-cost relationship at different levels of output. It is based on certain concepts used in pre-paring a variable budget.

The objective of break-even analysis is to show diagrammatically revenues and costs to determine at what volume (of production or sales) a company's total costs equal total revenues, leaving neither profit nor loss.

Computing the Break-Even Point:

The break-even point (BEP) is the point on a chart at which total revenue exactly equals total costs (fixed and variable), Fig. 18.5 illustrates how the BEP is computed.

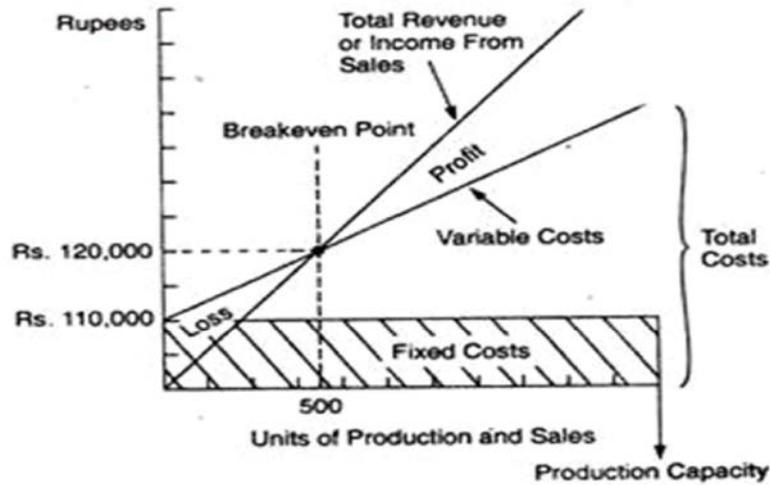


Fig.18.5 : A typical break-even chart's component parts

There are three main elements in the chart: total fixed costs, variable costs connected with each unit of production, and total revenue or income connected with each unit of production, and total revenue or income connected with each unit of sales.

In our example total fixed cost is Rs.10,000 at all levels of output. We superimpose the total variable cost curve on the total fixed cost curve. The total revenue curve starts from the origin. It is plotted by multiplying the number of units sold by the unit price.

It intersects the total cost curve at a point which corresponds to 500 units of output. This is the break-even point, at which there is neither profit nor loss. Fig. 18.5 illustrates this relationship in a simplified form.

There are different ways of calculating the BEP- Normally it is computed by dividing fixed costs by the difference between the sales price per unit and the variable cost per unit.

Break-even point (in units) = Total fixed costs/Sales price per unit – Variable cost per unit

Suppose fixed costs are Rs.10,000 and variable costs per unit is Rs.20 for a commodity and the selling price is Rs.40.

Therefore, $BEP = Rs. 10,000 / (Rs. 40 - Rs. 20) = 500$ units as shown in Fig. 18.5.

Use of Break-Even Analysis

Break-even analysis enables producers to determine the effect of various changes in costs and sales revenue on their availability of capital and helps them to set optimum or maximum selling prices. As a control technique, break-even analysis provides an objective measurement by which to evaluate the performance of an organisation and provides a basis for possible corrective action.

One proximate cause of a high BEP is high investment in fixed assets. Management can locate or identify this point before deciding to invest in a new building or machine. Again, a firm may incur losses due to inadequate control of expenses. Break-even analysis can help management to detect increases in variable costs before they get out of control.

It may, however, be noted that all costs and selling prices are not entirely under the control of a procedure. Actions by competitors, suppliers, carriers, governments and changes in consumer preferences can affect costs and selling prices, as well as sales volumes at any given time. Changes in any of these variables can be plotted and the net effect determined at a glance.

Managers can use break-even analysis to study the relationships among cost, sales volume, and profits. The break-even quantity does not remain fixed for ever. Thus output has to be shifted to the right if more profit is desired. Break-even analysis also provides a rough estimate of profit or loss at various sales volumes.

As an aid to decision making break-even analysis can;

- (i) Identify the sales volume needed to prevent a loss,
- (ii) Identify the minimum production and sales volume needed to meet established objectives,

- (iii) Provide data to help decide whether to add or drop a product from the product line, and
- (iv) Help decide whether to raise or lower prices.

Limitations in its use

The very simplicity of break-even analysis is its major limitation. In practice we observe that cost and revenue functions are not linear, as specified in Fig.18.5. This is based on the assumption that variable cost per unit, total fixed costs and selling price per unit are all fixed.

But if these vary with output changes the cost and revenue functions may appear to be non-linear. In such cases we have two break points and the virtue of our analysis is partly lost.

Secondly, break-even analysis is based on the assumption that fixed and variable costs can be separated and classified. But in practice it is difficult to determine whether a cost is fixed or variable. For example, machinery is considered a fixed expense, but if it is operating at capacity and production is to be increased, it is no longer fixed.

The producer will have to buy or rent additional machinery to increase the volume of production. Also due to wage fluctuations and changes in prices of raw materials, variable costs change greatly.

However, in spite of these difficulties, this type of analysis is valuable to management.

(VIII) PROGRAMME EVALUATION AND REVIEW TECHNIQUE (PERT) AND CRITICAL PATH METHOD (CPM)

Network analysis is a means of planning and controlling the project activities. Under this, a project is broken down to small activities or operations which are arranged in a logical sequence. After this, the order in which the various operations should be performed is decided. A network diagram may be drawn to show the

relationship between all the operations involved. So it will reveal the gaps in the flow plan.

The net work drawn thus shows the interdependence of various activities of a project and also points out the activities to be completed before the others are started.

The object of network analysis is to help in planning, organizing and controlling the operations to enable the management in accomplishing the project economically and efficiently. The most popular network techniques are:

A. PERT (Programme Evaluation and Review Technique)

It is an important technique in the field of project management. It involves planning, monitoring and controlling of projects. It specifies the techniques and procedures to assist project managers in:

1. Planning schedules and costs.
2. Determining time and cost status.
3. Forecasting man power skill requirements.
4. Predicting schedule slippages and cost plans.
5. Developing alternate time cost plans.
6. Allocating resources among tasks.

PERT uses probability and linear programming for planning and controlling the activities. Probability helps in estimating the timings of various activities in the project and linear programming is used to maximize the achievement of the project objectives. PERT is employed in the construction of ships, buildings and highways, in the planning and launching of new projects, in the publication of books, in the installation of computer system, etc.

B. C.P.M. (Critical Path Method)

It is most widely used as a planning and control technique in business. Unlike

PERT, it is applied in those projects where timing are relatively well known. It is used for planning and controlling the most logical sequences of activities for accomplishing a project.

Under CPM, the project is analysed into different operations or activities and their relationships are determined and shown on the network diagram. The network is then used for optimizing the use of resources and time. CPM marks critical activities in a project and concentrates on them. Here assumption is that expected time is actually the time taken to complete the project. CPM requires a greater planning than required otherwise. Thus, it increases the planning cost, but this increase in cost is justified by concentrating on critical path only and avoiding expenses on the strict supervision and control of the whole project. Besides ascertaining time schedule, CPM provides a standard method of communicating project plans, schedules and costs.

(IX) MANAGEMENT INFORMATION SYSTEM (MIS)

Management Information System (MIS) is a computer-based information system that provides information and support for effective managerial decision-making. A decision-maker requires up-to-date, accurate and timely information. MIS provides the required information to the managers by systematically processing a massive data generated in an organisation. Thus, MIS is an important communication tool for managers. MIS also serves as an important control technique. It provides data and information to the managers at the right time so that appropriate corrective action may be taken in case of deviations from standards.

Definitions

“A formal method of collecting timely information in a presentable form in order to facilitate effective decision making and implementation, in order to carryout organisational operations for the purpose of achieving the organisational goals”.

— **Walter I. Kennevan**

“Management information system is a system of people, equipment, procedures, documents and communications, that collects, validates, operates, transformers, stores, retrives and presents data for use in planning, budgeting, accounting, controlling and other management process”.

— **Schwartz**

“MIS is structured to provide the information needed, when needed and where needed”. Further the system represents the internal communication network of the business providing the necessary intelligence to plan, execute and control.

—**F.B. Cornish**

“MIS is an approach that visualize the business organisation as a single entity composed of various inter-related and inter-dependent sub-systems looking together to provide timely and accurate information for management decision making, which leads to the optimization of overall enterprise goals”.

—**Canth**

“MIS is a system that aids management in making, carrying out, and controlling decisions”.

— **Jerome Ranter**

MIS offers the following advantages to the managers:

1. It facilitates collection, management and dissemination of information at different levels of management and across different departments of the organisation.
2. It supports planning, decision making and controlling at all levels.
3. It improves the quality of information with which a manager works.
4. It ensures cost effectiveness in managing information.
5. It reduces information overload on the managers as only relevant information is provided to them.

LIMITATIONS OF MANAGEMENT INFORMATION SYSTEM

The main limitations and drawbacks of MIS are as follows:

1. MIS takes into account mainly quantitative factors, thus it ignores the non-quantitative factors like morale, attitudes of members of the organisation, which have an important bearing on the decision making process of executives.
2. MIS is less useful for making non-programmed decision making. Such types of decisions are not of routine type and thus they require information, which may not be available from existing MIS to executives. MIS effectiveness

decreases due to frequent changes in top management, organisational structure and operational team.

3. MIS is not a substitute for effective management. It means that it cannot replace managerial judgement in making decisions in different functional areas. It is merely an important tool in the hands of executives for decision making and problem solving.
4. MIS may not have requisite flexibility to quickly update itself with the changing needs of time, especially in a fast changing and complex environment.

CHARACTERISTICS OF MIS

Management information system is established in an organisation to provide relevant information to the managers to operate effectively and efficiently. To achieve this objective, MIS of a business organisation should possess the following characteristics:

1. **MIS is a Management oriented:** One important feature of MIS is that MIS is designed top-down. This means that the system is designed around the need felt by the management at different levels for information. The focus of the system is to satisfy the information needs of management.
2. **MIS is a Management directed:** Since MIS is 'for the' management it is imperative that it also should have a very strong 'by the' management initiative. Management is involved in the designing process of MIS and also in its continuous review and up gradation to develop a good qualitative system. The system is structured as per directions factored by management. This helps in minimizing the gap between expectations of management from the system and the actual system.
3. **MIS is an integrated system:** MIS is an integrated system. It is integrated with all operational and functional activities of management. This is an important characteristic and- requirement for a system to qualify as MIS. The reason for having an integrated system is that information in the managerial context for decision-making may be required from different areas from within

the organization. If MIS remains a collection of isolated systems and each satisfying a small objective, then the integrated information need of managers will not be fulfilled. In order to provide a complete picture of the scenario, complete information is needed which only an integrated system can provide.

4. **Common data flows:** Through MIS the data being stored into the system, retrieved from the system, disseminated within the system or processed by the system can be handled in an integrated manner. The integrated approach towards data management will result in avoiding duplication of data, data redundancy and will help to simplify operations.
5. **Strategic planning:** MIS cannot be designed overnight. It requires very high degree of planning which goes into creating an effective organization. The reason for this kind of planning is to ensure that the MIS being built not only satisfies the information need of the managers today but can also serve the organization for the next five to ten years with modifications. Sometimes when the planning part is done away with, systems tend to perform well in the present but they tend to become obsolete with time. Planning helps to avoid this problem.
6. **MIS is composed of sub-system:** MIS although viewed as a single entity, must be broken down into subsystem. The breakdown of MIS into meaningful subsystems sets the stage for a prioritized implementation. It also enables the MIS designer to focus on manageable entities that can be assigned and computerised by selected systems and programming teams.
7. **MIS require flexibility:** MIS is designed the information needs of management for future decision-making. Despite a careful analysis of future information needs of the management, it is impossible to predict accurately all the events of three to five years ahead. This is true in most industries and especially in those industries with rapid changing patterns. Therefore the MIS should be designed in such a manner so as to permit appropriate changes in future. If the MIS does not allow any modification, it is bound to become obsolete very soon.

ESSENTIALS OF A GOOD MANAGEMENT INFORMATION SYSTEM (MIS)

MIS is designed to provide, selected decision oriented information to management to plan, control and evaluate the activities of a business organisation. To fulfil this objective, the MIS of a company should possess the following:

- (i) The information provided by MIS should help in the evaluation of performance of various managers in relation to the goals of the enterprise.
- (ii) MIS should follow systematic procedure for collection, processing and dissemination of information so as to ensure accuracy and consistency.
- (iii) Only relevant data should be collected for further processing. Collection and processing of unnecessary data should be avoided.
- (iv) The MIS should be capable of providing right information at the right time because information delayed is information denied.
- (v) The MIS should present information in a manner that it can be used for rational decision making.
- (vi) MIS should be flexible so that appropriate changes can be made in the system in case of need.
- (vii) MIS should identify and recognise the functional as well as personal relationships within an organisation.
- (viii) MIS should be evaluated in terms of benefits and costs. The costs of the system in any case should not exceed its benefits.

OBJECTIVES OF MANAGEMENT INFORMATION SYSTEM

The following are the objectives of a management information system:

1. MIS is very useful for efficient and effective planning and control functions of the management. Management is the art of getting things done through others. MIS will be instrumental in getting the things done by providing quick and timely information to the management.

2. Reports give an idea about the performance of men, materials, machinery, money and management. Reports throw light on the utilisation of resources employed in the organisation.
3. MIS is helpful in controlling costs by giving information about idle time, labour turnover, wastages and losses and surplus capacity.
4. By making comparison of actual performance with the standard and budgeted performance, variances are brought to the notice of the management by MIS which can be corrected by taking remedial steps.
5. MIS brings to the notice of the management strength (i.e., strong points) of the organisation, to take advantage of the opportunities available.
6. MIS reports on production statistics regarding rejection, defective and spoilage and their effect on costs and quality of the products.

12.5 RELATIONSHIPS BETWEEN PLANNING AND CONTROLLING

“Planning is required at the very outset of management whereas control is required at the last stages. If planning is looking ahead, control is looking back.”

Planning and controlling are two separate functions of management, yet they are closely related. The scope of activities if both are overlapping to each other. Without the basis of planning, controlling activities becomes baseless and without controlling, planning becomes a meaningless exercise. In absence of controlling, no purpose can be served by. Therefore, planning and controlling reinforce each other. According to **Billy Goetz**, Relationship between the two can be summarized in the following points:

1. Planning proceeds controlling and controlling succeeds planning.
2. Planning and controlling are inseparable functions of management.
3. Activities are put on rails by planning and they are kept at right place through controlling.

4. The process of planning and controlling works on Systems Approach which is as follows :

Planning → Results → Corrective Action

5. Planning and controlling are integral parts of an organization as both are important for smooth running of an enterprise.
6. Planning is the initial step and controlling is in the process and required at every step. For the same both are dependent upon each other and inter-related.

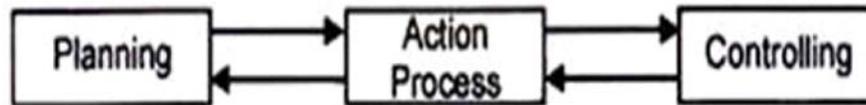
Planning and controlling are interdependent and interlinked:

Planning and controlling functions always co-exist or have to exist together as one function depends on the other. The controlling function compares actual performance with the planned performance and if there is no planned performance then controlling manager will not be able to know whether the actual performance is O.K. or not. The base for comparison or the yardstick to check is given by planning to controlling function. On the other hand, the planning function is also dependent on controlling function as plans are not made only on papers but these have to be followed and implemented in the organisation. The controlling function makes sure that everyone follows the plan strictly. Continuous monitoring and check in controlling function make it possible that everyone follows the plan. So both the functions are interlinked and interdependent as for successful execution of both the functions planning and controlling must support each other. For example, if the workers have produced 800 units the manager can know “whether it is adequate or not only when there is a standard production set up by planners. So base of comparison comes from planning only. On the other hand, if the standard target is 1,000 units then controlling managers make sure that there is improvement in the performance and the employees achieve the set target.

Planning and controlling are both backward looking as well as forward looking

Controlling is backward looking because like a post-mortem of past activities the manager looks back to previous year’s performance to find out its deviation from standard planning is also backward looking because planning is guided by past

experiences and feedback report of controlling function. Planning is forward looking because plans are prepared for future. It involves looking in advance and making policy for maximum utilisation of resources in future. Controlling is also forward looking because controlling does not end only by comparing past performance with standard. It involves finding the reasons for deviations and suggests the measures so that these deviations do not occur in future. So, this statement that planning is forward looking and controlling is backward looking is only partially correct as planning and controlling are both forward looking as well as backward looking.



Relationship between planning and control can be understood as follows:

Planning is the basis for control in the sense that it provides the entire spectrum on which control function is based. In fact, these two terms are often used interchangeably in the designation of the department, which carries production planning, scheduling, and routing. It emphasises that there is a plan, which directs the behaviour and activities in the organisation. Control measures these behaviour and activities and suggests measures to remove deviation, if any. Control further implies the existence of certain goals and standards. The planning process provides these goals. Control is the result of particular plans, goals, or policies. Thus, planning offers and affects control.

1. Planning identifies actions and controlling ensures that actions are carried out.
2. Poor control system is followed by failure of plans and effective control system reinforces the plans.
3. Controlling helps in revising or reframing the plans.
4. Planning presumes a well-designed control system and controlling function presumes well designed plans, achievable within the available resource structure (physical, human and financial).

Thus, Planning and controlling are inseparable twins of management. Planning initiates the process of management and controlling completes the process. Plans are the basis of control and without control the best laid plans may go astray. Planning is clearly a prerequisite for controlling. It is utterly foolish to think that controlling could be accomplished without planning. Planning is prescriptive and controlling is evaluative. In other words, Planning and Controlling are concerned with the achievement of business goals. Their combined efforts are to achieve maximum output with minimum cost effect. Both, systematic planning and organized controlling are essential to achieve the organizational goals.

12.6 SUMMARY

Controlling is the process of ensuring that actual activities conform to planned activities. The importance of managerial control lies in the fact that it helps in accomplishing organisational goals. Controlling also helps in judging accuracy of standards, ensuring efficient utilization of resources, boosting employee morale, creating an atmosphere of order and discipline in the organisation and coordinating different activities so that they all work together in one direction to meet targets. Controlling suffers from certain limitations also. An organisation has no control over external factors. The control system of an organisation may face resistance from its employees. Sometimes controlling turns out to be a costly affair, especially in case of small organisations. Moreover, it is not always possible for the management to set quantitative standards of performance in the absence of which controlling exercise loses some of its effectiveness. The process of control involves setting performance standards, measurement of actual performance, comparison of actual performance with standards, analysis of deviations and taking corrective action. Personal observation, statistical reports and analysis, breakeven analysis and budgetary control are traditional techniques of managerial control. Internal or operational audit/management audit, PERT and CPM and Management Information System are modern techniques of managerial control. Planning and controlling are inseparable twins of management. Planning initiates the process of management and controlling completes the process. Plans are the basis of control and without control the best laid plans may go astray.

12.7 GLOSSARY

Controlling: It is a process of taking steps to bring actual results and desired results closer together.

Planning: Planning is the process of deciding in advance what is to be done, who is to do it, how it is to be done and when it is to be done. It is the process of determining a course of action, so as to achieve the desired results.

12.8 SELFASSESSMENT QUESTIONS

1. What is control? Explain the various characteristics of managerial control.
2. “Planning without control is meaningless and control without planning is a wasted effort.” Comment.
3. Explain the principles and techniques of controlling. Discuss briefly various stages involved in process of control.
4. “Planning is an empty exercise without controlling”. Comment.
5. Discuss the relationship between planning and controlling.
6. Write short notes on the following:
 - (i) Break-Even Analysis
 - (ii) Management Information System
 - (iii) PERT and CPM

12.9 LESSON END EXERCISE

1. “Controlling is forward looking” Explain

2. “Planning is the first function and control is the last function of managerial process”. Discuss.

12.10 SUGGESTED READING

1. Management and Organization : Louis A. Allen
2. Management and Organizational Behaviour : Laurie J. Mullins
3. Principles of Management : Prakash Chandra Tripathi
4. Principles of Management : K. Anbuvelan

LEADERSHIP AND MOTIVATION

STRUCTURE

- 13.1 Introduction
- 13.2 Objectives
- 13.3 Concept of Leadership
 - 13.3.1 Difference between Leadership and Motivation
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13.1 INTRODUCTION

Leadership is a concept everyone is aware of, but only a few master it and its implications. Generally, people differ by nature, not only in their ability to perform a specific task but also in their will to do so. People with less ability but lots of strength are able to perform better than people with superior ability and lack of will. Hard work is crucial to success and achievement. Albert Einstein underscored this belief when he said, “genius is 10% inspiration and 90% perspiration. This “wills to do is known as motivation. The force of motivation is a dynamic force setting a person into motion-or action. The concept of motivation can be traced back to nearly twenty-three centuries ago in the Greek and Indian writings. The idea that we are motivated to do what brings us the best results for our benefit is found in the early Indian philosophy through such writings as “Charvak”. The most ancient concept of “Nirvana”, as proposed and propagated by earliest Aryan thinkers and religious scholars, motivates us to be “good” people so that we can achieve the final “oneness with God.” The Greek view of motivation has been dominated by the concept of hedonism, which is a view that people seek pleasure and comfort, and avoids pain and discomfort. This view was based upon intuition and common sense that an individual does what he does because he believes that it will give him more pleasure than anything else he might do. This philosophy, though still popular, depends excessively upon rational evaluation and does not take into consideration the effect of instincts or even the value system. Hedonism, based on maximising personal pleasure cannot explain why some people would sometimes risk their own lives to save others in times of crisis or why volunteers would spend so much of their time in collecting money for charitable causes. However, this view prevailed right up to the eighteenth and, nineteenth centuries and is evident in the social and economical philosophies of

such famous men as Adam Smith, Jeremy Bentham and John Stuart Mill. The principles of hedonism seems to be too narrow minded and is empirically insignificant since it does not attempt to evaluate just what the individuals anticipate to be the results of their behaviour and how do they measure pleasure. For example, a person who risked his own life to save another had rationally decided to become a “hero” or did he act on “impulse,” believing that it was the right thing to do irrespective of cost or consequences? The principle of hedonism can be more easily explained “after the fact” when the behaviour has already been explained. Thus, even the acts of simple kindness can be explained with the motives of “feeling good” about them or earning the gratefulness of those who have been helped by these acts. Since hedonistic explanations work best in explaining actions after they occur, they cannot be relied upon in predicting behaviour.

Viewpoints brought motivation under different light during the late 1800s and early 1900s. William James and Sigmund Freud argue that instinctive behaviour and unconscious motivation are also important elements in human behaviour and these largely determine an individual’s interpretation of, and response to, situations. Instincts, which are inborn or innate predispositions, which are not consciously rational, can explain certain aspects of human behaviour. These instincts, which influence human behaviour, include the need for autonomy, curiosity, sociability, sympathy, fear, jealousy, love, dominance, harm avoidance, play, and sex. The large number of identified instincts identifies a variety of possible behaviours. The instinct behaviour is like a reflex action, meant for survival and hence caters primarily to physiological needs. It is not learnt and is not dependent upon the consequences of an action. Most instincts are common to all people and would exhibit similar behaviour under similar circumstances. For example, if somebody has a flat tire while driving, the first instinctive reaction is to get mad. The unconscious motivation, of which an individual is unaware, was brought up by Sigmund Freud who suggested that unconscious motives are primarily sexual and aggressive in nature and even though unconscious, they greatly influence everyday behaviour. These unconscious motives are revealed in dreams, symbolism, slips of speech (known as Freudian slip) and hypnotic suggestions. Both the instinctive motivation and unconscious motivation do not stand the scientific analysis and contemporary psychologists explain behaviour by complex cognitive and environmental interactions. The concept of motivation came under scientific

scrutiny during 1930s and has led to formulation of many theories and models that try to scientifically explain the concept of motivation.

Therefore, in this lesson we'll explore the **traits and characteristics of leadership**, as well as the **skills needed in order to lead**. We'll also explain the **different leadership theories and the styles** which current and future leaders can take advantage of. Along with this, the lesson throws light on the concept and theories of motivation.

13.2 OBJECTIVES

After reading this lesson you would be able:

- To know about the concept of leadership and motivation.
- To examine the significance of these two concepts in motivation.
- To explain various motivation theories.
- To describe the various leadership styles.

13.3 CONCEPT OF LEADERSHIP

Defining leadership might seem straightforward; you just go to Google and type in '*definition of leadership*', right? But the results tell a different story. Instead of a single definition of what leadership is and isn't, you'll be greeted with millions of pages analyzing the subject. Leadership is not an easy concept to characterize.

If you examine the definitions in the Dictionary, you get a selection of descriptions. Leadership is defined as "*the position of function of a leader; a person who guides or directs a group*" and "*an act of instance of leading; guidance; direction*", for example. But these definitions tend to feel like they are just scraping the surface and providing a stripped-down version of the word.

The attempts to define leadership have been around since the start of the 20th century, when theorists started to tackle the issues surrounding leadership and management in more detail. One of the influential leadership theorists, Dr Bernard

Bass, has said in the book *Stodgill's Handbook of Leadership: A Survey of Theory and Research* in 1981, "There are as many different definitions of leadership as there are persons who have attempted to define the concept."

If you study different leadership theories, you find different conceptualizations. Not everyone agrees with the concept of leadership meaning guiding the teams or even directing people, as some see leadership more as a motivating tool for empowering the individuals within the team.

To understand how complex and varied the definitions can be, Warwick University compiled a list of popular definitions. These are great at showing some of the distinctions in how people view leadership. Here are a few popular definitions of leadership:

- Leadership is the process of influencing the activities of an individual or group in efforts toward goal achievement in a given situation. Hersey and Blanchard
- Leadership is the art of influencing others to their maximum performance to accomplish any task, objective or project. Cohen
- Leadership is the art of mobilising others to want to struggle for the shared aspirations. Kouzes and Posner
- Leadership is the behaviour of an individual when he is directing the activities of a group toward a shared goal. Hemphill and Coons

Furthermore, when it comes to defining leadership, it's often easier to focus on the aspects that are not part of leadership rather than those that define it. Leadership is not about having a specific title or a position of power. Being at the top of a company does not make anyone a good leader. But perhaps some disagreement comes from whether leadership is seen as a force for good or for bad.

Travis Bradberry and Kevin Kruse defined leadership in their article *What Makes A Leader* as "a process of social influence which maximizes the efforts of others toward the achievement of a greater good". But as history has proved to us, there can be leaders who are using influence and guidance to do bad things.

Considering the various definitions and discussions surrounding leadership, it could be argued the theories have a few things in common. They tend to define leadership as a process:

- Of influence
- Of increased attention and effort by others
- Of pursuing a pre-determined goal

As the following sections will show, the means of doing any of the above can differ greatly between different theories and style.

13.3.1 Difference between Leadership and Management

One of the common misconceptions surrounding leadership is to conflate it with management. People who are simply managing can be considered leaders, while leaders might not actually be leading but simply managing. But how can you tell the difference?

Warren Bennis wrote extensively about the differences of these concepts in his 1989 book *On Becoming a Leader*. In the book, he listed the differences, which are outlined in the following image:

The difference is essentially about the direction or movement of the group. This distinction is clear even from the words: *leadership* is about *leading*, of taking the group *towards something*, while *management* is about *managing*, of controlling the current situation and *holding on to the status quo*. In a way, leadership is always about a specific objective or goal, which is not yet achieved. On the other hand, management is about ensuring the achieved progress doesn't slip away.

Furthermore, the objectives of the leader or manager can vary greatly. Management is concerned about the tasks and processes of maintaining the status quo. This means the attention is divided more towards processes and resources. Management often considers what tasks are required, how they can be improved or maintained, and what the best use of current resources is.

Therefore, the role of management is about planning, organizing and monitoring. John Kotter, Konosuke Matsushita professor of leadership at Harvard University, told in a Guardian interview that:

“Management is a set of processes that keep an organization functioning. They make it work today- they make it hit this quarter’s numbers. The processes are about planning, budgeting, staffing, clarifying jobs, measuring performance, and problem-solving when results did not go to plan.”

On the other hand, you have leadership, which isn’t about the here and now, but what could be and the future the organization should move towards. Leadership is therefore more concerned about what the objectives should be and how the team can be motivated to reach the goals together.

Professor Kotter identified leadership to be “*about aligning people to the vision*, that means buy-in and communication, motivation and inspiration”. For leadership, the processes are not necessarily the focus; it’s more about empowering the followers to work towards these set objectives.

One further key area of difference comes from the approaches management and leadership take on communicating with the team. The traditional view is one where management is not about empowering or inspiring. It’s task-focused and so the objective of the manager is to help the team finish the procedures as efficiently as possible. There is a certain level of communication, but it is focused on managing the group, not elevating it to reach higher.

Management isn’t aiming to necessarily boost the group or make it achieve something unique; as the goal is to get through the set tasks as efficiently as possible. But management is slowly changing on this aspect, as people skills are increasing in their importance in all aspects of the workspace.

Therefore, the traditional hands-off approach, where management only reacts is starting to transform into a more people-focused. Nonetheless, management is still mainly interested in getting the job done as set out, but it’s starting to go about it in a more communicative manner.

On the other hand, leadership is often built around the interaction with the team. In many leadership theories, although not all (see authoritarian leadership, for example), the onus is on empowering the subordinates to achieve more and follow the leader's vision. The leadership is not about managing existing groups, but gaining the attraction and respect of the teams that buy into the vision.

It's hard to make any leadership style to work if the subordinates are not willing to listen to the message. Because the style relies heavily on the team buying into the vision, leaders need to focus on people skills. In a way, instead of managing tasks, leadership manages the people and empowers them to achieve more.

Finally, an Inc. article mentioned an interesting point about how the two concepts differ in accountability. According to the post, management can often come across more delegating in terms of accountability. Managers share responsibility with the team and therefore are removing responsibility away from their own desks. On the other leadership tends to hold on to accountability, even when the leader takes a relaxed approach to being in charge. Since the vision is generally created by the leader, the failures along the way to achieve it mean the leader has the ultimate responsibility.

The above doesn't mean leaders cannot be managers and vice versa. In fact, leadership and management do often go hand in hand. A good leader often has to be able to mobilize and influence the team, while also focusing on directing people and ensuring conformance. While the differences are there, it's not to say management and its characteristics wouldn't be an important concept for leaders to understand.

13.3.2 Features of Leadership

- **Influence the Behaviour of Others:** Leadership is an ability of an individual to influence the behaviour of other employees in the organization to achieve a common purpose or goal so that they are willingly co-operating with each other for the fulfilment of the same.
- **Inter-Personal Process:** It is an interpersonal process between the leader and the followers. The relationship between the leader and the followers

decides how efficiently and effectively the targets of the organization would be met.

- **Attainment of Common Organisational Goals:** The purpose of leadership is to guide the people in an organization to work towards the attainment of common organizational goals. The leader brings the people and their efforts together to achieve common goals.
- **Continuous Process:** Leadership is a continuous process. A leader has to guide his employees every time and also monitor them in order to make sure that their efforts are going in the same direction and that they are not deviating from their goals.
- **Group Process:** It is a group process that involves two or more people together interacting with each other. A leader cannot lead without the followers.
- **Dependent on the Situation:** It is situation bound as it all depends upon tackling the situations present. Thus, there is no single best style of leadership.



13.3.3 Traits of Leadership

Leadership characteristics are not something mystical. The traits and qualities required for leadership are also not something you either have or you don't have. These characteristics can be learned over the course of your career and developed further. All it takes is focus and determination to understand the building blocks of a solid leadership.

1. **Awareness:** Leadership requires awareness because the leader has to be able to see the surroundings, understand the intricacies of different elements, and be able to analytically view the actions of others and his- or herself. Awareness requires the leader to understand the unique position he or she is in. This is not about thinking you are better than others as the leader, but about acknowledging the unique responsibilities and challenges you face as a leader. A key part of enhancing awareness is about self-knowledge. The more able you are with identifying your own strengths and weaknesses, the better you'll be at identifying them in others. Knowledge as a whole is an important element in awareness, whether it is knowledge about the industry, the organization, or the human consciousness. Improvements in these areas can help leaders develop better awareness.
2. **Confidence:** Confidence is a state of mind, the feeling of trust and reliance on you and the things around you. Without confidence, leadership would crumble. No one wants to follow a leader who doesn't have confidence in his or her abilities, or the vision they've put out. If the leader is confident, it doesn't just help attract others to work towards the vision, it breeds more confidence within the team. There are numerous ways to building confidence, but the key to understand is that it can take time and conscious effort to change habits of low self-esteem and lack of belief.
3. **Empathy:** As mentioned above, leadership differs from management due to its emphasis on employee development. Big part of the empowerment and development is driven by empathy. The best leaders are those who seek to create meaningful relationship with the team and who are genuinely interested in how the employee is doing. When leaders notice issues with subordinates, they don't turn it into a personal blame game, but rather help the subordinate find constructive solutions to the issues.
4. **Humility:** Leadership can easily be seen as a pure mechanism for power, but the best leaders are also able to show humility. Leadership gives you an immense responsibility and power, and this should make you feel humble. Leadership is about being accountable and stepping in when you've made a mistake. Humble

people don't feel bad about responsibility or try to hide away from the limelight. Humility means learning to respect and to understand the value of other people and systems around you, and acknowledging the impact they played on your journey to being a leader.

5. **Honesty:** Honesty is another major characteristic defining leadership. It's about the ability to stay true to yourself and the vision, even when things get tough. It's also about the ability to take in criticism, as well as to provide it, without it creating more issues. Above all, honesty means sharing information openly with the team.
6. **Conviction:** Leadership relies heavily on conviction since you can't put forward a vision if you aren't committed enough to see it through. Conviction means that you trust and believe in your idea, and you are willing to weather the storms to achieve the vision. If you show conviction as a leader, you'll inspire others to follow. It's crucial to understand conviction isn't the same as blind stubbornness. Trust in your vision doesn't mean you aren't willing to listen, to improve, and to change your path if the evidence tells you to do so. It simply means you don't give up just because someone doesn't agree with you or if you encounter a problem.
7. **Flexibility:** As mentioned before, conviction doesn't equate to stubbornness and therefore, leadership requires flexibility. A good leader understands that situations change, people are different, and therefore, solutions might not always be the same. Flexibility is a trait ensuring the leader is able to read the moment, predict the future, and react to change without it causing disturbance in the vision.
8. **Assertive:** Sometimes assertiveness is mixed with aggressive behaviour or being 'bossy'. But it's actually a characteristic of being able to stand up for what you believe in. Assertive behaviour is not about using your leadership position to bully people or be aggressive. Assertiveness simply means getting your point and vision across in a positive manner.
9. **Inspirational:** Perhaps the most important trait for a leader is the ability to

inspire. Leadership is always about creating a vision of a something better or new. But since the human mind is often wary of change, the leader's role is to communicate the vision in a way that inspires the team to action. Leadership is largely about creating an environment that motivates others to follow and pursue the goals, even if they seem far away and difficult to achieve.

13.3.4 Importance of Leadership

The importance of leadership is perfectly captured by the above African proverb. A leader can make a difference in whether a team is a success or a failure. The human history is full of examples that outline the significance of a leader, for good and for bad.

Martin Luther King wasn't the only one with a dream, but he was the only one who was able to articulate the dream with the nation and get people to follow his vision. Because of his leadership and his ability to empower people who agreed with his arguments, he was able to transform society and continue to inspire generations. But it's crucial to note, leadership's transformative powers are not always a force for good. History has also provided leaders such as Joseph Stalin, who's leadership ended creating destruction and led to the deaths of millions of people. Nonetheless, the examples encapsulate the power of leadership.

Leadership is essentially a catalyst for action and it can ensure the different elements within the organization are functioning as efficiently as possible. For good or for bad, depending on the type of leadership that's present, leadership guarantees results.

Leadership matters because it:

1. **Provides a Vision** – Leadership should always start with a vision towards which the organization moves. No organization or team can survive without a clear idea of where it wants to be and what it wants to achieve.
2. **Shows Direction** – The vision provides the organization with a direction and guarantees it stays on course. It ensures the organization isn't aimlessly floating in the sea, but navigates its way towards the port.

3. **Initiates Action** – The above two help initiate movement, as leadership generates a roadmap of actions for achieving the goals. Sometimes leadership's influence is about directing people towards action, but sometimes the understanding of the vision can help people take action on their own.
4. **Supplies Guidance** – Not only does leadership help start action, but it also creates an environment of support. It instructs the subordinates towards the right direction and explains the actions that are needed.
5. **Sets out Organizational Culture** – Leadership also provides organizations with a culture, which is important to ensuring there is coherence across the organization. It ensures employees and customers alike know what they are getting when they are dealing with the company.
6. **Builds up Confidence** – With the help of a clearly outlined vision and an action plan, leadership is able to generate more confidence within a team. For subordinates, having a person to guide, explain and support you through the process can be a crucial part of succeeding.
7. **Grants Motivation** – Leadership always provides subordinates with incentives to follow. The different styles have different ways of motivating, but leadership tends to generate an environment of reward, whether financial or non-financial.
8. **Attracts talent** – Today's world is all about the knowledge worker. Today's employee is not just looking to perform tasks; they want to put their own skills to good use and to develop their abilities further. The employee is essentially often looking for a challenge and appreciation. Leadership, through its vision and motivational nature, can better attract the right talent to the organization, which in turn will enhance its success rate.

13.3.5 Leadership Skills

What are the skills that can motivate and inspire people to follow the vision? The following five are often at the centre of the findings and are definitely the integral elements for creating solid leadership.

(a) People Skills

Leadership is all about attracting people to your vision and getting the team to perform tasks that bring the organisation closer to the goals. Without the skills to interact, work and guide other people, the leadership is doomed to fall apart.

Although there is a lot of talk about things such as emotional intelligence, explained informatively in the Slide Share presentation below, people skills essentially boil down to a few basic interactions leaders need to excel in.

The core elements to improving people skills are:

- **Learning how to delegate.** Leaders have to be able to share responsibility, find the right people for specific tasks, motivate and guide people through the process.
- **Knowing how to give and receive feedback.** Leadership requires plenty of feedback, occasionally going in both directions: to and from the leader. It's vital to know how to provide constructive feedback that will improve performance and help with achieving the objectives.
- **Understanding behaviour.** This is similar to emotional intelligence, in a sense that leaders need to be able to read the reasons behind people's actions. It's crucial to understand what emotions can tell you and how to direct behaviour into something more positive.
- **Being able to work as a team.** While leadership is often about leading others, there are still plenty of elements of co-operation. Leaders must be able to work also as part of a team, not just be good at taking charge.

(b) Communication

Related to people skills is the skill of communication. Leaders are essentially visionary storytellers who must be able to convince and inspire others with their message. Communication is also much more than the ability to talk in an inspiring way. Communication is built through the ability to listen, to negotiate and by creating meaningful connections.

(c) Decision-Making

Decision-making can differ in different leadership styles, but it's nonetheless an essential skill to possess. All of us need to make decision multiple times a day, and it's often something we do without paying much attention. Leadership is about being able to make decisions in an efficient manner and with confidence. It removes the emotion out of your decision-making and relies on the logical conclusions. It might seem like reasoning is the best course of action to take, but it can actually be helpful to use both strategies.

(d) Problem-Solving

Being able to make decisions is an important skill, but to complement it, leadership needs to solve problems as well. John Foster Dulles, former US Secretary of State, has once said,

The measure of success is not whether you have a tough problem to deal with, but whether it is the same problem you had last year.

If you can't solve problems, you can't move towards the vision.

Whenever there is a problem, you should implement the following steps:

- **Identify the problem.** First, you need to recognize there's a problem and stop avoiding it. You must then identify exactly what the issue is and define it clearly.
- **Structure the problem.** It's a good idea to observe the issue and carefully dissect it into smaller pieces. For example, if customer complaints are about ineffective customer service, pay attention to how the system works and identify the different elements creating the bigger issue.
- **Look for solutions.** Once you are aware of the different components, you can start looking for solutions to each problem. Remember to use people's expertise and don't be afraid to ask other people for opinions.
- **Make a decision.** After you have solutions available, pick the ones you think are the best. Think about the bigger picture. While some solutions might provide

quick fixes, they might be costlier and so on. Weigh in these elements and choose the best for the organization and for the mission you are achieving.

- **Implement your solution and monitor progress.** Create a clear plan of action for implementation and start monitoring the effectiveness of your solution.

(e) **Strategic Thinking**

Perhaps one of the most essential leadership skills is strategic thinking. Strategic thinking is often considered as a skill only a selected few possess, but it can be learned and developed. What is strategic thinking? It's essentially the ability to have a long-term vision combined with short-term actions. It uses problem solving and decision making to get from point A to point B without harming the objectives along the way.

Improving your strategic thinking isn't difficult. The strategies to apply it can also be used during all sorts of activities, both in private and business lives. Development of a strategy consists of :

- **Realizing where you are.** You need to start by analyzing and understanding your current position.
- **Identifying the position, you want to be.** The next step is about imagining the position you should be at any particular time. You want to be detailed on what the ideal position looks like and identify the positions you definitely need to avoid.
- **Considering the essential elements in that position.** Identify the key elements that matter in the future or the current position. These could be things such as the organization's values or growth figures.
- **Creating an action plan between the current and the future.** Your next step is about working out the steps and actions that need to be taken between 'now' and 'then' to guarantee success. Think in terms of actions, but also intermediate milestones that help measure success.

13.3.6 Leadership Theories

The real boom in leadership theories started in the 20th century, when more

focus began pouring in to solving the great mysteries of effective and good leadership.

Leadership theories are often categorised based on what the theory believes to be, the defining trait or characteristic of the leader or the framework he or she uses. While there are a number of theories, the most popular theories include: the Great Man Theory, Trait Theories, Behavioural Theories, Contingency Theories, Transactional Theories, and Transformational Theories.

I. The Great Man Theory

The Great Man Theory is among the oldest leadership theories and it evolved during the mid-19th century. The premise of the leadership theory was essentially the argument that great leaders are born with intrinsic traits. It argued leaders aren't developed or taught, but you quite simply either have the qualities and characteristics to be a great leader or you don't. Furthermore, as the name implies, the leadership theory assumed only a man would have these intrinsic qualities – females are not born to lead.

The theory became especially popular after Thomas Carlyle, a writer and teacher, published a book called *On Heroes, Hero-Worship, and the Heroic in History*. In his book, Carlyle examined and compared leaders from history and wrote,

“There needs not a great soul to make a hero; there needs a god-created soul which will be true to its origin; that will be a great soul!”

To Carlyle and other people who supported the Great Man Theory, leadership was often something instilled by a god, with the leader being destined to achieve greatness.

The Great Man Theory didn't base its arguments on any scientific knowledge or research. In 1860, the theory attracted a lot of criticism from Herbert Spencer, an English philosopher, who began talking about the importance of environment and society in shaping leaders.

II. Trait Theories

The trait theories are somewhat similar to the Great Man Theory in that they believe certain qualities in the leader will guarantee success in leadership. But unlike

the Great Man Theory, trait theories don't assume these are necessarily something people are born with or that only men can possess them. Instead, they understand that these can be taught or developed during one's lifetime, providing everyone the possibility of being a leader.

The trait model is essentially focused on answering the question "What are the qualities that make a good leader?" According to these theories, qualities such as intelligence, innovation, and a sense of responsibility are some of the characteristics you need to be an effective leader. The idea of certain traits guaranteeing better leadership results has remained popular to this day. Studies on leadership characteristics are commonly conducted, with similar traits often mentioned in the findings.

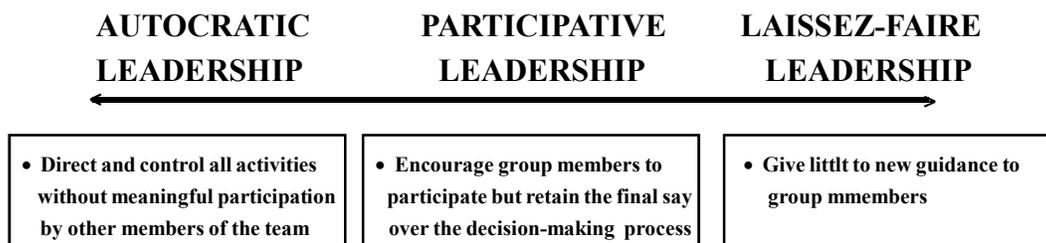
However, it's not ever been proven that by having a specific set of traits you would be guaranteed to be a good or a successful leader. An American psychologist Gordon Allport studied trait theories and found that personality traits are can be unreliable when measured. Furthermore, the relationship between a specific trait and its impact on leadership often vaguely explained.

III. Behavioural Theories

From the shortcomings of the trait theories, the focus shifted to behavioural theories. Instead of looking at the traits of a person, the aim is to discover what behaviours drive successful leadership. The question became "*What are the actions and behaviours of a good leader?*"

One of the most influential sets of behaviour leadership theories was developed in the 1930s by Kurt Lewin. He identified three distinctive leadership behaviours in terms of decision-making and guidance: authoritarian style, participative/democratic style, and delegation/laissez faire style. Lewin's theories are summarised in the graph below:

LEWIN'S THEORIES : THREE DISTINCTIVE LEADERSHIP BEHAVIOURS



Furthermore, the behavioural theories were either focused on the tasks or the people. The task-focused theory, often referred to as **the Role Theory**, examined how people's behaviours change by the role they are doing. It argued that different roles might cause different reactions. On the other hand, the people-based theories considered the different levels of concern leaders show towards the subordinates and its impact on performance.

Behavioural theories are popular because they understand leadership is something people can become better at. Despite this, the theory has lost some ground due to the realization that different behavioural styles don't always suit every situation and while specific behaviour might yield good results in certain circumstances, it can be catastrophic in others.

IV. Contingency Theories

The next step of evolution saw the question move to asking about the circumstances of leadership. "*How does the situation influence effective leadership?*" became the examination point for theories. The central argument of these theories was the idea that leadership styles' effectiveness depends on the situation. It believes people who perform well in a specific situation, can actually perform badly in others.

There is a certain similarity between contingency theories and trait theories. Both realize that personal characteristics are linked to the situations in which the leaders use their leadership. Certain traits, in essence, perform better under specific leadership styles.

There have been a number of famous contingency theories, such as the Cognitive Resource theory and the Path-Goal theory. Perhaps the most common example of this style is the Situational Leadership developed by Hersey and Blanchard.

V. Transactional Theories

Transactional theories are also often referred to as exchange theories. These theories focus on the power and influence of leadership and the different ways leaders can leverage these to achieve objectives. The basis for the theory is the examination of

the transactions between the leader and the followers, focusing on understanding how to build a positive and effective relationship.

The transactional theories pay close attention to the motivations behind the actions. Therefore, the theories are interested in understanding the reward and punishment systems and their use in aligning the needs of the organization with the needs of the subordinate.

While the transactional style has been popular and it can be efficient in creating meaningful relationships between the leader and the subordinates, it's also attracted criticism. The most common objection to the style is its assumption that humans operate only to maximize pleasure or reward. It can sometimes dismiss other motivational factors altogether and just assume financial gain is all subordinates seek, for example.

VI. Transformational Theories

The final major category of leadership theories is transformational leadership. The focus of these theories is on the personal relationship the leader forges with the followers. The theories believe effective leadership is about transforming the followers into something different, aside from simply achieving the organizational vision. The leaders who can do this are charismatic and inspirational, creating a sense of trust that helps the followers feel more motivated.

The popular transformational theories include James McGregor Burns' transformational leadership theory, which was later developed further by Bass' theory. Burns' core ideas are:

- Approach is more holistic and supportive
- High expectations for the group
- Lead by example
- Collaborate with the group to challenge and support
- Inspire group around its purpose and remind each group member of his worth

Both the transformational and the transactional leadership theories have also been developed and used as leadership styles, some of which we will delve into in the next section.

13.3.7 Leadership Styles

There are also plenty of different leadership styles. While leadership theories are focused on understanding what makes leaders successful, the leadership styles focus specifically on the traits and behaviours of leaders under a specific theory. Therefore, the leadership theory often contains a number of different styles. Psychologist Kurt Lewin developed his framework of leadership styles in the 1930s, providing the foundation for many other styles. According to Lewin, there are essentially three core leadership styles, each of which is shortly summarised below.

1. Autocratic leadership

Autocratic or authoritarian leadership style emphasizes the role of the leader in terms of the decision-making process. The leader won't involve or even consult the team when it comes to deciding the next course of action.

The style is efficient in terms of making decisions, and can often be effective in crises or in circumstances where the leader has access to knowledge the subordinates don't. Nonetheless, autocratic leadership style can also lead to high staff turnover.

2. Democratic leadership

Lewin's second leadership style was the democratic model. Lewin's style saw leaders under this framework still in charge of the final decisions, but instead of rejecting input from the subordinates, the leader seeks and encourages engagement. Therefore, the subordinates are more involved with the tasks or courses of action, even though they might not have actual power to decide.

The democratic style can remove the issues of low morale and high turnover through the more participative approach. On the other hand, decisions can take a long-time to make and the subordinate's ability to comprehend the intricacies of certain circumstances might not be equal.

3. Laissez faire leadership

The final leadership style Lewin identified was the laissez faire leadership. Under this framework, the subordinates are given the ultimate power to decide how they want to achieve the vision set forward by the leader. The leader's role is essentially to provide the subordinates with the right resources and advice, if needed.

Like the democratic leadership style, this can help increase job satisfaction, but the lack of structure can create problems within the organization. It also needs experienced and enthusiastic employees to work efficiently.

13.3.8 Difference between Leadership Style and Leadership Traits

People in leadership positions in a small business have the ability to promote a supportive and productive work environment with their actions, decisions and overall leadership styles. Beyond fostering a pleasant work environment, the leadership styles and traits of managers and supervisors can also impact the bottom line of the business.

Style vs. Traits

The difference between leadership styles and traits is subtle, but important. Leadership style refers to the methods used to manage a group of individuals. In addition, leadership style refers to the methods and theories used to solve problems and make decisions. In contrast, leadership traits describe the characteristics and personality traits that are common among leaders or those in a position of authority. Typically, leadership traits encompass physical, emotional, social and intellectual characteristics.

Leadership Styles

Managers exercise control over their employees, just as world leaders exert control over a country. Leadership styles run the gamut from autocratic, in which leaders have complete control, to a more participative style, in which leaders encourage participation and feedback from employees. Other leadership styles can include a

bureaucratic leadership style, which requires all team members to adhere to strict rules and procedures, and a laissez-faire style, which leaves team members to their own devices when completing work.

Leadership Traits

Leadership traits represent the individual characteristics that go into creating a specific leadership style. They represent characteristics such as self-confidence, ambition and high energy, commonly found among leaders representing a wide variety of leadership styles. Other leadership traits include the ability to communicate effectively, motivate others and multitask. These traits allow leaders to formulate a leadership style that will move their teams or departments toward accomplishing company goals and initiatives.

Considerations

The type of leadership style most appropriate for managers and supervisors in your small business will vary. For instance, managers in an environment in which safety is a main concern, such as a construction job sites, will need to have more of a bureaucratic leadership style. This is because following procedures to the letter is a necessary part of ensuring safety in that environment. An organization can also benefit from having several different types of leaders throughout the organization to better match the needs of each department and team.

13.4 MOTIVATION

Motivation is a general term that is applicable to the entire class drives, desires, needs wishes and similar forces. Motivation is productivity factor in industry. It is the same total managerial science. Motivating workers is to create desire in the mind of workers for better performance. One can buy employee's physical presence at work place for a certain time but cannot buy his willingness to work. The capacity to work and willingness to work is important to get better results. Hence, motivation is the function of a manger to induce the employees to work willingly, efficiently, effectively and contribute their best to the achievement of the goals of the organisation.

Definition

Motive:

“An inner state that energizes, activates or moves and that directs or channels behaviour towards goals”

According to W.A. Scott:

“Motivation means process of stimulating people to action to accomplishment of desired goals.” Motivation can be defined as: ‘willingness to expend energy to achieve goals and getting rewards.’

13.4.1 Objectives of Motivation

Motivation is one of the primary functions of a manager. He has to motivate his sub-ordinates to perform their activities at high level & to make positive contribution towards the efficient & effective achievement of organizational objectives. The work performance of an individual depends upon motivation as well as his ability and environmental conditions. The performance on the job is determined by following relationship:

$$P = F [M, A \& E]$$

P = Performance

M = Motivation

A = Activity

E = Environment

Using this relationship and employee who can achieve high level of desire & ability to perform his job must be provided with proper material equipment and process. It is the responsibility of the manager to ensure that all these 3 parts are essential i.e.

Motivation, ability and environment.

Motivation aims at creating an environment which will make the personnel of an organisation.

1. To take initiative
2. To show dynamism and curiosity
3. To work willingly and co – operatively
4. To work in a disciplined manner
5. To take interest in their work
6. To be dynamic and enthusiastic
7. To be responsible and loyal
8. To take pride in their job
9. To have job satisfaction
10. To have personal and group morale satisfaction and
11. To contribute their best to achieve their personal and organisational objectives.

13.4.2 Types of Motivation

(1) Motivation may be positive or negative

Positive motivation is the process which influences the employee through rewards. E.g. Bonus, promotion, permanent settlement, increase in working condition, etc. Negative motivation is based on fear. i.e. fine, discharge, lay-off etc.

(2) Motivation may be financial or non-financial

Financial motivations are those which are associated with money. It includes wages, salaries, bonus and retirement benefit. Non-financial motivations are not associated with monetary rewards. It includes ego satisfaction, participation in the process of decision making, providing good working conditions and providing more responsibility to them.

(3) Primary & secondary motivation

Primary motivation relates to satisfying basic human needs & secondary motivation relates to social needs & self acquisition.

13.4.3 Theories of Motivation

I. Maslow's Need of Hierarchy Theory

Abraham Maslow was the Pioneer in contributing to a system of hierarchy of needs. Maslow's concluded that there are certain needs of employee when he joins an organization. They have certain expectations from the organization where they are motivated to satisfy their own needs. The following are important positions advocated by Maslow about human behaviour.

- (1) Man is a wanting being. Man is a continuously working more & more. What he wants or will want depend upon what he has. As soon as man's one need is satisfied another immediately takes place. It keeps a man to work continuously, demanding more & more.
- (2) A satisfied need is not a motivator where as an unsatisfied needs work as motivator. Hence a man works to satisfy his needs.
- (3) The need of man has hierarchy: - Maslow thinks that a man's needs are arranged in a series of level. As soon as the need at lower level is satisfied, a worker is motivated to satisfy another need in hierarchy.

Different types of needs: -

- (1) **Physiological needs:** It is the lowest level in hierarchy. These needs which are most the important in the human life must be satisfied by him. It includes food, clothing, housing, air, water, etc. Physiological needs arise for the survival of human being. Physiological needs are important for every human being.
- (2) **Safety needs:** Safety needs are known as 'security needs'. These needs are concerned with protection i.e. financial security, job security, emotional harm, etc. As soon as physiological needs are satisfied these needs emerge. It acts as motivating factor.
- (3) **Social needs:** Social needs relates to love, affection & belonging & social security. Every individual is associated with group members or group of society.

He gets affection from his group members. A man is motivated to satisfy his social needs in following ways by :

1. Establishing a team work, team culture & team spirit.
2. Providing proper training facilities.
3. Conducting frequent meetings with team members.
4. Providing extra activities like social, cultural, sports to encourage the people.
5. Arranging periodical get together & participation with managers.

(4) Esteem needs: It includes two parts i.e. internal esteem & external esteem needs, such as achievement of respect & status. It can be done in following ways by:

1. Providing higher level of training & better educational facility.
2. Assigning challenging task, high responsibility & position.
3. Delegating some powers to subordinates.
4. Involving sub-ordinates in goal setting & decision making.

(5) Self actualization: This includes self fulfillment of job growth & achieving once potential. Some methods to satisfy self actualization needs are: -

1. Involvement of capable people in policy making.
2. Realizing a sense of fulfillment & development.
3. Providing opportunity for involvement.
4. Providing training facility according to capacity.

Limitations / Disadvantages of Maslow's Theory

- (1) It is general expression not specific.

- (2) The level in the hierarchy are not fixed, the boundaries are overlapping.
- (3) This approach is related to personal inner action needs. But person does not have any single need at a time. He has many needs.

These limitations should be kept in the mind by the management while preparing any plan for motivation. The people are different in their expectation. The same need can not act as a motivating factor to many people in the same manner.

II. Fredrick Herzberg's Two Factor Theory

Maslow Hierarchy of need point out about the behaviour of the people. Using this as a base, **Herzberg** & his associates interviewed 200 engineers & accountants. The engineer & accountant describe the factors about the feelings. He asked them what are the good times & the bad times on their jobs. Engineer & accountants brought up the things (bad). Unfair co policies, poor relationship with boss, low payment etc. They did not mention about good job experience. They talked about the opportunities they got for personal growth & development.

Then they took interview with the workers with different industries. The results were same. So he developed 2 factors theory. As per him a man has two sets of needs:

1. **Lower level needs:** It denotes hygiene, maintenance or environmental factors which do not motivate satisfaction, but their absence causes dissatisfaction.
2. **Higher level needs:** these needs are termed as motivators because they are the real cause of job satisfaction and they lead to better performance.

MOTIVATIONAL FACTORS

Company policies and administration

Achievement of a challenging task Relationship with supervisors

Recognition for accomplishment

Working conditions Challenging work

Relationship with peers
Increased responsibility
Money, wages and salaries
Opportunity for growth and development
Status Enriched challenging job
Security
Personal life
supervision
Relationship with subordinates
Natural Motivators
High state of motivation
Maintenance factors
Motivational factors
Maintenance Seeker Motive seeker

Herzberg explains his theory with maintenance seeker & motivation seeker. Maintenance seekers are explained in natural state of motivation. These are important for the growth of the organization. It mainly satisfies security, psychological, social and esteems needs. In absence of maintenance factor worker may feel dissatisfied so absenteeism & labour turn over will increase but if they are present it will act as natural motivating factor.

Merits:

(1) According to Herzberg one important way to increase job satisfaction is to enhance job enrichment, job enrichment means more challenging work.

- (2) Introducing new & more difficult task not handle earlier.
- (3) Eliminating a layer of supervision.
- (4) Increased worker's autonomy & authority.
- (5) Workers may be given a complete natural unit of work. A natural unit of work helps to increase identity.

Demerits:

(1) Limited samples

A theory is based on a sample of 200 accountants & engineers. The critical question is that these samples are limited & they are from different occupation.

(2) Critical Methodology

It suffers from ego defence at work. Motivational & maintenance factors are not completely described.

III. McGregor's Theory of X & Theory of Y

According to **McGregor's** theory of X & Theory of Y explains the relationship of man & his behaviour. He has explained his theory in 2 terms. They are theory of X & theory of Y. Theory X has traditional approach where as theory of Y has modern approach. This is traditional theory of human behavior. The management has to motivate human beings in the organization.

Theory X

It involved certain assumptions are follows: -

1. The average human being has an inherent dislike of work & will avoid it.
2. The average human beings are lazy & avoid responsibility.
3. The average human being is not aware about the goals of the organization.
4. The average human being prefers to be directed.

5. Management is responsible for organization. The elements of production are money, machine, material, people etc.
6. It is the process of directing the people, motivating them & controlling their action by management.
7. Without any intervention by management people would be passive they must be punished, controlled or rewarded.
8. He lacks ambitions; avoids responsibility & prefer to be led.

Some assumptions deal with human behaviour, human nature. Some assumptions deal with managerial actions. These all assumptions are negative in their approach. The manager feels that control is the most appropriate for dealing with subordinates. McGregor believes that these assumptions about human nature can not drastically change. There is considerable change.

Theory Y

According to McGregor theory of Y has the following assumptions: -

1. The average human being does not inherently dislike work, depending upon controllable condition work may be a source of satisfaction or punishment.
2. The average human being will exercise self direction, self control.
3. Commitment to objective is the function of reward associated with their achievement the human being is directed for self actualization.
4. The average human being likes to accept the responsibility. Avoidance of responsibility is lack of ambition for them.
5. Under the modernization and competitive world potential of the workers should be utilized.

Theory Y produces better results because there is no domination. There is no harsh leadership. It is not optimistic. It is a participative. Theory Y is more realistic so it gives better results than Theory X. So Theory Y should be used frequently in the organization.

Difference between Theory X & Theory Y

Theory X Theory Y

1. Assumption regarding work & human being:

Theory X assumes human being to be inherently dislikes the work.

Theory Y assumes that human being work as natural as play.

2. Motivating factor:

In the Theory X motivating factors are the lower needs.

In Theory Y high order needs are more important for motivation. Though unsatisfied lower needs are important.

3. Need for supervision:

In Theory X people lack self motivation & required to be control extremely. After strict control large output can be achieved.

In Theory Y people are self directed & prefer self control & are creative.

4. Emphasis:

Theory X emphasizes scale system & centralization of authority in the organization.

Theory Y emphasizes decentralization of authority & greater participation in the decision making process.

5. Extent of capacity for creativity:

According to Theory X most people have little capacity for creativity.

According to Theory Y there is capacity as well as creativity in the individual. Many problems can be solved with the capacity of individual.

6. Ambition & responsibility in the job: -

Theory X states that people do not have ambitions and they avoid responsibility in job.

Theory Y states that the average human being learns under proper conditions and they take responsibility.

IV. David McClelland's theory of motivation

McClelland has made an important contribution in the motivation theory. The need for power is more important according to him his theory is based on following assumption:

1. Divide needs for power, need for achievement & need for affiliation.
2. Only higher needs are highlighted.
3. Higher needs are classified into 3 types: -
(1) Power (2) Achievement (3) Affiliation
4. Taken for granted that lower needs are generally satisfied.
5. Higher level needs are always act as motivating factors.
6. Management must take care of power, achievement & affiliation.

According to McClelland, needs motivate every individual. It acts as high motivators. McClelland contributes his need aspect into 3 types of needs:-

1. The need for power

The need for power is inherent in every individual. This is the need to dominate influence or control people. Power means authority but authority is not always related to power. Power can be expert power, reward power, legitimate & coercive power. A person acts as a dominated when he act as a leader even in small group. The need for power is drive for superiority over others. Thus need for power is inherent.

2. The need for affiliation

The need for affiliation is a social need. It is a motivating factor. It is a social motive. The sense of affiliation is essential for every individual who is a high performer. Every human being has social entity, social contact and he involves in social activities. There is similarity between McClelland affiliation motive & Maslow affiliation needs. Because according to both, people dominated by affiliation needs are attracted towards job. They must establish a bridge between such people.

3. The need for achievement

He has highlighted the needs for achievement. This is the need for challenge, success and accomplishment. Higher achievers are motivated for achievement and can be placed between Maslow esteem needs & self actualization needs. According to McClelland achievement motive is a desire to make the best performer in the term of standard of excellent. So that success can be achieved. He has made study on achievement motives & given following characteristics:

- (1) Higher achievers want feedback on their performance. They want to know how will they are doing.
- (2) High achiever likes to take personal responsibility for finding a solution to problem.
- (3) High achievers like to take risk for achieving the goals. They want to win in the competition.

Limitation:

- (1) Achievement motivation cannot be taught.
- (2) The evidence supported to this theory is doubtful.
- (3) The use of projective technique is objection.
- (4) Achievement training is time consuming & expensive.
- (5) The theory does not explain the process of motivation & the result of motivation.

V. The Expectancy Theory of Motivation:

This is a modern expression of what Martin Luther observed centuries ago when he said, “Everything that is done in the world is done in hope.”

The famous psychologist **Victor Vroom** says that the people’s motivation towards doing anything will be determined by the value they place on the outcome of their efforts, multiplied by the confidence they have that their efforts will materially aid in achieving a goal.

The theory is expressed in mathematical terms as:

Force = valence * expectancy

Where

Force = the strength of a person’s motivation

Valence = the strength of an individual’s preference for an outcome

Expectancy = the probability that a particular action will lead to a desired outcome.

One of the great attractions of the Vroom theory is that it recognizes the importance of various individual needs and motivation. But it is difficult to apply in practice. Despite it’s difficulty in application, the logical accuracy of Vroom’s theory indicates that motivation is much more complex than the approaches of Maslow and Herzberg.

VI. Equity theory

An important factor in motivation is whether individual perceives the reward structure as being fair. One way of addressing this issue is through Equity theory, which refers to an individual’s subjective judgments about the fairness of the reward he gets, relative to the inputs in form of efforts he puts in, experience and education he makes use of. J. Stacy **Adams** has formulated the above concept as under:

Outcome by a person / outcomes by another person

----- = -----

Inputs by a person / inputs by another person

There should be a balance of the outcomes/inputs relationship for one person in comparison with that for another person. If people feel that they are inequitable rewarded, they may be dissatisfied, reduce the quantity or quality of output or leave the organization. If people perceive the rewards as equitable, they probably will continue at the same level of output. If people think that rewards are greater than what is considered equitable, they may work harder. It is also possible that some may discount the rewards. One of the problems is that people may overestimate their own contributions and the rewards are received by others. Employees may tolerate certain inequities for some time. But prolonged feelings of inequity may result in strong reactions to an apparently minor occurrence.

VII. Reinforcement Theory

The psychologist B.F. Skinner of Harvard developed an interesting but controversial technique for motivation. This approach is called as positive reinforcement or behavioural modification, states that individuals can be motivated by proper design of their work environment and praise for their performance. However, the punishment for poor performance produces negative results. Skinner and his followers analyze the work situation to determine what caused workers to act the way they do, and then they initiate changes to eliminate troublesome areas and obstructions to performance. Specific goals are set with worker's participation and assistance. Prompt and regular feedback of results is made available and performance improvements are rewarded with recognition and praise. Even when performance does not equal goals, ways are found to help people and praise them for the good things they do. It has also been found that it is highly useful and motivating to give people full information on a company's problems, especially those in which they are involved.

This technique sounds almost too simple to work and many behavioral scientists and managers are skeptical about its effectiveness. However, a number of prominent companies have found this approach beneficial. Perhaps, the strength of

this approach is that it is concerned to the requirements of good management. engineering, organizational theory, sociology, development, motivation & leadership.

13.4.4 Techniques of Motivation

(1) Money

Money is a good technique of motivation in any form. Money is important. Money is an urgent means of achieving a good standard of living. Money as a motivator trends to be less by offering similar salaries to various managers. It is a monetary revote leads to increase in the performance. It is the most affecting motivator.

(2) Participation

The right kind of participation yield motivation. It gives people a sense of accomplishment. Workers participation in decision making act as a good motivator.

(3) Quality of working life

QWC This program is a system approach to job decision. It promises development in the job enrichment. It is a broad approach.

13.5 LET US SUM UP

Motivation pertains to various drives, desires, needs, wishes and other forces. Managers motivate employees by providing an environment that induces organisation members to contribute. There are different views and assumptions about human nature. McGregor's called his sets of assumptions about people in Theory X and Theory Y. Maslow's theory states that human needs form a hierarchy ranging from the lowest level needs to highest level needs including physiological needs, safety needs, security needs, esteem needs and self actualization needs. According to Herzberg's two factor theory, there are two sets of motivating factors. The first set comprises of dissatisfies and the second set is comprises of satisfiers related to the job context. Vroom's expectancy theory of motivation suggests that people are motivated to reach a goal if they think that the goal is worthwhile and can see that their activities will help them to achieve the goal. Equity theory refers to an individual's subjective judgment about

the fairness of the reward received for inputs in comparison with the rewards of others. Reinforcement theory was developed by Skinner who suggested that people are motivated by praise of desirable behaviour. People should participate in setting their goals and should receive regular feedback with recognition and praise. Special motivational techniques include: 1. Money 2. Participation 3. Improving quality of working life.

13.6 CHECK YOUR PROGRESS

Q 1. Are Leadership and Management Different From One Another? If So How? Give Examples.

Q 2. What is charismatic leadership & how does it work in an organisation?

Q 3. How do the contemporary theories of work motivation complement one another?

Q 4. How can a leader fail? Give an example of that.

Q 5. Explain, using examples, why leaders vary their leadership style in different circumstances ?

Q 6. Other than through performance related pay systems how can managers motivate their sales force ?

Q 7. How do reward packages, such as pensions and share option schemes, help motivate the work force?

Q 8. Explain briefly in what situations a manager might adopt different _____ management styles.

Q 9. What are the advantages to an organisation of encouraging teamwork?

13.7 GLOSSARY

- **Leadership:** *Leadership* is a process by which an executive can direct, guide and influence the behaviour and work of others towards accomplishment of specific goals in a given situation.

- **Management:** *Management* includes the activities of setting the strategy of an organization and coordinating the efforts of its employees (or of volunteers) to accomplish its objectives through the application of available resources, such as financial, natural, technological, and human resources.
- **Motive:** something (such as a need or desire) that causes a person to act.
- **Leading:** *Leading* can be thought as a process of guiding, directing or influencing a group of people towards a common goal in the capacity of a formal or informal leader.

13.8 SUGGESTED READINGS

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COMMUNICATION AND ITS SIGNIFICANCE

STRUCTURE

- 14.1 Objectives
- 14.2 Introduction
- 14.3 Meaning of communication
- 14.4 The communication situation
- 14.5 The communication process
- 14.6 Objectives of communication
- 14.7 Significance of communication in business
- 14.8 Nature of Communication
- 14.9 Summary
- 14.10 Keywords
- 14.11 Self assessment questions
- 14.12 Suggested Readings

14.1 OBJECTIVES

After going through this lesson, you should be able to-

- Define communication and business communication.
- Understand the process of communication.
- Explain nature and significance of business communication.

14.2 INTRODUCTION

We are living in a world which is totally networked with communication. With the advent of fast technology, the world has become a global village. The information sharing among various groups in society at national and international levels has become very smooth, effective and efficient. With the click of small button on computer, you can easily get any information according to your needs and choice. You cannot just think of a world or situation where there is no exchange of ideas, feelings, emotions, reactions, propositions, facts and figures. From time immemorial, communication has been the most important activities of the human lives. The integration of the world economy has been made possible with strong and efficient channel of communication. The nature of communication has gone a significant change during the last decades. Now the economic power lies in the hands of the countries having very sound information technology network. Communication is important from the point of view of understanding it in terms of a process, system, interactional base and structuring. There are various objectives of communication in business organisations.

14.3 MEANING OF COMMUNICATION

There are various definitions and meaning interpreted by different scholars. T.S. Matthews says that Communication is something so difficult that we can never put it in simple words. But we do need a definition to understand the concept. In his book *Communication in Business*, Peter Little defines communication as the process by which information is transmitted between individuals and/ or organizations so that an understandable response results. W.H. Newman and C.F. Summer Jr. defines

communication as, “Communication is an exchange of facts, ideas, opinions, or emotions by two or more persons”.

Obviously, ‘information’ is the key word in the first definition. But this definition does not indicate the objects about which information is to be transmitted. This is precisely what is provided in the second definition. Communication transmits information not only about tangible facts and determinable ideas and opinions but also about emotions. When a communicator passes on or transmits some information, he may also, either intentionally or unconsciously, be communicating his attitude or the frame of his mind. And sometimes the latter may be more relevant to the reality that is being communicated.

The following definition offered by William Scott in his book ‘*Organisation Theory*’ should appear comprehensive and specially satisfying to the students of ‘business communication’ since it touches all aspects of the communication process:

“Administrative communication is a process which involves the transmission and accurate replication of ideas ensured by feedback for the purpose of eliciting actions which will accomplish organizational goals.”

This definition emphasizes four important points:

The process of communication involves the communication of ideas.

The ideas should be accurately replicated (reproduced) in the receiver’s mind, i.e., the receiver should get exactly the same ideas as were transmitted. If the process of communication is perfect, there will be no dilution, exaggeration or distortion of the ideas.

The transmitter is assured of the accurate replication of the ideas by feedback, i.e., by the receiver’s response which is communicated back to the transmitter. Here it is suggested that communication is a two-way process including transmission of feedback.

The purpose of all communication is to elicit action.

It is quite comprehensive definition and covers almost all aspects of communication. But two comments can be made on it:

The concept of ideas should be adequately enlarged to include emotions also.

Even in administrative communication the purpose may not always be to elicit action. Seeking information or persuading others to a certain point of view can be equally important objectives of communication.

14.4 THE COMMUNICATION SITUATION

The communication situation can exist in any of the following four components:

There is a person (sender or transmitter) desirous of passing on some information;

There is another person (receiver) to whom the information is to be passed on;

The receiver partly or wholly understands the message passed on to him; and

The receiver responds to the message, i.e., there is some kind of feedback.

Two gentlemen greeting each other with folded hands constitute a communication situation, for (a) there is a person desirous of sending a message (greeting); (b) there is another person to receive this message; (c) when the first person folds his hands, the second one understands that he is being greeted; and (d) the second person immediately responds back by folding his own hands.

But if an English speaking person addresses a Hindi-speaking person in English, the communication situation does not exist, for though there is a person desirous of sending a message, the message is not understood and consequently there is no feedback.

14.5 THE COMMUNICATION PROCESS

How do we describe communication process? “The transmission of the sender’s ideas to the receiver and the receiver’s feedback or reaction to the sender constitute the communication process”. The main steps of this cycle are as follows:

1. Input : the information or ideas the sender wants to give the receiver.
2. Channel : letter, fax, phone call, electronic mail, etc.
3. Message : the actual message that is sent.
4. Output : the information the receiver gets
5. Feedback : the receiver’s response (or non-response) to the message
6. Brain drain : the possibility of misunderstanding at any step (or Breakdown)

We can illustrate this process with the help of the following illustrations:

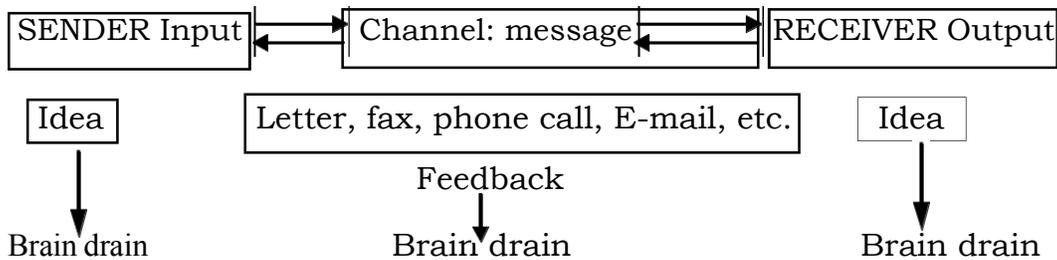


FIG. 1.1: COMMUNICATION PROCESS

There are several barriers to the understanding of a message, and, as the figure suggests, misunderstanding can occur at any stage.

Let us take the following illustration 1.1:

<p>Input : I want to know the balance in my current account at the end of October.</p> <p>Message : Kindly send me a statement of my transactions in current account No. during October.</p> <p>Output : He needs a statement of his transactions in current account No. during October.</p> <p>Feedback : A statement of the transactions is issued.</p>

If the action desired in the message is satisfactorily performed or the information is faithfully received (ensured by the feedback), we say the *communication loop* has been closed. But breakdowns in the communication cycle are quite frequent. The breakdown may be due to one or more of the following:

- Improper formulation of the message in the mind of the sender;
- Improper statement of the information in the message; and
- Improper statement of the message by the receiver.

14.6 OBJECTIVES OF COMMUNICATION

The main objective of all communications in an organization is the general welfare of the organization. Effective communication is needed at all stages in order to ensure this welfare. At the planning stage, information is needed on the various aspects of the enterprise, the feasibility of the project being undertaken, finances involved, manpower required, marketing conditions, publicity campaigns, etc. At the execution stage, orders are issued to the employees to start work, the workers associated with the project are constantly motivated and kept involved, a sense of discipline is cultivated among them and their morale is kept high. All this requires constant two-way communication between the managers and the employees. Then at

the assessment stage, the manager is again required to communicate with various sources, both internal and external, to assess the success of the project, and if a need is felt, to envisage modifications in the future plans. In view of this elaborate and complex commercial structure, communication can be used for any or more of the following objectives:

Information

Education

Advice

Warning

Order

Raising morale

Suggestion

Motivation

Persuasion

- **Information**

Passing or receiving information about a particular fact or circumstance is one of the most important objectives of communication. It can be done either through spoken or written language or by using any other system of signs or signals. Managers need complete, accurate and precise information to plan and organize; employees need it to translate planning into reality.

Information on the following aspects is very essential for the existence and welfare of any organization:

Consumer response to its products in comparison with competing products with reference to quality as well as price. Whether they are being produced in conformity with the latest trends?

The nature of the various financial institutions and the terms and conditions on which credit is offered by them. How better quality raw materials can be procured on easier terms, or if there are any cheaper substitutes available?

What kind of effect, the rules and regulations of the government and the changing political scene can have on the product policy of the organization?

Information about the efficiency, suitability, relative merits and the expenses involved on the advertising media.

Information about the latest developments in the fields of science and technology.

Information about the precise nature of every employee's job, its scope, and the procedures governing it should be readily available with every employee as well as in the files of the organization.

Managers whose primary job is planning need detailed information of the following kinds:

Information about the political, social and economic conditions.

Information about the cultural milieu; geographical and climatic information.

Information about the production and sale capacity of the organization; detailed information about the members of the staff, their academic and professional qualifications, their efficiency and reliability, their limitations, etc.

Information about the rival companies and their products, their strong and weak points, their past and present performance.

Sources of information

A great deal of internal information is readily available in the old files of the organization. Past performance of the organization as well as its employees can be easily known from the old files.

Valuable information about the efficiency and reliability of the employees can be gained from personal observation.

Mass media of communication like the radio, television, cinema, newspapers, journals are all the time throwing information. It is very important to expose ourselves to these media. Apart from magazines meant for general reading, there are journals exclusively devoted to specialized fields. These journals constitute a very important source of information.

A good library is a storehouse of information. It is only in a library that we can gain access to reference books, research publications, files of old journals, pamphlets, government publications of various kinds, statistical reports, etc. Now there are libraries of tapes, records and films also.

The membership of chambers of commerce is supposed to be very useful these days. They keep their members abreast of all developments that have any bearing on their activities.

Large business houses often sponsor national and international seminars and conferences. Participation in such seminars and conferences proves to be a very educative experience.

Information can also be gathered through personal interviews with prominent people in the political field, experts in professional fields and the members of general public.

Information about the popularity of a company's products and their general perception in the market is often collected by circulating carefully prepared questionnaires among the consumers and the retailers.

Trade fairs and exhibitions have become a regular feature of the twentieth-century life. They are organized with one particular theme at the center. They may highlight agricultural development, book production, electronic industry, or any other such theme. All information related to that theme is collected at one place. In this way they become an important source of information.

Current electronic communication media, in particular, internet computer network now offers access to latest information on all subjects under the sun almost at the flick of your finger.

- **Advice**

Giving advice is another important objective of communication. Information is always factual and objective. But advice, since it involves personal opinions, is likely to be subjective. Information is neutral in itself. When it is offered to a person, he may use it as he likes. But advice is given to him either to influence his opinion or his behaviour. It may prove helpful, but it may also lead to disaster.

Commercial activities in the modern world have become extremely complex. Each individual activity needs specialized handling, which cannot be expected from people working single-handed. However competent a businessman may be, he cannot have specialized knowledge of all branches like finance, taxation, publicity, engineering, public relations, etc. If he wants to run his business successfully, he will have to seek expert advice quite frequently.

Within the organization, the supervisory staff is required to advise the junior employees. Supervisors being in close contact with their superiors (usually the board of directors) are well familiar with the policies and functioning of the organizations. They are, therefore, in an excellent position to guide, counsel or advise their subordinate staff.

Advice, by its very nature, flows horizontally or downwards. Expert advice from outside flows horizontally. The board of directors advising one another on some policy matter are also engaged in a kind of horizontal communication. But advice soon starts flowing down to the management personnel, the supervisory staff and the subordinate staff or the operatives.

While offering advice, the adviser should keep the following points in mind:

Advice should be both man-oriented and work-oriented, i.e., it should be related to a specific piece of work, and should be given in such a way that it suits the individual needs of the recipient. It means that while explaining the complexities of a job, the adviser ought to keep in mind the understanding power of the person he is advising.

Advice should not be given to a person to make him feel conscious of his inferior knowledge or skill. If the adviser assumes a patronizing tone, the other person is bound to resent it. So the adviser ought to be very friendly in his attitude.

The only justified motive of giving advice is the betterment of the worker. The adviser should genuinely feel this motive. And he should give this very feeling to the worker. He should so mould his tone and phrase his language that he makes the other person feel absolutely at ease.

If the subordinate staffs are given freedom to react, advice can become a two-way channel of communication. It may perhaps bring about some excellent suggestions for the improvement of the organisation's functioning.

- **Counselling**

Counselling is very similar to giving advice. Only, counsel is objective and impersonal. The counsellor is a man of greater skill or knowledge on some specific subject and he offers his counsel without any personal interest or involvement. Advice has a personal touch about it; counsel is almost professional. Advice is often unsought and is unwelcome; counsel is eagerly sought.

A number of large business houses now have their counselling departments, which offer the employees advice on domestic or personal problems. Even an efficient employee may become tardy and indifferent if he is facing some personal problems at home. This may adversely affect the working of the organization. It may also affect other employees and lower their morale. Such employees are encouraged to consult the counselling department, which has on its staff a panel of doctors, psychologists and social workers. These experts hold a series of sittings with the employees and thrash out their problems. The employees are restored to their mental and physical health and the conditions in the organization are brought back to the normal.

- **Order**

Order is an authoritative communication. It is a directive to somebody, always a subordinate, to do something, to modify or alter the course of

something he is already doing, or not to do something. Whatever be the nature and size of an organization, orders are absolutely necessary for it. *The downward flow of information is dominated by orders.* We can classify orders in various ways:

Written and oral orders

Written orders are usually given when:

- the order is of a highly responsible nature;
- the task is repetitive in nature, and it is cumbersome and inconvenient to issue oral orders every time the task is to be done;
- the person being ordered is remotely situated and it is not possible to give him oral orders.

Oral orders are given when:

- the job is required to be done immediately;
- it is an ordinary job and there is no need of maintaining any written record;
- there is a kind of permanent superior-subordinate relationship between the giver and the receiver of the order and the order-giver does not feel the need of entering into the cumbersome process of issuing written orders.

General and specific orders

If orders are related to one particular activity, they are specific. If there are a number of activities having operational similarities, general orders may be issued to cover all of them.

Procedural and operational orders

Procedural orders specify procedures to be adopted. They are general by nature. Operational orders are more closely related to the job in hand. They specify how a particular job is to be done.

Mandatory and discretionary orders

Mandatory orders have to be obeyed. Discretionary orders are usually in the nature of recommendations. They suggest what is desirable, what should be done. But it is up to the receiver; to see their feasibility and to decide whether he ought to carry them out or not. The Head Office may issue discretionary orders to the branch manager, for the branch manager, being present on the spot, knows better whether the orders are to be carried out or not.

An effective order possesses the following characteristics:

It must be clear and complete.

Its execution should be possible.

It should be given in a friendly way.

Steps in the order-giving operation

Paul Pigors has outlined the following seven steps in a complete order-giving operation:

Planning: Before an order is given, the order-giver should be sure about the following points:

Exactly what action is required?

Is it feasible?

Who is to perform it?

In how much time is it to be performed?

Preparing the order-receiver: This should, in fact, be considered a part of planning. Preparing the order-receiver is necessary for the satisfactory accomplishment of any specific order. But it also requires continuous education of the receiver so that he receives the order in the right spirit and correctly interprets the intention and motives behind issuing it.

Presenting the order: This is the stage at which the order is to be written (if it is a written order) and issued. At this stage it is ensured that the order is clear and complete.

Verification of reception: After the order has been issued, the order-giver should watch out for the reaction of the receiver, whether the order has been properly understood and the receiver is going in the right direction.

Action: If planning and presentation of the order have been done correctly, the order-receiver is likely to execute it in the correct spirit.

Follow-up: But the order-giver should not remain content with the information that the order is being executed. He should confirm whether it is being executed correctly. Sometimes, during the process of execution, the person entrusted with it may run into some unforeseen difficulties. If proper follow-up is being conducted, the order-giver will take steps to remove those difficulties or issue fresh orders on adopting a different course of action.

Appraisal: When the order has been executed and the work is over, it is time to appraise or assess it to see whether it has been done satisfactorily or there has been something wrong with its execution.

Order is a directive to a subordinate to do something in a particular way.

Orders may be— written or oral, general or specific, procedural or operational, mandatory or discretionary.

- **Instruction**

Instruction is a particular type of order in which the subordinate is not only ordered to do a job but is also given guidance on how to do it. If the accounts officer asks one of his clerks to prepare a voucher, he has issued an order. If he shows the clerk how to prepare a voucher and then asks him to prepare more, he has issued instructions. All instructions are implied orders, but all orders cannot be instructions.

- **Suggestion**

Suggestion enjoys one great advantage over other means of communication like advice or order. Advice comes from an expert; order comes from a higher authority. In either case, the recipient of the communication is slightly conscious of his inferiority and may resent it. Accepting a suggestion is at his discretion, so a suggestion is usually welcome.

Suggestion is supposed to be a very mild and subtle form of communication. Still, since it flows horizontally or vertically upwards, it may hurt someone's ego to recognize its utility and readily accept it. But enlightened executives should set aside the ridiculous notions of false self-importance and welcome positive, constructive suggestions with an open mind.

Some business houses make a provision for suggestion boxes, which are placed at some convenient place in the office or the factory. Workers are encouraged to drop their suggestions into these boxes. Sometimes these suggestions have to be written on specially prepared cards. If an employee does not want to reveal his name, there is a provision for it. These suggestion boxes are opened at regular intervals, the suggestions received are scrutinized and the employees offering the best suggestions are awarded prizes.

Suggestions can be voluntary and anonymous; submitted through suggestion boxes.

Employees should be encouraged to give suggestions.

- **Persuasion**

Persuasion is an important objective of communication. It may be defined as an effort 'to influence the attitudes, feelings, or beliefs of others, or to influence actions based on those attitudes, feelings, or beliefs'. Buyers have often to be persuaded to buy a particular article available with the seller in place of the one they actually wanted to buy. In the office or the factory, the lazy, the incompetent and the disgruntled workers have to be persuaded to do their work.

It is better to use persuasion than compulsion. But even persuasion seeks to change beliefs and attitudes, which people do not like at all. So in order to be successful, persuasion has to be indirect and suggestive. The buyers and the workers should be so manipulated that they change their mind without getting conscious of the change, or if they are conscious, they believe that the change is to their advantage. Persuasion is an art, which has to be learnt with great care.

Persuasion needs conviction on your part. You should be genuinely convinced that the alternative course of action being suggested by you is in the interest of the organization as well as in the receiver's interest. You must not try to persuade others from a purely selfish motive. Do not impose yourself on the receiver of your communication. Give indirect hints and subtle suggestions. Bring yourself to the level of the other person. Try to look at the issue from his point of view and mould your arguments accordingly. The art of persuasion consists of four important steps:

Analyzing the situation: This is the preparatory step. The communicator analyses the situation to find out why the need of persuasion has arisen and what will be the advantages and disadvantages of the new course of action being suggested. He also studies the psychology of the man to be persuaded in order to plan a suitable strategy.

Preparing the receiver: It is but natural that people resent being persuaded to change their views or behaviour. The receiver has to be prepared for it. This can be done by putting him in a pleasant frame of mind. He may be complimented on some of his outstanding qualities and achievements. An appeal may be made to his adaptability and open-mindedness.

Delivering the message: The third step is to deliver the message. The message should be delivered stage by stage, with the help of forceful arguments, beginning with those parts of the message, which are easier to accept and delaying the unpleasant parts as much as possible.

Prompting action: If the first steps have been taken carefully, the receiver of the message will be easily persuaded to adopt a different course of action (or hold a different view).

- **Education**

Education is an import ingredient of the process of communication. It involves both teaching and learning and extends over considerably long periods. The main purpose of education is to widen knowledge as well as to improve skills. It is carried on at three levels: (a) at the management level; (b) at the level of the employees; and (c) at the level of the outside public.

Education for the management: Knowledge is multiplying fast. Each new day brings with it innovations, which if suitably applied can revolutionise the working of an organization. Managers are required to keep abreast of the latest innovations. In other words, they have to be educated. Their education can take place through books, lectures, seminars, case studies, study tours, etc. Junior managers have to be educated to assume responsibility when they succeed to higher positions.

Education for the employees: Just as the managers are required to keep abreast of the latest innovations in the field of commerce and technology, when these innovations are introduced in the office or the factory, the employees have to be educated to use them. Such a programme of education is called re-orientation. Employees can be educated through talks, demonstrations, bulletins and house organs.

Education for the outside public: The outside public needs knowledge on the new products being introduced into the market, the relative merits of the various brands already existing, the availability of the substitutes, complementary and supplementary products, comparative prices, concessions and discounts, if any. This useful knowledge is offered through advertisements, specially sponsored features in the newspapers, information talks and articles.

- **Warning**

If employees do not abide by the norms of the organization, or violate the rules and regulations, it may become necessary to warn them. Tardiness, negligence, tempering with the records, mishandling equipment, lack of regularity and punctuality,

gossiping, pilfering office stationery and material, spreading rumours, misleading new employees are some of the actions that call for a reprimand or a warning. Warning is a forceful means of communication, for it demands immediate action. But in order to retain its effectiveness, it should be used sparingly and discreetly. While issuing warnings, the following points should be kept in mind:

Some warnings are general. 'No smoking', 'No talking', 'Beware of the dog' are general warnings. They are not aimed at any particular person, nor are they likely to hurt anybody's feelings. Such warnings are usually given in the form of notices. They are almost akin to information.

More often, warnings are given to particular persons. They involve disciplinary action in the form of reprimand. Reprimands are very demoralizing; they may also evoke resentment. Before reprimanding an employee, it is very important to ascertain the truth of the charges leveled against him. Reprimand should never spring from personal prejudices.

Reprimand should not be administered to a person in the presence of others. It will make him feel humiliated and nobody likes to be humiliated. The worker should be summoned in the privacy of the supervisor's room and dispassionately talked to.

It is also useful to investigate the causes of the worker's undesirable behaviour. He may be burdened by some domestic or personal problems. Or he may be nursing some personal grudge against the supervisor or the organization. If the supervisor can succeed in taking him out of his problems, the warning given to him will become constructive.

The aim of giving a warning should be the betterment of the organization. It should not be used to cause disruption. It is very important to be judicious in the choice of words used in administering warnings and reprimands.

- **Raising morale**

Morale is the sum of several qualities like courage, fortitude, resolution and confidence. High morale and efficient performance go hand in hand. It acts as a kind

of lubricant among people, binds them with a sense of togetherness and impels them to work in cooperation with one another in the best interest of their organization.

Factors conducive to the creation of a high morale

Every worker gets work suited to his physical and intellectual caliber. He feels work is important and it is appreciated by the authorities. He is free to do his work as he likes. He is encouraged to give suggestions.

The atmosphere in the premises is congenial. The superiors are efficient and their attitude is constructive. They enjoy the workers' respect.

Promotional avenues are available to the workers.

Genuine grievances of the workers are promptly removed.

- **Motivation**

Motivation energises and activates a person and channelises his behaviour towards the attainment of desired goals. Motivation and behaviour are intimately related to each other. In order and persuasion, the communicator enjoys an upper hand. But in motivation he keeps himself in the background. He does not order his employees to work; he motivates them so that they work willingly and eagerly. A motivated worker does not need much supervision. He does his work as if it were his own, as if his own interests were closely tied up with the successful performance and completion of the work entrusted to him. An office or factory that enjoys the support of motivated workers shows much better results than another office or factory in which workers are commanded to work.

Monetary incentives are perhaps the most effective form of motivation. People working on contract basis are always motivated to work, for their earnings increase in proportion to their work. People work reluctantly during the office hours but willingly stay back to work overtime. However, it may not be always possible, or even desirable, to offer monetary incentives. Such a practice is likely to set unhealthy precedents with the implication that whenever such, motives are absent, the workers will just refuse to work.

Though earning money may be the most important motive for working harder, it is not the only motive. Other factors like job satisfaction, prestige, a sense of belonging to a great organization can also induce or motivate workers to work sincerely and efficiently. Motivation as a form of communication deals with these factors.

14.7 SIGNIFICANCE OF COMMUNICATION IN BUSINESS

You will understand the significance of business communication from the following points:

Healthy organizational environment

The organizations are the social systems formed on the basis of mutual interest. The mutual interests are safeguarded by various activities of planning by the management. They must skillfully apply the communication systems to keep the healthy organizational environment. It must be remembered that the activities of the management and the employees in any business organization are governed by social as well as psychological laws. If the management has to keep the healthy organizational environment and healthy relations with the individuals from outside, other business houses, government authorities, etc., it must use the communication channels and media effectively. Sociologically, organizations are social systems in which people have their individual as well as social roles and status.

Management-employee relations

A genuine interest in other people, their groups and organisations is required for strong and stable personal relations and for the success of business activities of the businessman who is genuinely interested in others, shares their hopes, aspirations, successes and disappointments.

As organizations need people and people also need organizations, people can use organization and organization can use people to reach their objectives by communication properly with each other. When the objectives of the organization are made clear to the employees, the workers are motivated to work in that direction. It should be made clear that the organization cannot survive, if its objectives are not reached; and if the organization does not survive, there would be no chances of

employment opportunities in it. The employees and the management should develop the link of communication for better mutual understanding and encourage each other to achieve their self-interests.

The external and internal communication network

Every business finds it necessary to maintain both the internal and external communication. The communication between the management and the workers is an internal communication. The management must be well-informed about the internal activities of the organization. They require the information about the efficiency, qualifications, capabilities and the training of the workers and also about the production, marketing and sales capacity of the organization. The progress and profitability of the organization depends upon how well the management and the employees are informed about these matters and what steps are taken by them in order to improve the situation. When the management is informed about some faults related to job assignments, exact designation of the officers and their decision-making, the responsibilities of the employee, etc., the management making, the responsibilities of the employee, etc., the management will make necessary changes and the business can thrive after the relevant changes are made.

The dynamics of the internal system influence the activities of the external system. Communication about the product studies and market analyses flow smoothly between persons of equal status, between friends and between persons who support and encourage one another. The conflicts growing out of the internal system of the group can binder the communication regarding external activities. The manager must give attention to both the internal and the external group systems.

The effective internal network of communication is essential today because of the large size of the business houses. They have their branches and sub-branches, which are further divided into functional departments. Some business organizations are spread over the different places in the country. These divisions and branches maintain a link with the management of the central organization. The appointments, designations, relationships, responsibilities, objectives and all the activities and duties determined by the division of work are communicated and assigned to the branches

by the central management of the organization. The branch manager who is appointed by the board of directors accepts the responsibilities and assignments, which are assigned by the parent body. Through him, the center gets reports about the various activities of the branch. He has to accept the directives of center, which are given by center after receiving the reports. He acts as the delegate of the board of directors and has to clarify the objectives and directives of the organization to his subordinates. In some of the multinational corporations, the directors and the managers spend their ninety per cent time in maintaining communication links.

Functionalisation

The division of work into different kinds of duties can be called functionalisation. For example, the difference between an office supervisor and an operator's assembly or machine shop supervisor is a functional one. This idea of functionalisation is found in most of the business organizations today. Functionalisation naturally leads to specialisation. The most salient feature of this age is specialization. There are specialists who acquire a vast knowledge and experience in their limited subject. This specialized knowledge, training and experience will be useless if it is not communicated. The accountants, engineers, scientists and the experts of many kinds must be able to communicate their knowledge to the management and the employees. The company may get benefit by the advices, suggestions and information provided by these experts.

The complexity of business activities

Though specialization has brought great benefits to the business organizations, it has rendered modern business activities into an extremely complex phenomenon. As the specialization is most fundamental to modern civilization, the industrial society cannot exist without it. In an organization, planning, finance, accounts, purchase, production, advertising, marketing, stores, sales, labour-welfare, cultural activities, adjustments of complaints and claims and a number of other activities are handled by the people who have developed unique skills and knowledge in their fields. As these functions are assigned to different departments, they have to coordinate among themselves by communicating with one another horizontally.

They must communicate with the management to which they are responsible for organization is more complex and difficult to coordinate than the original group of workers, which is not divided into different kinds of duties. The managers and the supervisors must be well versed in communication skills in order to bring coordination among the functionalized group. The productivity gains of the specialization can be achieved only if the harmonious human relationship and coordination of departmental activities are well maintained.

Trade unions: labour problems

The businessmen are mostly after productivity gains and other economic and technical benefits. Sometimes, this tendency of the businessmen comes in conflict with the problems, which are primarily human. The employees are now more conscious of their rights than before. They are organized into trade unions, which continuously demand for rights of the employees, better working conditions and dignity of the labour. The progressive employers are convinced that there ought to be some ways of effective communication between the management and the workers to develop better employees satisfaction and a sense of security. If the insecurity and frustration of employees is successfully dispelled by the management, the employees feel motivated for better working. In order to satisfy the security needs of employees, a number of companies have started welfare programmes based on custodial model of organization, which is popularly known as paternalism by which employees depend on the organization for their security and welfare. As the success of the custodial approach depends on the economic resources of the organization, the management must be able to communicate with the employees regarding the financial state of the organization and should motivate them for better work in order to make the organization financially strong enough to support its employees.

Globalization and the language problem

Modern business relationships have spread worldwide and the communication links play a significant role in establishing and strengthening such relationships. Multinational business can help the economic as well as social development, therefore,

it can also be regarded as a social institution. When a business expands beyond national boundaries, it is also a step into different legal, political, social, economic and educational environments. With the expansion of business, the communication links are also lengthened because of which the control of the multiple business activities becomes more difficult. It is hard enough to run a multinational business in one language. When there are number of other language in a country and the overall languages are used as a medium of communication, the management faces the compounded difficulties. The complexity of the business increase to the maximum. Under these circumstances, the management has to put its communication skills to their limits.

Competition

Businessmen seek to obtain profit from the sale of their goods and services and the consumers seek the satisfaction of their wants by buying them in the market. In a free market economy, production is for profit and consumption is for the satisfaction of wants. Both the producers' and the consumers naturally try to promote their own interests. This system works fair/when free competition is present in the market place. The products of common consumption are available in the market in many brands and the buyers are free to buy any of or them. As the decision to buy depends on their own initiative, they cannot be forced to buy a particular product or service. The similar products with different branding from different companies cannot enjoy equal demand from the buyers. A businessman who wants to survive in this world of free competition, should know his competitors, the quality and the prices of their products, the discounts, terms and conditions of sale, the policies of advertising, government laws, etc. If they are not able to communicate better in this respect, their sale will not be satisfactory. A good salesman is efficient communicator who can attract the customer, induce him to buy his goods and services.

Participation and delegation

Participation, cooperation and team-work of the management and employees can yield best results because of their common commitment to goals that encourage better performance. Participative managers communicate with their employees. They

ask for the opinions, views, suggestions and recommendations of the employees in the decision-making process so that they work together as a team. But the benefits of participation in decision-making process may not be substantial if the superiors neglect the delegation of authority. The delegation of authority trains and develops the efficiency of the subordinates and reduces the manager's burden of performing the duties of routine nature. The delegation of authority can be communicated in oral or written form, but it is always better to use the written form in order to avoid the conflict and confusion.

In participatory management, the manager retains the ultimate responsibility of his unit, but he shares the operating responsibility with the employees who actually perform the work. This gives a sense of involvement and satisfaction to the employees who work with high morale to achieve the objectives of the organization as the manager seeks participation of the employees in policy matters and decision making.

14.8 NATURE OF COMMUNICATION

Communication has the following features:

1. Two-way process

Communication is a two-way process of understanding between two or more persons – sender and receiver. A person cannot communicate with himself.

2. Continuous process

Exchange of ideas and opinion amongst people is an ongoing process in business and non-business organisations. Continuous interaction promotes understanding and exchange of information relevant for decision-making.

3. Dynamic process

Communication between sender and receiver takes different forms and medium depending upon their moods and behaviour. It is, thus, a dynamic process that keeps changing in different situations.

4. Pervasive

Communication is a pervasive activity. It takes place at all levels (top, middle, low) in all functional areas (production, finance, personnel, sales) of a business organisation.

5. Two people

A minimum of two persons — sender and receiver — must be present for communication to take place. It may be between superiors, subordinates and peer group, intra or inter se.

6. Exchange

Communication involves exchange of ideas and opinions. People interact and develop understanding for each other.

7. Means of unifying organisational activities

Communication unifies internal organisational environment with its external environment. It also integrates the human and physical resources and converts them into organisational output.

8. Verbal and non-verbal

Though words are active carriers of information, gestures can sometimes be more powerful than words. Facial expressions, sounds, signs and symbols are the non-verbal forms of communication.

9. Mutual understanding

Communication is effective when sender and receiver develop mutual understanding of the subject. Messages conveyed should be understood by the receiver in the desired sense.

10. Goal-oriented

Communication is goal-oriented. Unless the receiver and sender know the

purpose they intend to achieve through communication, it has little practical utility.

11. Foundation of management

Though communication is a directing function, it is important for other managerial functions also. Designing plans and organisation structures, motivating people to accomplish goals and controlling organisational activities; all require communication amongst managers at various levels.

12. A means, not an end

Communication is not an end. Effective communication is a means towards achieving the end, that is, goal accomplishment. It smoothens managerial operations by facilitating planning, organising, staffing, directing and controlling functions.

13. Human activity

Since communication makes accomplishment of organisational goals possible, it is essential that people understand and like each other. If people do not understand each others' viewpoint, there cannot be effective communication.

14. Inter-disciplinary

Communication is the art of how communicators use knowledge of different fields of study like anthropology, psychology and sociology. Making best use of these disciplines makes communication effective. It is, thus, an inter-disciplinary area of management.

14.9 SUMMARY

The process of communication involves exchanging facts, ideas, opinions or emotions between two or more persons. Feedback is an essential aspect of communication. The main purpose of communications is to inform, or to bring round to a certain point of view, or to elicit action.

Communication can be used for any or more of the following objectives: information, advice, order, suggestion, persuasion, education, warning, raising morale

and motivation. The executives need information to plan and organize; employees need it to execute their job satisfactorily.

Information must be from a reliable source. Giving advice is very important objective of communication. Advice is given to the subordinate to influence his opinion or behaviour. Effective advice is both man oriented and work-oriented.

Counselling is another objective of communication. The counselor is a man of greater skill or knowledge, on some specific subject and he offers his counsel without any personal interest or involvement.

Order is a directive to a subordinate to do something in a particular way. Orders may be written or oral, general or specific, procedural or operational, mandatory or discretionary. Suggestions can be voluntary and anonymous; submitted through suggestion boxes. Employees should be encouraged to give suggestions.

If employees do not abide by the norms of the organization, or violate the rules and regulations, it may become necessary to warn them. Warning is a forceful means of communication, for it demands immediate action. But in order to retain its effectiveness, it should be used sparingly and discreetly.

Communication is the life blood of business. No business can develop in the absence of effective internal and external communication. Besides, communication skills of employees are given high weightage at the time of their appointment as well as promotion.

14.10 KEYWORDS

Sender/Transmitter is the person desirous of passing the information.

Receiver is the person to whom the information is to be passed on.

Feedback is the response from the receiver.

Communication is a process by which information is transmitted between individuals/organisations.

Braindrain is the possibility of misunderstanding at any step. It is also called breakdown.

14.11 CHECK YOUR PROGRESS

1. Give a suitable definition of the term 'communication' and elaborate your definition.

2. Write a note on the need and importance of business communication.

3. What is meant by 'business communication'? Write a note on the significance of business communication.

4. 'Communication is a two-way process'. Explain.

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MANAGEMENT INFORMATION SYSTEM

STRUCTURE

- 15.1 Introduction
- 15.2 Objectives
- 15.3 Basic Concepts
- 15.4 Overview of management concepts
- 15.5 Functions of Management
- 15.6 Levels of Management:
 - 15.6.1 Top Level Management:
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- 15.7 Concept of a System
 - 15.7.1 System Concepts
 - 15.7.2 Components of a System
 - 15.7.3 Types of System
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- 15.9 Information System
- 15.10 Components of Information System
- 15.11 Need for information systems
- 15.12 Uses of information system
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- 15.14 Business process reengineering
- 15.15 Let us Sum-up
- 15.16 Check your progress
- 15.17 Glossary
- 15.18 Suggested Reading

15.1 INTRODUCTION

Management Information System (MIS) is a study of people, technology, organizations, and the relationships among them in a broader sense. However in precise terms MIS is a software system that focuses on the management of information technology to provide efficiency and effectiveness or strategy decision making. The term is often used in the academic study of businesses and has connections with other areas, such as information systems, information technology, informatics, [HYPERLINK “https://en.wikipedia.org/wiki/E-commerce”](https://en.wikipedia.org/wiki/E-commerce) \he-commerce and computer science. In this unit, we will discuss the basic concepts in Management Information System.

15.2 OBJECTIVES

After going through this unit you should be able to:

- Know the fundamental management concepts

- Understand the basic concepts of Information Systems
- Understand and apply core knowledge in Information Systems
- Identify and analyze requirements for information systems
- Understand and apply design principles in Information Systems.
- Identify the basic components of Management Information Systems.
- Conceptualize information systems as combinations of hardware and software combinations of hardware and software technologies.
- Know the applications of information systems in various levels of Management.

15.3 BASIC CONCEPTS

Management Information System is an accumulation of 3 different terms as explained below.

Management: We can define management in many ways like, “Manage Man Tactfully” or Management is an art of getting things done by others. However, for the purpose of Management Information System, management comprises the process and activity that a manager does in the operation of their organization, i.e., to plan, organize, direct and control operations.

Information: Information simply means processed data or in the layman language, data which can be converted into meaningful and useful form for a specific user.

System: The system can be explained in a following ways:

- System can be defined as a set of elements joined together for a common objective.
- A group of interrelated or interacting elements forming a unified whole e.g., business organization as systems.

- A group of interrelated components working together towards a common goal by accepting input and producing output in an organized transformation process.

15.4 OVERVIEW OF MANAGEMENT CONCEPTS

Every business unit has some objectives of its own. These objectives can be achieved with the coordinated efforts of several personnel. The works of a number of persons are properly co-ordinated to achieve the objectives through the process of management.

Management is a vital aspect of the economic life of man, which is an organised group activity. It is considered as the indispensable institution in the modern social organization marked by scientific thought and technological innovations. One or the other form of management is essential wherever human efforts are to be undertaken collectively to satisfy wants through some productive activity, occupation or profession.

It is management that regulates man's productive activities through coordinated use of material resources. Without the leadership provided by management, the resources of production remain resources and never become production.

Management is the integrating force in all organized activity. Whenever two or more people work together, to attain a common objective, they have to coordinate their activities. They also have to organize and utilize their resources in such a way as to optimize the results.

Management is usually defined as planning, directing and controlling the business operations. Management is the process of allocating and organizations input including human and economic resources by planning, organizing, directing and controlling for the purpose of producing goods or services desired by customers so that organizational objectives are accomplished.

15.5 FUNCTIONS OF MANAGEMENT

Management has been defined as a process of getting things done through others. This process is identified in a set of functions performed by managers to

accomplish the goals. A manager is thus someone who defines, plans, guides, helps out, and assesses the work of others, frequently people for whom the manager is accountable in an organization. The following mentioned management functions will involve creative problem solving.

Planning: According to Terry and Franklin, “planning is selecting information and making assumptions concerning the future to put together the activities necessary to achieve organizational objectives.” Planning includes both the broadest view of the organization, e.g., its mission, and the narrowest, e.g., a tactic for accomplishing a specific goal.

Organizing: Organizing is the classification and categorization of requisite objectives, the grouping of activities needed to accomplish objectives, the assignment of each grouping to a manager with the authority necessary to supervise it, and the provisions for coordination horizontally and vertically in the organization structure. The focus is on separation, coordination, and control of tasks and the flow of information inside the organization. It is in this function that managers allocate authority to job holders.

Directing: Direction is telling people what to accomplish and seeing that they do it to the finest of their capability. It includes making assignments, corresponding procedures, seeing that mistakes are corrected, providing on the job instruction and, of course, issuing orders.” The purpose of directing is to control the behaviour of all personnel to accomplish the organization’s mission and objectives while simultaneously helping them accomplish their own career objectives.

Staffing: Staffing function requires recognition of human resource needs, filling the organizational structure and keeping it filled with competent people. This function includes recruiting, training; evaluating and compensating are the specific activities.

Controlling: “Control is the course of action that measures present performance and guides it towards some predetermined goal. The quintessence of control lies in checking existing actions against some desired results determined in the planning process.”

15.6 LEVELS OF MANAGEMENT

According to the expert there are three types of level of management:

- (i) Top Level Management
- (ii) Middle Level Management
- (iii) Low Level or Operative Management

15.6.1 Top Level Management

Top level management consists of board of directors, managing directors or executive committee members.

Objectives of Top Level Management include the following:

- Setting key objectives, policies and identifying factors essential for the development of the organization.
- Making appointments to the top position of the organization such as managers department heads etc.
- Reviewing the work of different personnel in various levels.

15.6.2 Middle Level Management

Middle level management consists of managers of various departments such as productions, sales, marketing, resource, finance etc.

OBJECTIVES OF MIDDLE LEVEL MANAGEMENT INCLUDE THE FOLLOWING.

- Follow the rules and policies formulated by the top level management.
- Motivating personnel for higher productivity.
- Collecting detail analysis reports from the various departments.
- Mutual understanding with other departments in the organization.
- Recommendations to the top level management.

15.6.3 Low Level Management.

Low level management consist of supervisors, daily workers etc. Follow the rules and guidelines made out by the top level authentic of the organization.

Some of the functions of Lower Level Management include the following:

- To issue orders and instructions to the workers and to supervise and control their work
- To classify and assign jobs to the workers
- To direct and guide the workers about work procedure
- To arrange for the necessary tools, equipment, materials etc., for the worker
- To solve the problems of workers
- To inform the management about the problems of workers which are not solved at this level?
- To maintain discipline among the workers and to develop in them the right approach to work.
- To maintain good human relations.

To build a high group morale among the workers

15.7 CONCEPT OF A SYSTEM

A System is a group of interrelated components working together toward a common goal by accepting inputs and producing outputs in an organized transformation process.

15.7.1 System Concepts

The concepts of a system are Technology, Application, Development and Management.

a. Technology

Computer networks are systems of information processing components that are a variety of hardware, software and telecommunication technology.

b. Application

That electronic business and commerce application involves interconnected business information system

c. Development

That developing way to use IT in business includes designing the basic component of information system.

d. Management

Managing IT emphasize the quality, strategic business value and security of an organization in information system.

15.7.2 Components of a System

There are three basic components of a system, they are

- (a) Input,
- (b) Processing and
- (c) Output.

a. Input

Input involves capturing and assembling elements that enter to the system to be processed. Some of the inputs are raw materials, energy, data etc.

b. Processing

It involves transformation process that converts input to output.

c. Output

It involves transforming element that has been produced by a transformation process to their ultimate destination.

15.7.3 Types of System

a. Dynamic System:

When the interrelated component of the system interacts with each other and this controlled by management then it is known as Dynamic System.

b. Cybernative System

Dynamic System implementing the concept of feedback and control is known as Cyber native System.

c. Open System

A system got interacts with other system in its environment by exchanging input and output with its environment

d. Adoptive System

A System having the ability to change itself and its environment in order to survive is called an Adoptive System.

15.8 DATA AND INFORMATION

By data we mean the facts or figures representing an object, place or the events occurring in the organization. It is not enough to have data (such as statistics on the economy). Data themselves are fairly useless, but when these data are interpreted and processed to determine its true meaning, they become useful.

Characteristics of Data

- They are facts obtained by reading, observation, counting, measuring and weighing etc. which are then recorded

- Data are derived from external and internal sources (activities with firm).
- Data may be produced as an automatic by-product of some routine but essential operation such as the production of an invoice or alternative a special counting or measuring procedure must be introduced and the result recorded.
- The source of data need be given considerable attention because if the sources of the data flawed, any resulting information will be worthless.

Data Processing

Data or processing systems perform the essential role of collecting and processing the daily transactions of the organizations. Data processing is necessary to ensure that the day-to-day activities of the organization are processed, recorded and acted upon. Files are maintained which provide both the current data for transaction, for example the amount invoiced and cash received during the month for statement preparation, and which also serve as a basis for operational and tactical control and for answering enquiries.

By **information**, we mean that the data have been shaped into a meaningful form, which may be useful for human beings.

So, when **data** are processed, interpreted, organized, structured or presented so as to make them meaningful or useful, they are called **information**. Information provides context for data.

Information is created from organized structured and processed data in a particular context, “information can be recorded as signs, or transmitted as signals. Information is any kind of event that affects the state of a dynamic system that can interpret the information. Conceptually, information is the message (utterance or expression) being conveyed. Therefore, in a general sense, information is ‘knowledge communicated or received concerning a particular fact or circumstance’”.

Characteristics of Good Information

Good information is that which is used and which create value. Experience and research shows that good information has numerous qualities which are:

1. **Relevance:** Information must be relevant to the problem being considered. Too often reports, messages, tabulations etc. contain irrelevant parts which most prevent the user of the information to get the actual meaning of what the sender wants.
2. **Accuracy:** Information should be sufficiently accurate for it to be relied upon by the manager and for the purpose for which it is intended.
3. **Completeness:** Ideally, all the information required for a decision should be available. However, in practice, this is not often obtainable. What is required is that the information is complete in respect of the key elements of the problem. This suggests that there should be interaction between information providers and users to ensure that the key factors are identified.
4. **Confidence in the source:** For information to have value it must be used. For it to be used managers must have confidence in the source. Confidence is enhanced:
Data Processes Output
 - (a) The source has been reliable in the past
 - (b) There is good communication between the information producer and the manager.
5. **Communication to the right person:** All persons have a defined sphere of activity and responsibility and should receive information to help them carry out their designated tasks. In practice this is not always as easy as it sounds. It is quite common for information to be supplied to the wrong level in the organization. a superior may not pass it on the person who needs it whilst subordinates may hold onto information in an attempt to make themselves seem indispensable.

Functions of Information

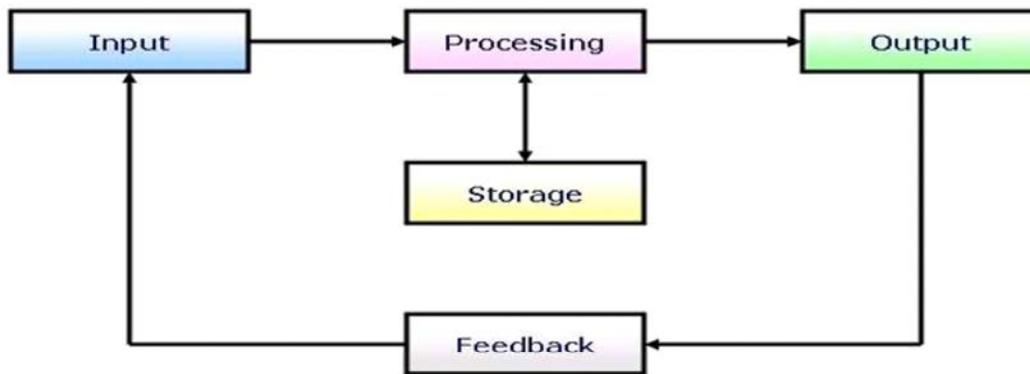
- (a) **Reduction of Uncertainty:** Uncertainty exist where there is less than perfect knowledge. Rarely, if ever is there perfect knowledge but relevant information help to reduce the unknown.

- (b) **An aid to monitoring and control:** By providing information about performance and the extent of deviations from planned level of performance, management are better able to control operation.
- (c) **As a means of communication:** Managers need to know about developments, plans, forecasts, impending changes and so on.
- (d) **As a memory supplement:** By having historical information about performance, transactions, results of past actions and decisions available for reference, personal memories are supplemented.
- (e) **As aid to simplification:** By reducing uncertainty and enhancing understanding, problems and situations are simplified and become more manageable.

15.9 INFORMATION SYSTEM

Meaning: An information system can be any organized combination of people, hardware, software, communication software and data resource that collects transformation or screening the information in an organization.

Definition: *An information system can be defined as a set of interrelated components that collect (or retrieve), process, store and distribute information to support decision making, coordination and control in an organization.*



Examples of Information System

A business is an example of an organizational system to an economic resource (input) is transformed by various business processes into goods and services (output).

Information system provides information on the operation of the system to management for the direction and maintenance of the system as it exchanges inputs and output with its environment.

Some examples of information systems include the following.

- Airline reservations (seat, booking, payment, schedules, boarding list, special needs, etc.).
- Bank operations (deposit, transfer, withdrawal) electronically with a distinguish payment gateways.
- Integration of department with the help of contemporary software's like ERP.
- Logistics management application to streamline the transportation system.

a. Feedback and control

A system with feedback and control components is sometimes known as cybernetic system that is a self monitoring or self regulating system.

b. Feedback.

Feedback is a data about the performance of a system.

c. Control.

Control involves monitoring and evolving feedback determines whether a system is moving towards the achievement of its goals. The control function makes necessary adjustments to a system input and possessing components to ensure that to produce proper output.

15.10 COMPONENTS OF INFORMATION SYSTEM

a. People Resources

- People are required for the operation of all information system.
- People Resources divided into two types

(i) End-Users

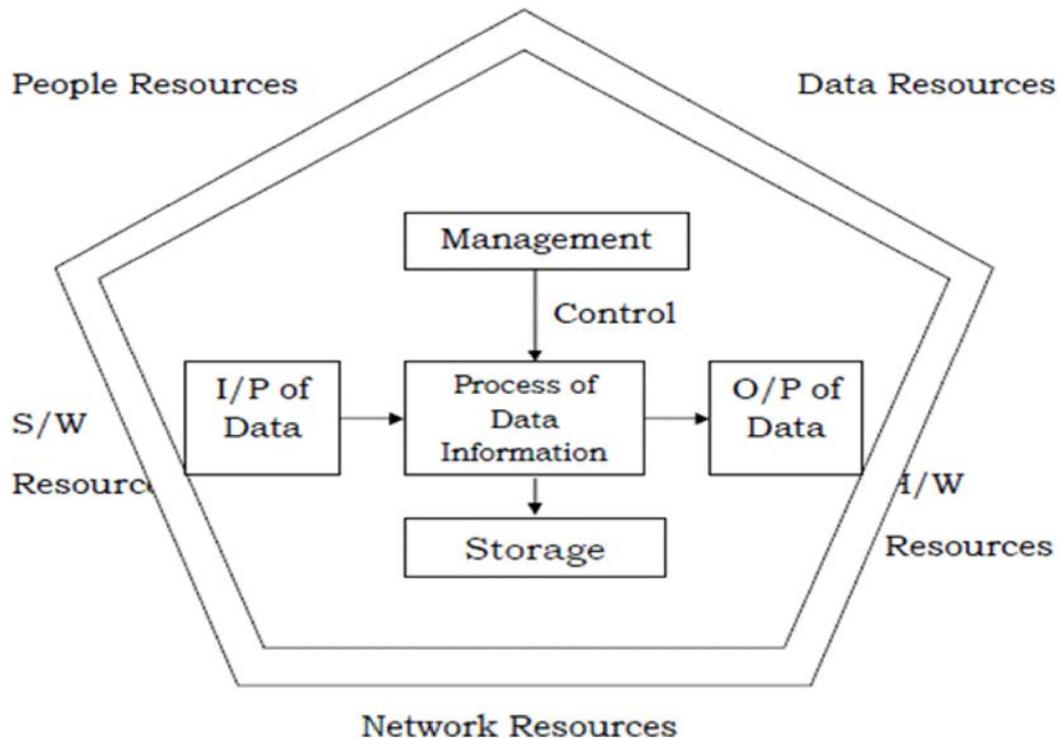
These are the people who use an information system or the information it produce.

Ex: Accounts, Sales Persons, Customers and Managers.

(ii) Information system specialist

These are the people who develop and also operate Information system.

Ex: System Managers, Programmers, Computer Operation.



b. Data Resources

Data resources of an Information system are typically organized in two parts:

(i) Database

Database holds processed and organized data.

ii) Knowledge Base

It holds knowledge in a variety of forms such as facts, rules, and case examples.

c. Software Resources

It includes all sets of information processing instruction. It is also two types:

(i) Program:

Set of operating instructions the direct and computer hardware.

(ii) Procedure

Set of Information processing instructions needed by people.

Ex: Operating System, Spreadsheet Programs, and Word processor Programs.

d. Hardware Resources

Include all physical devices and materials used in information processing. It has also two types

(i) Machines

Ex: Computer, Video Monitor, Scanner.

(ii) Media

Hardware in computer based Information system.

Ex: Floppy Disk, Magnetic Tape and Optical Disk. Computer System
Ex: Microcomputers, Midrange Computers System, Large Mainframe

Computer Peripheral: Ex: Mouse, Key Board.

e. Network Resources:

These are the fundamental resource components of all information systems. It has also two types:

(i) Communication Media:

Ex: Co-axial Cable, Twisted Paired Wire, Fibre Optics Cable, Microwave System and Communication Satellite System.

(ii) Network Support:

Generally used for the operation and use of a communication network.
Ex: Modems, Internet Browser and Communication Control Software.

15.11 NEED FOR INFORMATION SYSTEMS

The information system is very important for the internet technology and the traditional business concerns and is really the latest phase in the ongoing evolution of business. All the companies need to update their business, infrastructure and change way they work to respond more immediately to customer need.

A first step in designing and developing an MIS is to assess the information needs for decision making of management at different hierarchical levels, so that the requisite information can be made available in both timely and usable form to the people who need it. Such assessment of information needs is usually based on personality, positions, levels and functions of management.

15.12 USES OF INFORMATION SYSTEM

Information system and technology including E-business and E-commerce technology and application has become vital component of successful business and organization.

It is a study of business administration and management. For a manager or a business professional it is just as important to have basic understanding of information system and any other functional area in business.

15.13 ROLES OF INFORMATION SYSTEMS IN BUSINESS

An Information system supports the business Organizations in the following ways.

- (a) **Support the Business Process:** Treats inputs as a request from the customer and outputs as services to customer. Supports current operations and use the system to influence further way of working.
- (b) **Support Operation of a Business Organization:** An IS supports operations of a business organization by giving timely information, maintenance and enhancement which provides flexibility in the operation of organizations.
- (c) **Support Decision Making:** An IS supports the decision making by employee in their daily operations. It also supports managers in decision making to meet the goals and objectives of the organization. Different mathematical models and IT tools are used for the purpose evolving strategies to meet competitive needs.
- (d) **Strategies for an Organization:** Today each business is running in a competitive market. An IS supports the organization to evolve appropriate strategies for the business to assent in a competitive environment

15.14 BUSINESS PROCESS REENGINEERING

(BPR) has been receiving attention from industries as well as the academic community, because it is likely to change management practice and working processes in organisations in the future. However it is commonly agreed that BPR is important but also problematic. In this chapter we explore the principles and assumptions of BPR and identify the factors affecting its successes and failures. Especially we highlight some major debates currently found in the literature of BPR. These debates include the definitions used to describe business processes and BPR, the scale of the changes

involved in BPR, and the significance and role of information technology (IT) in BPR, especially IT systems. As the main theme of this thesis is applying EM to BPR, it is essential to understand some factors which cause BPR projects failure due to the poor design of the supporting systems under the conventional paradigm.

Business Process Reengineering: Introduction

BPR is known by many names, such as ‘core process redesign’, ‘new industrial engineering’ or ‘working smarter’. All of them imply the same concept which focuses on integrating both business process redesign and deploying IT to support the reengineering work. In this section we attempt to explore two questions: where does BPR come from and what is involved in BPR (i.e. its principles and assumptions).

What is BPR?

Generally the topic of BPR involves discovering how business processes currently operate, how to redesign these processes to eliminate the wasted or redundant effort and improve efficiency, and how to implement the process changes in order to gain competitiveness. The aim of BPR, according to Sherwood-Smith (1994), is “seeking to devise new ways of organising tasks, organising people and redesigning IT systems so that the processes support the organisation to realise its goals”.

The Definition of BPR

It is argued by some researchers (for example, van Meel et al., 1994; MacIntosh and Francis, 1997; Peltu et al., 1996) that there is no commonly agreed definition of BPR. Peltu et al. consider that this lack of an accepted definition of BPR makes it difficult to assess the overall success or failure of its concept. Thus it is essential to make clear what the definition of BPR is before we propose any framework and techniques for BPR. The book *Reengineering the Corporation: A Manifesto for Business Revolution* by Hammer and Champy (1993) is widely referenced by most BPR researchers and is regarded as one of the starting points of BPR. The following is their definition of BPR:

[Reengineering is] the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance, such as cost, quality, service and speed. (p. 32)

Another BPR father, Davenport (1993), describes ‘business process redesign’ as:

... the analysis and design of workflows and processes within and between organisations.

Business activities should be viewed as more than a collection of individual or even functional tasks; they should be broken down into processes that can be designed for maximum effectiveness, in both manufacturing and service environment. These definitions suggest that we should concentrate on processes rather than functions (or structures) as the focus of the (re-)design and management of business activity. The definitions of the term ‘process’ by different researchers are also slightly different. For example, Hammer and Champy (1993) define a process as:

a collection of activities that takes one or more kinds of input and creates an output that is of value to the customer. (p. 35)

For Davenport (1993) it is:

A process is a specific ordering of work activities across time and space, with a beginning, an end, and clearly identified inputs and outputs: a structure for action. (p. 5).

And Warboys et al. (1999) define a process as:

A process is structured change, i.e. there is a pattern of events which an observer may recognise across different actual examples (or occurrences) of the process, or which may be made manifest, or implemented, in many different occurrences. (p. 32)

In BPR, the process to be reengineered is the so-called business process. Davenport describes a business process as “simply a structured, measured set of

activities designed to produce a specified output for a particular customer or market”. Riemer (1998) describes business processes in an object-oriented style: “business processes are series of steps that change states of business objects (that is, customers, orders and inventory), thereby causing business events”. However we should note that BPR is concerned with customer-orientation. Thus the outputs of business processes should not only achieve the company’s objectives, but also need to satisfy customers’ requirements. From these definitions we can conclude that business processes start and end with customers, and the value of business processes is dependent upon customers

15.15 LET US SUM UP

In this unit we have, have discussed some basic concepts relevant to management information system such as the fundamental concepts of management, levels of management, systems concepts, types of systems, components, information and types of information systems and examples of information systems. Management Information System is seen as a way of evaluating, analyzing and processing an organization data to produce meaningful and useful information from which the management can take decision to ensure future growth and development of the organization.

In the next unit we will discuss different types of Information systems and their support to different levels of management in an organization.

15.16 CHECK YOUR PROGRESS

1. What are different management functions?

2. Define a system? What do you mean by system concepts?

3. What are various types of systems?

4. What is an Information system? Why information systems are needed?

5. Explain in brief Business process reengineering.

15.17 GLOSSARY

a. Open System

A system got interacts with other system in its environment by exchanging input and output with its environment

b. Processing

It involves transformation process that converts input to output.

c. Management

We can define management in many ways like, “Manage Man Tactfully” or Management is an art of getting things done by other.

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