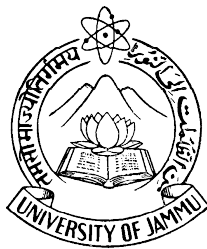


**DIRECTORATE OF DISTANCE EDUCATION
UNIVERSITY OF JAMMU
JAMMU**



**SELF LEARNING MATERIAL
PGDBM – Ist SEMESTER**

PAPER–I

Unit : I-V

Subject : MANAGEMENT PRINCIPLES AND TECHNIQUES

Course Co-ordinator

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MANAGEMENT PRINCIPLES AND TECHNIQUES

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PGDBM

COURSE TITLE : Management Principles and Techniques

Paper I

Total Marks : 100

Contact Hours : 45

Internal Assessment : 20

Duration of Examination : 3 hours

Semester Examination : 80

Objectives :

The objective of this course is to develop a basic understanding about the concepts, processes and Current Issues in Management and thus enhance their understanding about the complex relationship existing within organisation and processes of Management.

UNIT-I

Management Concept, nature, process, functions & skills, Evolution of management thoughts-F.W. Taylor, Henri Fayol, Max Weber, Elton Mayo. Current and Emerging Management thought; Management Approaches, Managers Complex Environment.

UNIT-II

Planning : Concept, purpose and process : Decision Making : Process, Types and Models Organizing : Concept, Nature and Purpose of Organizing, Types of organisations, Line & Staff Matrix, Virtual Organisation Structures, Bases of Departmentation : Concept of Authority, Functional Authority, Delegation of Authority, Centralisation and Decentralisation of Authority.

UNIT-III

Directing as Management Process- Its significance and main elements : Creativity and Innovation- Motivation and Satisfaction-Motivation Theories-Leadership Styles Leadership theories-Communication-Barriers to effective communication-Organization Culture-Elements and types of culture-Managing cultural diversity.

UNIT-IV

Controlling : Process-Types of control-Budgetary and non-budgetary control. Q technique Managing Productivity-Cost Control-Purchase Control-Maintenance Control, Quality Control, Planning operations Requirement for Adequate Control and Effective Control Techniques; Coordination, Concept Process and Techniques.

UNIT-V

Business Process Re-engineering (BPR) : Total Quality Management (TQM); Knowledge Management (KM): Management Information System (MIS) Comparative Management in Selected Countries and International Management.

Note for Paper Setting :

The question Paper shall contain two questions from each Unit (Total 10 Questions) and the candidates shall be required to answer one question from each unit. (total number of questions to be attempted shall be five, *i.e* there shall be internal choice within each unit)

Suggested Readings :

1. Stephen P. Robbins, David A. Decenzo. Sanghmitra Bhattacharya, 'Fundamentals of Management', Pearson Education, 2009.
2. Robert Kreitner, "Management Theory and Applications", Cengage Learning India 2009.
3. Stephen P. Robbins, "Management", 9th edition Pearson Education. 2008.
4. Ricky. W.Griffin, "Management Principles and Applications". Cengage Learning, India First Edition
5. Harold Koontz, O'Donnell and Heinz Weihrich, "Essentials of Management", New Delhi, Tata Mc Graw Hill, 2006
6. James, A.F.Stoner, "Management", PHI Learning, 2008
7. Richard L.Daft. "Principles of Management", Cengage Learning, India, 2009.

INTRODUCTION TO MANAGEMENT

STRUCTURE

- 1.1 Introduction
- 1.2 Objective
- 1.3 Concept
- 1.4 Nature and Scope of Management
- 1.5 Functions of Management
- 1.6 Managerial Skills
- 1.7 Significance of Management
- 1.8 Evolution of Management
- 1.9 A Framework for the Management/Current and Emerging Management Thought
- 1.10 Classical Approach
- 1.11 Scientific Management Approach
- 1.12 Administrative Approach to Management
- 1.13 Summary
- 1.14 Glossary
- 1.15 Self Assessment Questions
- 1.16 Lesson End Exercises
- 1.17 Suggested Readings

1.1 INTRODUCTION

Managing is essential in all organized co-operation, as well as at all levels of organization in an enterprise. It is the function performed not only by corporation President and the army general but also of the shop supervisors and the company commander. Managing is equally important in business as well as non business organizations. During the last few decades, Management as a discipline has attracted the attention of academicians and practitioners to a very great extent. The basic reason behind this phenomenon is the growing importance of management in day to day life of the people.

1.2 OBJECTIVE

The key objective of this lesson is to enable the students to understand the basic management functions along with their conceptual details.

1.3 UNDERSTANDING MANAGEMENT AS CONCEPT

The term management can have different meanings, and it is important to understand these different definitions. The term management can be considered as :-

1. **Management as a process :** Have you ever said “That is a well managed company” or “That organization has been mismanaged”? If you have, you seem to imply that : (i) management is some type of work or set of activities and (ii) sometimes the activities are performed quite well and sometimes not so well. You are referring to management as a process involving set of activities. Since the late nineteenth century, it has been common practice to define management in terms of four specific functions of managers. Planning, organizing, leading and controlling. We can thus say that management is the process of planning, organizing, leading and controlling the efforts of organization members and of using all other organizational resources to achieve stated organizational goals.
2. **Management as a discipline :** If you say you are a student of management or majoring in management, you are referring to the discipline of

management. Classifying management as a discipline implies that it is an accumulated body of knowledge that can be learned. Thus management as a subject with principles, concepts and theories. A major purpose of studying the discipline of management is to learn and understand the principles, concepts, and theories of management and how to apply them in the process of managing.

3. **Management as people :** Whether you say, “That company has an entirely new management team” or “She is the best manager I have ever worked for” you are referring to the people who guide, direct and thus, manage organizations. The word management used in this manner refers to the people, manager who engage in the process of management.
4. **Management as a career :** “Mr. Saxena has held several managerial positions since joining the bank upon his graduation from college”. This statement implies that management is a career. People who devote their working lives to the process of management progress through a sequence of new activities and, often, new challenges. More than ever before, today’s business environment is fast changing and competitive, posing challenges, opportunities, and rewards for individuals pursuing management as a career.

Because of the divergent views, it is very difficult to give a precise definition to the term “Management”. It has drawn concepts and Principles from economics, sociology, psychology, anthropology, history, and statistics and so on. The result is that each group of contributors has treated Management differently. Management is invariably defined as the process of “getting things done through the effort of others”, getting from where we are to where we want to be with the least expenditure of time, money and efforts, or co-ordinating individual and group efforts, or co-ordinating individual and group efforts towards super-ordinate goals. Many management experts have tried to define management. But, no definition of management has been universally accepted. Let us discuss some of the leading definitions of management:

Peter F. Drucker defines, "management is an organ; organs can be described and defined only through their functions".

According to Terry, "Management is not people; it is an activity like walking, reading, swimming or running. People who perform Management can be designated as members, members of Management or executive leaders."

Ralph C. Davis has defined Management as, "Management is the function of executive leadership anywhere."

According to Mc Farland, "Management is defined for conceptual, theoretical and analytical purposes as that process by which managers create, direct, maintain and operate purposive organization through systematic, co-ordinated co-operative human effort."

Henry Fayol, "To manage is to forecast and plan, to organize, to compound, to co-ordinate and to control."

Harold Koontz says, "Management is the art of getting things done through and within formally organized group."

William Spriegel, "Management is that function of an enterprise which concerns itself with direction and control of the various activities to attain business objectives. Management is essentially an executive function; it deals with the active direction of the human effort."

Kimball and Kimball, "Management embraces all duties and functions that pertain to the initiation of an enterprise, its financing, the establishment of all major policies, the provision of all necessary equipment, the outlining of the general form of organization under which the enterprise is to operate and the selection of the principal officers."

Sir Charles Reynold, "Management is the process of getting things done through the agency of a community. The functions of management are the handling of community with a view of fulfilling the purposes for which it exists."

E.F.L. Brech, "Management is concerned with seeing that the job gets done, its tasks all centre on planning and guiding the operations that are going on in the enterprise."

Koontz and O'Donnel, "Management is the creation and maintenance of an internal environment in an enterprise where individuals, working in groups, can perform efficiently and effectively toward the attainment of group goals. It is the art of getting the work done through and with people in formally organized groups."

James Lundy, "Management is principally a task of planning, coordinating, motivating and controlling the efforts of other towards a specific objective. It involves the combining of the traditional factors of production land, labour, capital in an optimum manner, paying due attention, of course, to the particular goals of the organization."

Wheeler, "Management is centered in the administrators or managers of the firm who integrate men, material and money into an effective operating limit."

J.N. Schulze, "Management is the force which leads guides and directs an organization in the accomplishment of a pre-determined object."

Oliver Scheldon, "Management proper is the function in industry concerned in the execution of policy, within the limits set up by the administration and the employment of the organization for the particular objectives set before it."

Mary Parker Follett defines management as the "art of getting things done through people". This definition calls attention to the fundamental difference between a manager and other personnel of an organization. A manager is one who contributes to the organization's goals indirectly by directing the efforts of others – not by performing the task himself. On the other hand, a person who is not a manager makes his contribution to the organization's goals directly by performing the task himself.

Sometimes, however, a person in an organization may play both these roles simultaneously. For example, a sales manager is performing a managerial role when he is directing his sales force to meet the organization's goals, but when he himself is contacting a large customer and negotiating a deal, he is performing a non-managerial role. In the former role, he is directing the efforts of others and is contributing to the organization's goals indirectly; in the latter role, he is directly utilizing his skills as a salesman to meet the organization's objectives.

A somewhat more elaborate definition of management is given by George R. Terry. He defines management as a process "consisting of planning, organizing, actuating and controlling, performed to determine and accomplish the objectives by the use of people and other resources".

According to this definition, management is a process – a systematic way of doing things. The four management activities included in this process are: planning, organizing, actuating and controlling. Planning means that managers think of their actions in advance. Organizing means that managers coordinate the human and material resources of the organization.

Actuating means that managers motivate and direct subordinates. Controlling means that managers attempt to ensure that there is no deviation from the norm or plan. If some part of their organization is on the wrong track, managers take action to remedy the situation.

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 (i) determine objectives, plans, policies and programmes; (ii) secure men, material, machinery cheaply (iii) put all these resources into operations through sound organization (iv) direct and motivate the men at work, (v) supervises and control their performance and (iv) provide maximum prosperity and happiness for both employer and employees and public at large.

1.4 NATURE AND SCOPE OF MANAGEMENT

The study and application of Management techniques in managing the affairs of the organization have changed it's nature over the period of time. The nature of Management can be described as :

1. **Multi disciplinary :** Management integrates the ideas and concepts taken from disciplines such as psychology, sociology, anthropology, economics, ecology, statistics, operation research, history etc. and presents newer concepts which can be put in practice for managing the organizations. Contributions to the field of management can be expected from any discipline which deals with some aspects of human beings.

- 2. Dynamic Nature of Principles :** Principles are a fundamental truth which establish cause and effect relationship of a function. Based on practical evidences, management has framed certain principles, but these principles are flexible in nature and change with the changes in the environment in which an organization exists. In the field of Management, organization researches are being carried on to establish principles in changing society and no principles can be regarded as a final truth.
- 3. Relative, Not Absolute Principles :** Management Principles are relative, not absolute and they should be applied according to the need of the organization. Each organization may be different from others. The difference may exist because of time, place, socio-cultural factors etc. A particular management Principles has different strength in different conditions and therefore Principles of Management should be applied in the light of the prevailing conditions.
- 4. Management, science or Art :** Science is based on logical consistency, systematic explanation, critical evaluation and experimental analysis. It is a systematized body of knowledge. Management, being a social science may be called as an inexact or pseudo science. The meaning of art is related with the bringing of desired result through the application of skills. It has to do with applying of knowledge or science or of expertness in performance. Management can be considered as an art and a better manager is one who knows how to apply the knowledge in solving a particular problem.
- 5. Management as a Profession :** The word profession may perhaps be defined as an occupation based upon specialized intellectual study and training, the purpose of which is to supply skilled service or advice to others for a definite fee or salary. Profession is an occupation for which specialized knowledge, skills and training are required and the use of these skills is not meant for self satisfaction , but these are used for the larger interests of the society and the success of these skills is measured not in terms of money alone. Management possess certain characteristics of

profession, while others are missing. Therefore, it cannot be said to be a profession, though it is emerging as a profession and the move is towards management as a profession.

6. Universality of Management : There are arguments in favour and against the concept of universality. The arguments in favour of universality are:-

- [a] management as a process and the various process of management are universal for all organizations
- [b] distinction between management fundamentals and techniques
- [c] distinction between management fundamentals and practices.

The arguments against universality are:-

- [a] management is culture bound
- [b] management depends upon the objectives of an enterprise
- [c] management depends upon the differences in philosophies of organization

❖ CHARACTERISTICS OF MANAGEMENT

Management is a distinct activity having the following salient features:

- 1. Economic Resource :** Management is one of the factors of production together with land, labour and capital. As industrialization increases, the need for managers also increases. Efficient management is the most critical input in the success of any organized group activity as it is the force which assembles and integrates other factors of production, namely, labour, capital and materials. Inputs of labour, capital and materials do not by themselves ensure production, they require the catalyst of management to produce goods and services required by the society. Thus, management is an essential ingredient of an organization.
- 2. Goal Oriented :** Management is a purposeful activity. It coordinates the efforts of workers to achieve the goals of the organization. The success of

management is measured by the extent to which the organizational goals are achieved. It is imperative that the organizational goals must be well-defined and properly understood by the management at various levels.

3. **Distinct Process** : Management is a distinct process consisting of such functions as planning, organizing, staffing, directing and controlling. These functions are so interwoven that it is not possible to lay down exactly the sequence of various functions or their relative significance.
4. **Integrative Force** : The essence of management is integration of human and other resources to achieve the desired objectives. All these resources are made available to those who manage. Managers apply knowledge, experience and management principles for getting the results from the workers by the use of non-human resources. Managers also seek to harmonize the individuals' goals with the organizational goals for the smooth working of the organization.
5. **System of Authority** : Management as a team of managers represents a system of authority, a hierarchy of command and control. Managers at different levels possess varying degree of authority. Generally, as we move down in the managerial hierarchy, the degree of authority gets gradually reduced. Authority enables the managers to perform their functions effectively.
6. **Multi-disciplinary Subject** : Management has grown as a field of study (i.e. discipline) taking the help of so many other disciplines such as engineering, anthropology, sociology and psychology. Much of the management literature is the result of the association of these disciplines. For instance, productivity orientation drew its inspiration from industrial engineering and human relations orientation from psychology. Similarly, sociology and operations research have also contributed to the development of management science.
7. **Universal Application** : Management is universal in character. The principles and techniques of management are equally applicable in the fields of business, education, military, government and hospital. Henri Fayol suggested that principles of management would apply more or less

in every situation. The principles are working guidelines which are flexible and capable of adaptation to every organization where the efforts of human beings are to be coordinated.

1.5 FUNCTIONS OF MANAGEMENT

The management process involves performance of certain fundamental functions. One useful classification of managerial function has been given by Luther Gulick, who abbreviating them using the word POSDCORB – Planning, Organizing, Staffing, Directing, Co-Ordinating, Reporting and Budgeting. George R Terry has mentioned four fundamental functions of management, Planning, Organizing, Actuating and Controlling. In short, different scholars in the field of management have their own classification of functions of management. Some scholars add few functions and delete some other functions. The Important functions of management are discussed below: -

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. **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.

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 subfunctions :

- (a) Manpower planning involving determination of the number and the kind of personnel required.
- (b) Recruitment for attracting adequate number of potential employees to seek jobs in the enterprise.

- (c) Selection of the most suitable persons for the jobs under consideration.
- (d) Placement, induction and orientation.
- (e) Transfers, promotions, termination and layoff.
- (f) 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.

- 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 :

- (a) Communication
- (b) Motivation
- (c) Leadership

- 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:

- (a) Clear definition of authority-responsibility relationships
- (b) Unity of direction
- (c) Unity of command
- (d) Effective communication
- (e) Effective leadership

- 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 :

- (a) Measurement of performance against predetermined goals.
- (b) Identification of deviations from these goals.
- (c) 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.

1.6 MANAGERIAL SKILLS

A skill is an individual's ability to translate knowledge into action. Hence, it is manifested in an individual's performance. Skill is not necessarily inborn. It can be developed through practice and through relating learning to one's own personal experience and background. In order to be able to successfully discharge his roles, a manager should possess three major skills. These are conceptual skill, human relations skill and technical skill. Conceptual skill deals with ideas, technical skill with things and human skill with people. While both conceptual and technical skills are needed for good decision-making, human skill is necessary for a good leader. The conceptual skill refers to the ability of a manager to take a broad and farsighted view of the organization and its future, his ability to think in abstract, his ability to analyze the forces working in a situation, his creative and innovative ability and his ability to assess the environment and the changes taking place in it. In short, it is his ability to conceptualize the environment, the organization, and his own job, so that he can set appropriate goals for his organization, for himself and for his team. This skill seems to increase in importance as manager moves up to higher positions of responsibility in the organization.

The technical skill is the manager's understanding of the nature of job that people under him have to perform. It refers to a person's knowledge and proficiency in any type of process or technique. In a production department this would mean an understanding of the technicalities of the process of production. Whereas this type

of skill and competence seems to be more important at the lower levels of management, its relative importance as a part of the managerial role diminishes as the manager moves to higher positions. In higher functional positions, such as the position of a marketing manager or production manager, the conceptual component, related to these functional areas becomes more important and the technical component becomes less important.

Human relations skill is the ability to interact effectively with people at all levels. This skill develops in the manager sufficient ability (a) to recognize the feelings and sentiments of others; (b) to judge the possible actions to, and outcomes of various courses of action he may undertake; and (c) to examine his own concepts and values which may enable him to develop more useful attitudes about himself. This type of skill remains consistently important for managers at all levels.

1.7 SIGNIFICANCE OF MANAGEMENT

Management is concerned with acquiring maximum prosperity with a minimum effort. Management is essential wherever group efforts are required to be directed towards achievement of common goals. In this management conscious age, the significance of management can hardly be over emphasized. It is said that, anything minus management amounts to nothing. Koontz and O' Donnell have rightly observed "there is no more important area of human activity than management since its task is that of getting things done through others."

The significance of management in business activities is relatively greater. The inputs of labour, capital and raw material never become productive without the catalyst of management. It is now widely recognized that management is an important factor of growth of any country. The following points further highlight the significance of management :

- 1. Achievements of group goals :** Management makes group efforts more effective. The group as a whole cannot realise its objectives unless and until there is mutual co-operation and co-ordination among the members of the group. Management creates team work and team spirit in an organization by developing a sound organization structure. It brings the

human and material resources together and motivates the people for the achievement of the goals of the organization.

2. **Optimum utilization of resources :** Management always concentrates on achieving the objectives of the enterprise. The available resources of production are put to use in such a way that all sort of wastage and inefficiencies are reduced to a minimum. Workers are motivated to put in their best performance by the inspiring leadership. Managers create and maintain an environment conducive to highest efficiency and performance. Through the optimum use of available resources, management accelerates the process of economic growth.
3. **Minimisation of cost :** In the modern era of intense competition, every business enterprise must minimise the cost of production and distribution. Only those concerns can survive in the market, which can produce goods of better quality at the minimum cost. A study of the principles of management helps in knowing certain techniques used for reducing costs. These techniques are production control, budgetary control, cost control, financial control, material control, etc.
4. **Change and growth :** A business enterprise operates in a constantly changing environment. Changes in business environment create uncertainties and risk and also produce opportunities for growth. An enterprise has to change and adjust itself in the everchanging environment. Sound management moulds not only the enterprise but also alters the environment itself to ensure the success of the business. Many of the giant business corporations of today had a humble beginning and grew continuously through effective management.
5. **Efficient and smooth running of business :** Management ensures efficient and smooth running of business, through better planning, sound organization and effective control of the various factors of production.
6. **Higher profits :** Profits can be enhanced in any enterprise either by increasing the sales revenue or reducing costs. To increase the sales revenue is beyond the control of an enterprise. Management by decreasing costs

increases its profits and thus provides opportunities for future growth and development.

7. **Provide innovation :** Management gives new ideas, imagination and visions to an enterprise.
8. **Social benefits :** Management is useful not only to the business firms but to the society as a whole. It improves the standard of living of the people through higher production and more efficient use of scarce resources. By establishing cordial relations between different social groups, management promotes peace and prosperity in society.
9. **Useful for developing countries :** Management has to play a more important role in developing countries, like India. In such countries, the productivity is low and the resources are limited. It has been rightly observed, "There are no under-developed countries. They are only under-managed ones".
10. **Sound organization structure :** Management establishes proper organization structure and avoids conflict between the superiors and subordinates. This helps in the development of spirit of cooperation and mutual understanding, and a congenial environment is provided in the organization.

1.8 EVOLUTION OF MANAGEMENT

1. **Classical School:** The classical development of management thoughts can be divided into- the scientific management, the organizational management, the behavioural management and the quantitative management. The first two (scientific management school and organizational) emerged in late 1800s and early 1900s were based on the management belief that people were rational, economic creatures choose a course of action that provide the greatest economic gain. These schools of management thoughts are explained as below:
 - (A) **Scientific Management School:** Scientific management means application of the scientific methods to the problem of management. It conducts a

business or affairs by standards established by facts or truth gained through systematic observation, experiments, or reasoning. The followings individuals contribute in development of scientific management school of management thoughts. They dedicated to the increase in efficiency of labour by the management of the workers in the organization's technical core. They are:

I. Charles Babbage (1792-1871): He was professor of mathematics at Cambridge University from 1828 to 1839. He concentrated on developing the efficiencies of labour production. He, like Adam Smith, was a proponent of the specialization of labour, and he applied mathematics to the efficient use of both production materials and facilities. He wrote nine books and over 70 papers on mathematics, science and philosophy. He advocated that the managers should conduct time studies data to establish work standards for anticipated work performance levels and to reward the workers with bonuses to the extent by which they exceed their standards. His best known book is 'On the Economy of Machinery and Manufacturers' published in 1832. He visited many factories in England and France and he found that manufacturers were totally unscientific and most of their work is guess work. He perceived that methods of science and mathematics could be applied to the operations of factories. His main contributions are as follows:

- He stressed the importance of division of and assignment to labour on the basis of skill.
- He recommended profit-sharing programs in an effort to foster harmonious management-labour relations.
- He stressed the means of determining the feasibility of replacing manual operations with machines.

II. Fredrick W. Taylor (1856-1915): He is known as 'father of scientific management'. His ideas about management grew out of his wide-ranging experience in three companies: Midvale Steel Works, Simonds Rolling Mills and Bethlehem Steel Co.

TABLE-2.2 : TAYLOR'S FOUR PRINCIPLES OF SCIENTIFIC MANAGEMENT

Taylor's Principle	Related Management Activity
1. Develop a science for each job with standardized work implements and efficient methods for all to follow.	Complete time-and-motion study to determine the best way to do each task.
2. Scientifically select workers with skills and abilities that match each job, and train them in the most efficient ways to accomplish tasks.	Use job descriptions to select employees, set up formal training systems, and establish optimal work standards to follow.
3. Ensure cooperation through incentives and provide the work environment that reinforces optimal work results in a scientific manner.	Develop incentive pay, such as piece-rate system, to reward productivity, and encourage safe condition by using proper implements.
4. Divide responsibility for managing and for working, while supporting individuals in work groups for what they do best. Some people are more capable of managing, whereas others are better at performing tasks laid out for them.	Promote leaders who guide, not do, the work; create a sense of responsibility for group results by panning tasks and helping workers to achieve those results.

As an engineer and consultant, Taylor observed and reported on what he found to be inexcusably inefficient work practices, especially in the steel industry. Taylor believed that workers output was only about one-third of what was possible. Therefore, he set out to correct the situation by applying scientific methods. Taylor's philosophy and ideas are given in his book, 'Principles of Scientific Management' published in 1911. Taylor gave the following principles of scientific management.

These are outlined in Table- 2.2.

Taylor concluded that scientific management involves a complete mental revolution on the part of both workers and management, without this mental revolution scientific management does not exist.

III. Henry Gantt (1861-1919): He was a consulting engineer who specialized in control system for shop scheduling. He sought to increase workers efficiency through scientific investigation. He developed the Gantt Chart that provides a graphic representation of the flow of the work required to complete a given task. The chart represents each planned stage of work, showing both scheduled times and actual times. Gantt Charts were used by managers as a scheduling device for planning and controlling work. Gantt devised an incentive system that gave workers a bonus for completing their job in less time than the allowed standards. His bonus systems were similar to the modern gain sharing techniques whereby employees are motivated to higher levels of performance by the potential of sharing in the profit generated. In doing so, Gantt expanded the scope of scientific management to encompass the work of managers as well as that of operatives.

IV. Frank (1868-1924) and Lillian (1878-1972) Gilbreth: Frank Gilbreth, a construction contractor by background, gave up his contracting career in 1912 to study scientific management after hearing Taylor's speak at a professional meeting. Along with his wife Lillian, a psychologist, he studied work arrangements to eliminate wasteful hand-body-motion. Frank specialized in research that had a dramatic impact on medical surgery and, through his time and motion findings, surgeons saved many lives. Lillian is known as 'first lady of management' and devoted most of her research to the human side of management.

Frank Gilbreth is probably best known for his experiments in reducing the number of motions in bricklaying. The man and

wife team developed a classification scheme for the various motions (17 basic hand motions) used to complete a job referring a motion as a therblig.

Their classification design covered such motions as grasping, moving, and holding. This scheme allowed him to more precisely analyze the exact elements of worker's hand movements. Their scientific motion scheme noted the relationship between types and frequencies of motions and the creation of workers fatigue, identifying that unnecessary or awkward motions were a waste of workers energy. By eliminating inappropriate motions and focusing on appropriate motion, the Gilbreth methodology reduces work fatigue and improves workers performance.

Gilbreth were among the first to use motion pictures films to study hand-and-body motions. They devised a micro chronometer that recorded time to 1/2,000 of a second, placed it in the field of the study being photographed and thus determined how long a worker spent enacting each motion. Wasted motions missed by the naked eyes could be identified and eliminated. Gilbreths also experimented with the design and use of the proper tools and equipments for optimizing work performance.

(B) Organizational School: The organizational school of management placed emphasis on the development of management principles for managing the complete organization. The contributors of organizational schools are:

- I. Henri Fayol (1841-1925):** was a Frenchman with considerable executive experience who focused his research on the things that managers do. He wrote during the same period Taylor did. Taylor was a scientist and he was managing director of

a large French coal-mining firm. He was the first to envisage a functional process approach to the practice of management. His was a functional approach because it defined the functions that must be performed by managers. It was also a process approach because he conceptualized the managerial job in a series of stages such as planning, organizing and controlling. According to Fayol, all managerial tasks could be classified into one of the following six groups:

- o Technical (related to production);
- o Commercial (buying, selling and exchange);
- o Financial (search for capital and its optimum use);
- o Security (protection for property and person);
- o Accounting (recording and taking stock of costs, profits, and liabilities, keeping balance sheets, and compiling statistics);
- o Managerial (planning, organizing, commanding, coordinating and control);

He pointed out that these activities exist in every organization. He focused his work on the administrative or managerial activities and developed the following definition:

- o Planning meant developing a course of action that would help the organization achieve its objectives.
- o Organizing meant mobilizing the employees and other resources of the organization in accordance with the plan.
- o Commanding meant directing the employees and getting the job done.
- o Coordinating meant achieving harmony among the various activities.

- o Controlling meant monitoring performance to ensure that the plan is properly followed.

II. Max Weber (1864-1920): He was a German sociologist. Writing in the early 1900s, Weber developed a theory of authority structures and described organizational activities on the basis of authority relations. He described an ideal type of organization that he called a bureaucracy, a form of organization characterized by division of labour, a clearly defined hierarchy, detailed rules and regulations, and impersonal relationships. Weber recognized that this ideal bureaucracy didn't exist in reality. He used it as a basis for theorizing about work and the way that work could be done in large groups. His theory became the model structural design for many of today's large organizations. The features of Weber's ideal bureaucratic structure are outlined in *Figure-2.2*:

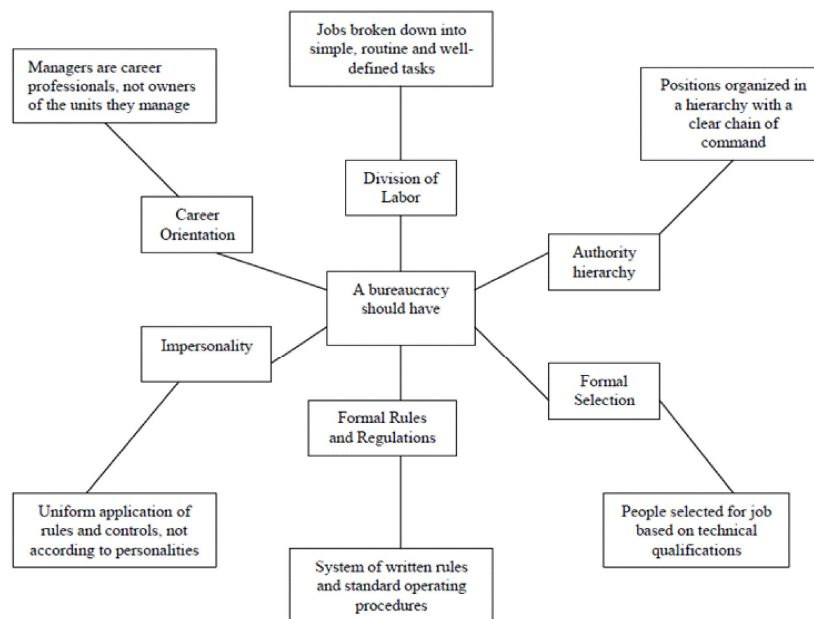


Figure-2.2 WEBER'S IDEAL BUREAUCRACY

The Elements of Bureaucracy are:

- o Labour is divided with clear definition of authority and responsibility that are legitimized as official duties.
- o Positions are organized in a hierarchy of authority, with each position under the authority of a higher one.
- o All personnel are selected and promoted based on technical qualifications, which are assessed by examination or according to training and experience.
- o Administrative acts and decisions are recorded in writing. Recordkeeping provides organizational memory and continuity over time.
- o Management is separate from the ownership of the organization.
- o Management is subject to rules and procedures that will insure reliable, predictable behaviour. Rules are impersonal and uniformly applied to all employees.

III. James D. Mooney and Alan C. Reilly: James Mooney was a General Motors executive who teamed-up with historian Alan Reilly to expose the true principles of an organization in their books. They wrote a book 'Onward Industry' in 1931 and later revised and renamed it as 'Principles of Organization' which had greatly influenced the theory and practice of management in USA at that time. They contended that an efficient organization should be based on certain formal principles and premises. They contended that organizations should be studied from two view points:

- (A) The employees who create and utilize the process of organization; and
- (B) The objective of the process

With respect to first aspect, their contributions to some fundamental principles of organization are:

- o The Coordination Principle: It was considered to be the single basic principle that actually encompassed the other two principles. They defined coordination as the orderly arrangement of work group effort that provides unity of action in pursuit of common goals.
- o The Scalar Principle: It was borrowed from the Fayol's work, was the device for grading duties in accordance with the amount of authority possessed at the different organizational levels.
- o The Functional Principle: The functional distinction is those unique differences in organizational operations that the manager must perceive in order to effectively integrate and coordinate all the functions of the organization.

In essence, Mooney and Reilley made an attempt to offer a rigid framework of management theory with emphasis on hierarchical structure, clear division and definition of authority and responsibility, specialization of tasks, coordination of activities and utilization of staff experts.

IV. Chester Barnard (1886-1961): Chester Barnard, president of Bell Telephone Company, developed theories about the functions of the manager as determined by constant interaction with the environment. Barnard saw organizations as social systems that require human cooperation. He expressed his view in his book *The Function of the Executive*. He proposed ideas that bridged classical and human resource view points. Barnard believes that organizations were made up of people with interacting social relationships. The manager's major functions were to communicate and stimulate subordinates to high level of efforts.

He saw the effectiveness of an organization as being dependent on its ability to achieve cooperative efforts from a number of

employees in a total, integrated system. Barnard also argued that success depended on maintaining good relations with the people and institutions with whom the organization regularly interacted. By recognizing the organization's dependence on investors, suppliers, customers, and other external stakeholders, Barnard introduced the idea that managers had to examine the external environment and then adjust the organization to maintain a state of equilibrium. Barnard also developed set of working principles by which organizational communication systems can maintain final authority for the management team. These principles are:

- o Channels of communication should be definitely known.
- o Objective authority requires a definite formal channel of communication to every members of an organization.
- o The line of communication must be as direct or short as possible.
- o The complete line of communication should usually be used.
- o Competence of the persons serving at communication centers that is officers, supervisory heads, must be adequate.
- o The line of communication should not be interrupted during the time the organization is to function.

V. **Herbert A. Simon:** Simon, the Noble Laureate in economics (1978), is an American political and social scientist. He started his career in local government. He analyzed the classical principles of management. Due to their ambiguous and contradictory nature, he criticized these principles as 'myths'. He analyzed the problems of management from the socio-psychological view point. But he is best known for his work in the field of decision making and administrative behaviour. He

perceived the modern manager as being limited in his knowledge of a problems and the number of alternative available to him is also limited. Thus, the manager is an administrative man, not an economic man, who makes decision amid bounded rationality and selects not the maximizing alternative.

(C) **Behavioural School:** The school of behavioural management theory involved in recognition on the importance of human behaviour in organization.

I. Robert Owen (1771-1858) was a British industrialist who was the first to speak out on behalf of the organization's human resources. He carried out experiments and introduced many social reforms. He believed that workers' performance was influenced by the total environment in which they worked. He criticized industrialists who spent huge sums of money repairing their production machines, but did little to improve the lot of their human machines. Owen worked for the building up of a spirit of co-operation between the workers and managers. He introduced new ideas of human relations e.g. shorter work hours, housing facilities, education of children, provision of canteen, training of workers in hygiene etc. He suggested that proper treatment of workers pays dividends and is an essential part of every manager's job.

II. Hugo Munsterberg (1863-1916): developed a psychology laboratory at Harvard University where he studied the application of psychology to the organizational settings. Psychology and Industrial Efficiency he argued for the study of scientific study of human behaviour to identify the general patterns and to explain individual differences. Thus, his concern for the human side of business led his peers to consider him to be father of industrial psychology. He successfully documented the psychological conditions associated with varying levels

of work productivity, and he instructed managers on ways to match workers with jobs and also how to motivate them. Munsterberg suggested the use of psychological tests to improve employee selection, the value of learning theory in the development of training methods, and the study of human behaviour to determine what techniques are most effective for motivating workers.

III. *George Elton Mayo (1880-1949):* Mayo was a professor at the Harvard Business School. He served as the leader of the team which carried out the famous Hawthorne Experiments at the Hawthorne plant of the Western Electric Company (USA) during 1927-32. Originally the research was an application of Taylor's management science techniques designed to improve production efficiency.

Mayo discussed in detail the factors that cause a change in human behaviour. Mayo's first study involved the manipulation of illumination for one group of workers and comparing their output with that of another group whose illumination was held constant. He concluded that the cause of increase in the productivity of workers is not a single factor like changing working hours or rest pauses but a combination of these several other factors. Considerate supervision, giving autonomy to the workers, allowing the formation of small cohesive groups of workers, creating conditions which encourage and support the growth of these groups and the cooperation between workers and management lead to increase in productivity.

Mayo's contribution to management thoughts lies in the recognition of the fact that worker's performance is related to psychological, sociological and physical factors. Mayo and his associates concluded that a new social setting created by their tests had accounted for the increase in productivity. Their finding

is now known as the Hawthorne Effect or the tendency for people, who are singled out for special attention, to improve their performance. Hawthorne study was an important landmark in studying the behaviour of workers and his relationship to the job, his fellow workers and organization. He highlighted that workers were found to restrict their output in order to avoid displeasure of the group, even at the sacrifice of incentive pay. Thus, Hawthorne studies were a milestone in establishing the framework for further studies into the field of organizational behaviour.

IV. *Mary Parker Follett (1868-1933):* She was a social philosopher whose ideas had clear implications for management practice. Her contribution towards the understanding of group is of immense value. She believed that groups were the mechanisms through which people could combine their differing talents for the greater good of the organization, which she defined as the community in which managers and subordinates could work in harmony. The Managers and workers should view themselves as partners and as a part of common group. She was convinced that the traditional and artificial distinction between the managers who give the orders and the workers who take the orders obscured their natural relationships. Manager should rely more on their expertise and knowledge to lead subordinates than on the formal authority of their position. Thus, her humanistic ideas influenced the way we look at motivation, leadership, power and authority. The Follett Behavioural Model of control being sponsored by an oriented towards the group, while self-control exercised by both individuals and the group ultimately result in both sharing the power. In the Follett Holistic Model of Control, Follett captured the interactive, integrative nature of selfcontrol groups being influenced by the forces within the work environment.

V. **Abraham Maslow:** He was a humanistic psychologist, proposed a hierarchy of five needs: physiological, safety, social, esteem and selfactualization. He proposed that man was a wanting animal whose behaviour was calculated to serve his most pressing needs. A need can be described as a physiological or psychological deficiency that a person is motivated to satisfy. Maslow further proposed that man's need could be placed in a hierarchy of needs as shown in Figure-2.3. The study shows that a man has various needs and their order can be determined. The moment the first need of man is satisfied he starts thinking of the second need, and then follows his worry about the third need and the sequence continues till all the needs are satisfied. Maslow's theory is operationalized through two principles.

- o The deficit principle holds that a relatively well-satisfied need is not a strong motivator of behaviour.
- o The progression principle holds that, once a need is fairly-well satisfied, behaviour is dominated by the next level in the need hierarchy.

1) **Physiological Needs:** This category includes those needs which a man needs to satisfy first of all in order to remain alive. It includes food to eat, house to live in, clothes to wear and sleep for rest.

2) **Safety Needs:** After having satisfied the physical needs a man thinks of his safety. Safety needs mean physical, economic and psychological safety. Physical safety means saving him from accidents, diseases and other unforeseen situations. Economic safety means security of employment and making provision for old age. Psychological safety means maintaining his prestige.

- 3) ***Social Needs:*** Man is a social being and wants to live in society with honour. It is, therefore, necessary that he should have friends and relatives with whom he can share his joys and sorrows.
- 4) ***Esteem and Status Needs:*** They are called ego needs of man. It means everybody wants to get a high status which may increase his power and authority.
- 5) ***Self Actualization Needs:*** Last of all man tries to satisfy his self actualization need. It means that a man should become what he is capable of. For example- a musician wants to be proficient in the art of music, an artist wants to gain proficiency in creating works of art and similarly, a poet wants to be an expert in the art of writing poems.



Figure-2.3 MASLOW'S HIERARCHY OF HUMAN NEEDS

VI. Douglas McGregor (1906-1964): He is best known for his formulation of two sets of assumptions- Theory X and Theory Y. McGregor argued that managers should shift their traditional views of man and work (which he termed Theory X) to a new humane views of man and work (which he termed Theory Y)

According to McGregor, Theory X attitudes, that man was lazy and work was bad were both pessimistic and counter productive. Theory X assumes that people have little ambition, dislike work, want to avoid responsibility, and need to be closely supervised to work effectively.

Theory Y, view that man wanted to work and work was good should become the standard for humanizing the workplace. Theory Y offers a positive view, assuming that people can exercise self-direction, accept responsibility and consider work to be as natural as rest of play. McGregor believed that Theory Y assumptions best captured the true nature of workers and should guide management practice. Table-2.3 depicts the assumptions of both these theories:

Table-2.3 : Theory X and Y Theory

Traditional Theory 'X'	Modern Theory 'Y'
1) Man by nature is sluggish and shirker.	Man wants to work provided the conditions are favourable.
2) Mostly people are not ambitious and are afraid to take responsibility.	This theory takes people as enthusiastic, responsible and full of effort.
3) Under this people want to be directed, meaning thereby that they want somebody to tell them to work and only they will work.	It is thought that the employee has the quality of self-direction and they do not feel the necessity of being directed by somebody else.
4) Motivation is limited to only physical and security needs.	According to this, physical and security needs motivate for a short time while it is continuous in case of self-actualization and esteem and status needs.
5) Strict control, threat and punishment are used in order to get work.	If proper environment is provided a person himself performs his work laboriously.

VII. Chris Argyris: He was an eminent social scientist and a professor of industrial administration at Yale University. He conducts research into personality and organizational life factors and developed the theory that both traditional management practices and organizational structure are inconsistent with the growth and development of the matured personality. Further he argued that the continuing incongruence between one's work environment and one's personality will result in conflict, frustration and failure.

(D) Quantitative School: With the revolutionary change in the application of information technology came the quantitative school of thoughts, which finds its foundation in decision theory, the application of statistics in decision making and the evolution of mathematical/econometric models that are nurtured by computer technology. This approach is based upon the assumption that mathematical techniques can help the manager in solution of problems. The features of quantitative management school were:

- o *Primary Focus on Decision Making:* The end result of problem analysis will include direct implications for managerial action.
- o *Based on Economic Decision Theory:* Final actions are chosen criteria as costs, revenue and rates of return on investment.
- o *Use of Formal Mathematical Models:* Possible solutions to problems are specified as mathematical equations and then analyzed according to mathematical rules and formulas.
- o *Frequent Use of Computers:* Heavy reliance is placed on computers and their advanced processing capabilities.

The quantitative approach has found favor through the following applications:

- I. Management Science:** Explained later in this chapter.
- II. Operations Management:** It entails the application of quantitative methods to the organizational tasks of production and operations control. The operational management techniques utilizes following basic quantitative techniques:
 - o Forecasting is the process by which future predictions are formulated through mathematical computations
 - o Inventory control entails the control of costly inventories through mathematical formulas that determine the proper level of inventory to be maintained as well as the economic quantities to be ordered.
 - o Linear programming involves the use of computations to allocate scarce resources for their optimal use.
 - o Networks are complex models, such as Program Evaluation and Review Techniques (PERT) and the Critical Path Methods (CPM) for analyzing, planning and controlling complex operations.
 - o Regression analysis is used to predict the relationships between two or more variables and to determine how changes in one variable might affect other variables.
- III. Management Information System:** These are integrated programs for the collection, analysis and dissemination of information to support management decision making. The total MIS network is more than a machine; it contains human resources, hardware, software and intricate processes. Most MIS networks are computer based due to vast amount of number crunching to be done. That is why the ideal MIS provides accurate, condensed informational analysis to the appropriate manager in a timely manner.

2. Integration School : In recent years, an attempt has been made to integrate the classical theories with the modern behavioural and quantitative theories into an overall framework that use the best of each approach. These approaches assumed that there is no best way to manage, and all theories have application to the practice of management. Two such integrative developments are explained as follows:

I. Contingency Theory: It is based on the notion that the proper management technique in a given situation depends upon the nature and conditions of that situation. The contingency view of management is highlighted in Figure-2.6 contend that an organizational phenomenon exists in logical patterns which managers can come to understand. Along with this organizational understanding comes the development of unique behaviours that have proven successful in particular situations. However, there are no universal solution techniques because every problem situation is unique in itself.

3. Contemporary School : The contemporary school of management thoughts outlines the framework for studying the more recent trends in management practices, such as the impact of global business, Theory Z concepts, McKinsey 7-S approach, the search for excellence, and the concern for quality and productivity. These are explained as follows:

I. Global: The recent emergence of a truly global economy is affecting every manager in the world. In today's environment, success in the long run demands that the manager think globally, even if he can still limit his actions to local market.

II. Theory Z: These firms are those which are highly successful American firms that use many of the Japanese management practices. The Type Z firm features long-term employment with a moderately specialized career path and slow evaluation and promotion. Lifetime employment would not be especially attractive to America's mobile work force and the slow evaluation and promotion processes would not meet the high expectations of American workers.

III. Mckinsey 7-S: The 7-S factors are as follows:

- o Strategy: The plans that determine the allocation of an organization's scarce resources and commit the organization to a specified course of action.
- o Structure: The design of the organization that determines the number of levels in its hierarchy and the location of the organization's authority.
- o Systems: The organizational processes and proceduralized reports and routines.
- o Staff: The key human resource groups within an organization, described demographically.
- o Style: The manner in which manager behave in pursuit of organizational goals.
- o Skills: The distinct abilities of the organization's personnel.
- o Super ordinate Goals (shared values): The significant meanings or guiding concepts that an organization instill in its members.

IV. Excellence: The firms that qualified as excellent companies shared the following characteristics:

- o A successful firm makes things happen.
- o Successful firms make it a point to know their customers and their needs.
- o Autonomy and Entrepreneurship is valued in each employee.
- o Productivity through people is based on trust.
- o Hands on, value driven management is mandatory.
- o A firm must always deal with strength.
- o A firm leads to cost effective works teams.
- o A firm can decentralize many decisions while retaining tight controls, usually through the function of finance.

- V. Quality and Productivity:** In today's dynamic marketplace, consumers are encouraged to buy a product that demonstrates the highest level of quality at the optimum price. This requires a dedicated and skilled work force that places utmost importance on quality workmanship.

1.9 A FRAMEWORK FOR THE MANAGEMENT THOUGHTS/ CURRENT AND EMERGING MANAGEMENT THOUGHT

In the past, the business houses, particularly corporates, did not have a high academic stature and position in the society and it certainly compelled the scholars inculcate the academic interest in the study of business management so that its real fruits could be realized for the stakeholders under reference. There was a widespread belief that management process consisted of hidden tricks, mysterious clues and intuitive knowledge that could be mastered only by a few divinely gifted people. Moreover, the businessmen were very much afraid that through the study of management their tricks and secrets would be exposed.

But the advent of industrial revolution and the introduction of large scale mechanized production and the resultant growth of trade, industry and commerce necessitated the study of management. The evolution of management thoughts might be better approached through the framework as depicted in *Figure-2.1*. In the beginning there were two classical schools of management thoughts. These were- the scientific management school and the organizational school. Later on, behavioural school and the quantitative school came into existence. These four schools merged into integration school which led to the contemporary school of management thoughts.

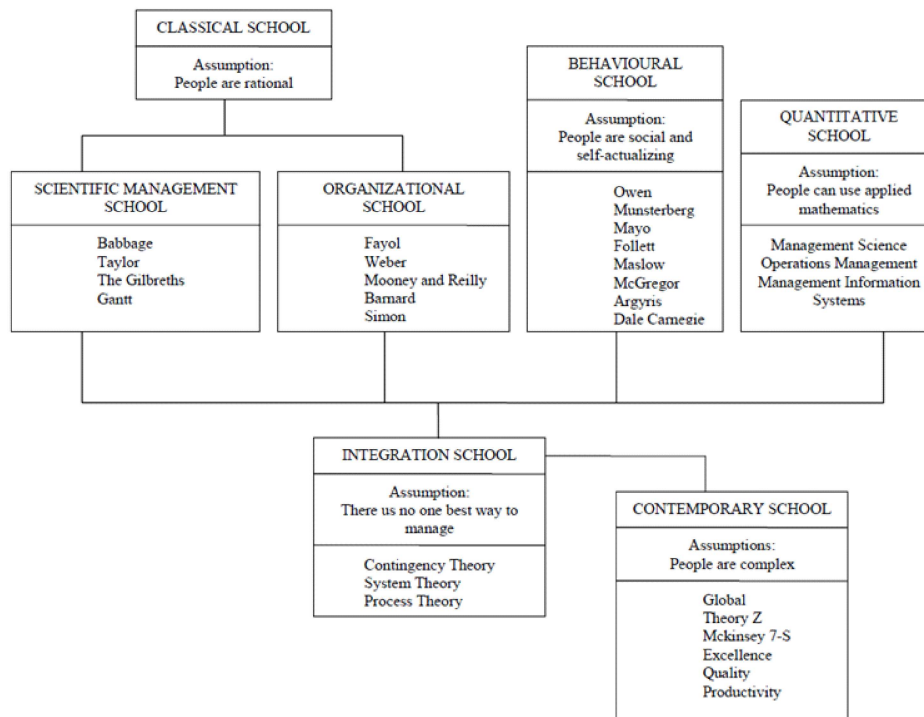


Figure-2.1 : FRAMEWORK FOR THE MANAGEMENT THOUGHTS

Among the people who were in search of management principles, techniques and processes, a few emerged as outstanding pioneers. These are- Urwick and Brech, Boulton and Watt, Robert Owen, Charles Babbage, Oliver Sheldon, Lyndall Urwick, Herbert A. Simon, Frederick Winslow Taylor, H.S. Person, Henry L. Gantt, Frank Gilbreth, Harrington Emerson, H.P. Kendall, C.B. Barth, F.A. Halsey, Henri Dennison, Mooney and Reiley, Chester I. Barnard, Elton Mayo, F.J. Roethlisberger and T.N.Whitehead, Mary Parker Follett and Henry Fayol etc.

1.10 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:

- o 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.

- o 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.
- o It ignored the impact of external environment on the working of the organization. Thus, it treated organization as closed system.
- o On the basis of experience of practicing managers, principles are developed. These principles are used as guidelines for the practicing executive.
- o Functions, principles and skills of management are considered universal. They can be applied in different situations.
- o The integration of the organization is achieved through the authority and control of the central mechanism. Thus, it is based on centralization of authority.
- o Formal education and training is emphasized for developing managerial skills in would be managers. Case study method is often used for this purpose.
- o Emphasis is placed on economic efficiency and the formal organization structure.
- o 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

- o The classical approach offers a convenient framework for the education and training of managers.
- o The observational method of case study is helpful in drawing common principles out of past experience with some relevance for future application

- o It focuses attention on what managers actually do.
- o This approach highlights the universal nature of management.
- o It provides scientific basis for management practice.
- o 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

- o Weber's ideal bureaucracy suggested strict adherence to rules and regulations, this lead to redtapism in the organization.
- o 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.
- o 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.
- o 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.
- o The classical principles are mostly based on the personal experience and limited observations of the practitioners. They are not based on personal experience.
- o The totality of real situation can seldom be incorporated in a case study.

1.11 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:

- o **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.
- o **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.
- o **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.
- o **Standardization:** Standardization should be maintained in respect of instruments and tools, period of work, amount of work, working conditions, cost of production etc.
- o **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.
- o **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.

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

- o 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.
- o Workers were hired on a first-come, first-hired basis without due concern for workers ability or skills.

- o 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.
- o Training was haphazard at best, with only minimal use of basic apprentice system.
- o Tasks were accomplished by general rule of thumb without standard times, methods or motion.
- o Managers worked side-by-side with the workers, often ignoring such basic managerial function of planning and organizing.

1.12 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

- o **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.
- o **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.

- o **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.
- o **Unity of Command:** Every employee should receive orders and instruction from only one superior and a subordinate should be accountable to only one superior.
- o **Unity of Direction:** Each group of activities having one objective should be unified by having one plan and one head.
- o **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.
- o **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.
- o **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.
- o **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.
- o **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.

- o **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.
- o **Stability of Tenure:** High employee turnover is inefficient. Management should provide orderly personnel planning and ensure that replacements are available to fill vacancies.
- o **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.
- o **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:

- o 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.
- o He did not pay adequate attention to workers.
- o 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.
- o There is a vagueness and superficiality about some of his terms and definition.

TABLE-3.1 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

❖ APPROACHES TO MANAGEMENT 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:

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

- o 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.

❖ **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:

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

❖ **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:

- o Management is essentially decision-making. The members of the organization are decision makers and problem solvers.
- o 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.
- o 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.

❖ **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:

- o Management is regarded as the problem-solving mechanism with the help of mathematical tools and techniques.
- o Management problems can be described in terms of mathematical symbols and data. Thus every managerial activity can be quantified.
- o This approach covers decision making, system analysis and some aspect of human behaviour.

- o Operations research, mathematical tools, simulation, model etc, are the basic methodologies to solve managerial problems.

❖ **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 presented as follows:

- o 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.
- o 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.
- o The manager's basic job is to use the untapped human potential in the service organization.

- o 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.
- o The manager should provide for self direction by subordinates and they must be encouraged to participate fully in all important matters.
- o Operating efficiency can be improved by expanding subordinate influence, direction and self control.
- o 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-3.2 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 relationships	It focused on group relationships.
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.

❖ 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:

- o 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.
- o 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.
- o If the model is properly formulated and the equations are correctly solved, one can secure the best solution to the model.
- o Organizations exist for the achievement of specific and measurable economic goals.
- o In order to achieve these goals, optimal decisions must be made through scientific formal reasoning backed by quantification.
- o Decision making models should be evaluated in the light of set criteria like cost reduction, return on investment, meeting time schedules etc.
- o The quality of management is judged by the quality of decisions made in diverse situations.

TABLE-3.3 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.

❖ 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:

- o An organization is a system consisting of several subsystems. For example, in a business enterprise production, sales and other departments are the subsystem
- o 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.
- o An organization is a dynamic system because it is responsive or sensitive to its environment. It is vulnerable to changes in its environment.

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. The open system consisting of four basic elements

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

❖ 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:

- o Management is entirely situational. The application and effectiveness of any techniques is contingent on the situation.
- o Management action is contingent on certain action outside the system or subsystem as the case may be.
- o 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.
- o Organizational action should be based on the behaviour of action outside the system so that organization should be integrated with the environment.
- o 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:

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

TABLE-3.4 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 interdependencies among systems 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 of 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.

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 Gilbreth, H. Emerson - Henry L. Gantt - L.F. Urwick, Mooney & Reiley, R.C.Davis - Max Weber 	<ul style="list-style-type: none"> - Expanding Size of organization - Growing markets - 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.J. Roethlisberger - Elton Mayo - D. McGregor - P.F. Drucker - C.I. Barnard 	<ul style="list-style-type: none"> - World War II unionization - Need for trained managers - Government regulation - Labour unrest
Management Science Approach	<ul style="list-style-type: none"> - Operations Research - Simulation - 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"> - Cold war recession - Conglomerates - Industrial/military conflict
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 & J.E. Rosenzweig 	<ul style="list-style-type: none"> - Turbulency - Information Technology - Robotics

❖ Manager's Complex Environment

A manager's environment is made up of constantly changing factors — both external and internal — that affect the operation of the organization. If a new competitor appears in the marketplace, the managerial environment is affected. If key clients take their business elsewhere, managers feel the impact. And if technological advances date an organization's current methods of doing business, once again, the managerial environment has to adapt.

Although managers can't always control their environments, they need to be aware of any changes that occur, because changes ultimately affect their daily decisions and actions. For example, in the airline industry, deregulation opened up the market to new airlines, forcing existing airlines to be more competitive. Managers in existing airlines couldn't afford to ignore the cheaper fares and increased service that resulted. Not only did managers have to identify the new challenge, but they also had to act quickly and efficiently to remain competitive.

The External Environment

All outside factors that may affect an organization make up the external environment. The external environment is divided into two parts:

Directly interactive: This environment has an immediate and firsthand impact upon the organization. A new competitor entering the market is an example.

Indirectly interactive: This environment has a secondary and more distant effect upon the organization. New legislation taking effect may have a great impact. For example, complying with the Americans with Disabilities Act requires employers to update their facilities to accommodate those with disabilities.

Directly interactive forces include owners, customers, suppliers, competitors, employees, and employee unions. Management has a responsibility to each of these groups. Here are some examples:

Owners expect managers to watch over their interests and provide a return on investments.

Customers demand satisfaction with the products and services they purchase and use.

Suppliers require attentive communication, payment, and a strong working relationship to provide needed resources.

Competitors present challenges as they vie for customers in a marketplace with similar products or services.

Employees and employee unions provide both the people to do the jobs and the representation of work force concerns to management.

The second type of external environment is the *indirectly interactive* forces. These forces include socio-cultural, political and legal, technological, economic, and global influences. Indirectly interactive forces may impact one organization more than another simply because of the nature of a particular business. For example, a company that relies heavily on technology will be more affected by software updates than a company that uses just one computer. Although somewhat removed, indirect forces are still important to the interactive nature of an organization.

The *sociocultural* dimension is especially important because it determines the goods, services, and standards that society values. The sociocultural force includes the demographics and values of a particular customer base.

Demographics are measures of the various characteristics of the people and social groups who make up a society. Age, gender, and income are examples of commonly used demographic characteristics.

Values refer to certain beliefs that people have about different forms of behavior or products. Changes in how a society values an item or a behavior can greatly affect a business. (Think of all the fads that have come and gone!)

The *political and legal dimensions* of the external environment include regulatory parameters within which an organization must operate. Political parties create or influence laws, and business owners must abide by these laws. Tax policies, trade regulations, and minimum wage legislation are just a few examples of political and legal issues that may affect the way an organization operates.

The *technological dimension* of the external environment impacts the scientific processes used in changing inputs (resources, labor, money) to outputs (goods and services). The success of many organizations depends on how well they identify and respond to external technological changes.

For example, one of the most significant technological dimensions of the last several decades has been the increasing availability and affordability of management information systems (also known as MIS). Through these systems, managers have access to information that can improve the way they operate and manage their businesses.

The *economic dimension* reflects worldwide financial conditions. Certain economic conditions of special concern to organizations include interest rates, inflation, unemployment rates, gross national product, and the value of the U.S. dollar against other currencies.

A favorable economic climate generally represents opportunities for growth in many industries, such as sales of clothing, jewelry, and new cars. But some businesses traditionally benefit in poor economic conditions. The alcoholic beverage

industry, for example, traditionally fares well during times of economic downturn.

The *global dimension* of the environment refers to factors in other countries that affect U.S. organizations. Although the basic management functions of planning, organizing, staffing, leading, and controlling are the same whether a company operates domestically or internationally, managers encounter difficulties and risks on an international scale. Whether it be unfamiliarity with language or customs or a problem within the country itself (think mad cow disease), managers encounter global risks that they probably wouldn't have encountered if they had stayed on their own shores.

The Internal Environment

An organization's *internal environment* is composed of the elements within the organization, including current employees, management, and especially corporate culture, which defines employee behavior. Although some elements affect the organization as a whole, others affect only the manager. A manager's philosophical or leadership style directly impacts employees. Traditional managers give explicit instructions to employees, while progressive managers empower employees to make many of their own decisions. Changes in philosophy and/or leadership style are under the control of the manager. The following sections describe some of the elements that make up the internal environment.

An organization's **mission statement** describes what the organization stands for and why it exists. It explains the overall purpose of the organization and includes the attributes that distinguish it from other organizations of its type.

A mission statement should be more than words on a piece of paper; it should reveal a company's philosophy, as well as its purpose. This declaration should be a living, breathing document that provides information and inspiration for the members of the organization. A mission statement should answer the questions, "What are our values?" and "What do we stand for?" This statement provides focus for an organization by rallying its members to work together to achieve its common goals.

But not all mission statements are effective in any businesses. Effective mission statements lead to effective efforts. In today's quality conscious and highly

competitive environments, an effective mission statement's purpose is centered on serving the needs of customers. A good mission statement is precise in identifying the following intents of a company:

Customers — who will be served

Products/services — what will be produced

Location — where the products/services will be produced

Philosophy — what ideology will be followed

Company policies are guidelines that govern how certain organizational situations are addressed. Just as colleges maintain policies about admittance, grade appeals, prerequisites, and waivers, companies establish policies to provide guidance to managers who must make decisions about circumstances that occur frequently within their organization. Company policies are an indication of an organization's personality and should coincide with its mission statement.

The **formal structure** of an organization is the hierarchical arrangement of tasks and people. This structure determines how information flows within the organization, which departments are responsible for which activities, and where the decision making power rests.

Some organizations use a chart to simplify the breakdown of its formal structure. This **organizational chart** is a pictorial display of the official lines of authority and communication within an organization.

The **organizational culture** is an organization's personality. Just as each person has a distinct personality, so does each organization. The culture of an organization distinguishes it from others and shapes the actions of its members.

Four main components make up an organization's culture:

- Values
- Heroes
- Rites and rituals
- Social network

Values are the basic beliefs that define employees' successes in an organization. For example, many universities place high values on professors being published. If a faculty member is published in a professional journal, for example, his or her chances of receiving tenure may be enhanced. The university wants to ensure that a published professor stays with the university for the duration of his or her academic career — and this professor's ability to write for publications is a value.

The second component is heroes. A *hero* is an exemplary person who reflects the image, attitudes, or values of the organization and serves as a role model to other employees. A hero is sometimes the founder of the organization. However, the hero of a company doesn't have to be the founder; it can be an everyday worker,.

Rites and rituals, the third component, are routines or ceremonies that the company uses to recognize high performing employees. Awards banquets, company gatherings, and quarterly meetings can acknowledge distinguished employees for outstanding service. The honorees are meant to exemplify and inspire all employees of the company during the rest of the year.

The final component, the *social network*, is the informal means of communication within an organization. This network, sometimes referred to as the company grapevine, carries the stories of both heroes and those who have failed. It is through this network that employees really learn about the organization's culture and values.

A byproduct of the company's culture is the **organizational climate**. The overall tone of the workplace and the morale of its workers are elements of daily climate. Worker attitudes dictate the positive or negative "atmosphere" of the workplace. The daily relationships and interactions of employees are indicative of an organization's climate.

Resources are the people, information, facilities, infrastructure, machinery, equipment, supplies, and finances at an organization's disposal. People are the paramount resource of all organizations. Information, facilities, machinery equipment, materials, supplies, and finances are supporting, nonhuman resources

that complement workers in their quests to accomplish the organization's mission statement. The availability of resources and the way that managers value the human and nonhuman resources impact the organization's environment.

Philosophy of management is the manager's set of personal beliefs and values about people and work and as such, is something that the manager can control. McGregor emphasized that a manager's philosophy creates a self fulfilling prophecy. Theory X managers treat employees almost as children who need constant direction, while Theory Y managers treat employees as competent adults capable of participating in work related decisions. These managerial philosophies then have a subsequent effect on employee behavior, leading to the self fulfilling prophecy. As a result, organizational philosophies and managerial philosophies need to be in harmony.

The number of coworkers involved within a problem solving or decision making process reflects the manager's *leadership style*. *Empowerment* means delegating to subordinates decision making authority, freedom, knowledge, autonomy, and skills. Fortunately, most organizations and managers are making the move toward the active participation and teamwork that empowerment entails.

When guided properly, an empowered workforce may lead to heightened productivity and quality, reduced costs, more innovation, improved customer service, and greater commitment from the employees of the organization. In addition, response time may improve, because information and decisions need not be passed up and down the hierarchy. Empowering employees makes good sense because employees closest to the actual problem to be solved or the customer to be served can make the necessary decisions more easily than a supervisor or manager removed from the scene.

1.13 SUMMARY

Management is the force that unifies various resources and is the process of bringing them together and coordinating them to help accomplish organization goal. Management is both, a science as well as art. It is an inexact science. However, its principles as distinguished from practice are of universal application. Management does not yet completely fulfill all the criteria of a profession. There

are three levels of management - top, middle and lower. Managers at different levels of the organization require and use different types of skills. Lower level managers require and use a greater degree of technical skill than high level managers, while higher level managers require and use a greater degree of conceptual skill. Human skills are important at all managerial levels.

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:

- o Growing intervention in trade, industry and commerce by the government. Growth of Trade Union Movement, profoundly influenced by political considerations only.
- o Greater consciousness and growth of organizations of consumers.
- o High cost economy and expansion of the services sector including the social sector, public sector and public utility services.
- o Emerging growth of industry and consequent stiff competition from foreign goods, growth of multinational corporations in the context of new liberalized industrial policy.
- o Rapid advancement in the field of technology.
- o Utilization of information as an input and spread of Management Information System.
- o Increasing Demand for participation by subordinates in decision making process. India is heading towards a business management manned by properly trained and educated persons.
- o 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.

1.14 GLOSSARY

Management : Management is defined for conceptual, theoretical and analytical purposes as that process by which managers create, direct, maintain and operate purposive organization through systematic, co-ordinated co-operative human effort.

Scientific Management School: Scientific management means application of the scientific methods to the problem of management. It conducts a business or affairs by standards established by facts or truth gained through systematic observation, experiments, or reasoning.

Organizational School: The organizational school of management placed emphasis on the development of management principles for managing the complete organization.

1.15 SELF ASSESSMENT QUESTIONS

1. "There is no important area of human activity than management since its task is that of getting things done through people". Discuss.
2. "Management is both a science and an art". Discuss this statement, giving suitable examples.
3. Define Management. How does it differ from Administration?
4. What do you understand by the term "Levels of Management"? Explain with reference to an organization with which you are familiar.
5. Briefly discuss the nature and scope of Management.
6. What are the functions of a Manager? Is mere knowledge of Management enough to become successful manager?

1.16 LESSON END EXERCISES

1. Discuss basic principles of Management along with their significance.

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2. Discuss and illustrate the meaning, definition and characteristics of management in modern organizations

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-
3. Assess the role of following in development of management thoughts:
- a) Henry Gantt
 - b) Weber
 - c) Maslow
 - d) Elton Mayo

1.17 FURTHER READINGS

1. Kootnz & O'Donnell, Principles of Management.
2. J.S. Chandan, Management, Concepts and Strategies.
3. Arun Kumar and R. Sharma, Principles of Business Management.
4. Sherlerkar and Sherlerkar, Principles of Management
5. B.P. Singh, Business Management and Organizations.

PLANNING

STRUCTURE

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2.1 INTRODUCTION

Planning is the most fundamental function of management. An organization can succeed in effective utilization of its human financial and material resources only when its management decides in advance its objectives, and methods of achieving them. Without it purposive and coordinated effort is not possible, and what results are chaos, confusion and wastage of resources. Planning involves determination of objectives of the business, formation of programmes and courses of action for their attainment, development of schedules and timings of action and assignment of responsibilities for their implementation. Planning thus precedes all efforts and action, as it is the plans and programmes that determine the kind of decisions and activities required for the attainment of the desired goals. It lies at the basis of all other managerial functions including organizing, staffing, directing and controlling. In the absence of planning, it will be impossible to decide what activities are required, how they should be combined into jobs and departments, who will be responsible for what kind of decisions and actions, and how various decisions and activities are to be coordinated. And, in the absence of organizing involving the above managerial activities, staffing cannot proceed, and directing cannot be exercised. Planning is also an essential prerequisite for the performance of control function, as it provides criteria for evaluating performance. Planning thus precedes all managerial functions.

Definition of 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. It helps to bridge the gap from where we are, to where we want to go. It makes it possible for things to occur which would not otherwise happen. Planning is a higher order mental process requiring the use of intellectual faculties, imagination, foresight and sound judgment.

According to Koontz, O'Donnell and Weihrich, "Planning is an intellectually demanding process; it requires the conscious determination of courses of action and the basing of decisions on purpose, knowledge and considered estimates".

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 said that 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 desired results.

Planning is thus deciding in advance the future state of business of an enterprise, and the means of attaining it. Its elements are :

1. What will be done - what are the objectives of business in the short and in the long run?
2. What resources will be required - This involves estimation of the available and potential resources, estimation of resources required for the achievement of objectives, and filling the gap between the two, if any.
3. How it will be done - This involves two things : (i) determination of tasks, activities, projects, programmes, etc., required for the attainment of objectives, and (ii) formulation of strategies, policies, procedures, methods, standard and budgets for the above purpose.
2. Who will do it - It involves assignment of responsibilities to various managers relating to contributions they are expected to make for the attainment of enterprise objectives. This is preceded by the breaking down of the total enterprise objectives into segmental objectives, resulting into divisional, departmental, sectional and individual objectives.

5. When it will be done - It involves determination of the timing and sequence, if any, for the performance of various activities and execution of various projects and their parts.

2.2 OBJECTIVES

The objectives of this unit is to understand the nature and process of planning; to appreciate, why it is necessary to do planning; to understand the merits and demerits of planning; to grasp the principles of planning and to understand the various kinds and level of plans.

2.3 MYTHS ABOUT PLANNING

There are certain commonly prevalent myths and fallacies about planning. An attempt is being made to highlight some of the important concepts of planning by way of its distinguishing features, so as to clarify the misconceptions:

- (i) **Planning does no attempt to make future decisions :** Planning choosing of the more desirable future alternatives open to a company, is the process so that better decisions may be made. Planning provides a frame of reference within which the present decisions are to be made. At the same time, a plan often leads to additional but related decisions. For example, a college plan to introduce a new degree or diploma, necessitates the need for decisions like what should be the duration of the course leading to the degree or diploma, together with detailed curricula in the specific courses to be included, the system of evaluation of examination, and the necessary practical training, if any, etc.
- (ii) **Planning is not just forecasting or making projections :** Forecasts are mere estimates of the future, and indicate what may or may not happen. However, corporate planning goes beyond these forecasts and asks questions like :
 - (a) Are we in right business?
 - (b) What are our basic goals and objectives?

- (c) When shall our present products become obsolete?
 - (d) Are our markets expanding or shrinking?
 - (e) Do we want to merge or go for takeover?
- (iii) **Planning is not a static process :** Indeed, plans are obsolete as soon as they are executed, because the environment assumed in their preparation may have already changed. Planning is a continuous process. It involves continuous analysis and adjustments of the plans and even objectives in the context of changing circumstances.

2.4 NATURE AND SCOPE OF PLANNING

The nature of planning can be understood by focusing on its following aspects :

1. **Planning is a Continuous Process :** Planning deals with the future, and future, by its very nature, is uncertain. Although the planner bases his plans on an informed and intelligent estimate of the future, the future events may not turnout to be exactly as predicted. This aspect of planning makes it a continuous process. Plans tend to be a statement of future intentions relating to objectives and means of their attainment. They do not acquire finality because revisions are needed to be made in them in response to changes taking place in the internal as well as external environment of enterprise. Planning should, therefore, be a continuous process and hence no plan is final, it is always subject to a revision.
2. **Planning concerns all Managers :** It is the responsibility of every manager to set his goals and operating plans. In doing so, he formulates his goals and plans within the framework of the goals and plans of his superior. Thus, planning is not the responsibility of the top management or the staff of planning department only; all those who are responsible for the achievement of results, have an obligation to plan into the future. However, managers at higher levels, being responsible for a relatively larger unit of the enterprise, devote a larger part of their time to planning, and the time span of their plans also tends to be longer than that of managers at lower

levels. It shows that planning acquires greater importance and tends to the longer in the future at higher than at lower management levels.

- 3. Plans are arranged in a Hierarchy :** Plans are first set for the entire organization called the corporate plan. The corporate plan provides the framework for the formulation of divisional departmental and sectional goals. Each of these organizational components sets its plans laying down the programmes, projects, budgets, resource requirements, etc. The plans of each lower component are aggregated into the plans of successively higher component until the corporate plan integrates all component plans into a composite whole. For example, in the production department, each shop superintendent sets his plans, which are successively integrated into the general foremen's, works manager's and production manager's plans. All departmental plans are then integrated in the corporate plan. Thus, there is a hierarchy of plans comprising the corporate plan, divisional/ department plans, sectional plans and individual manger's unit plans.
- 4. Planning Commits an Organization into the Future :** Planning commits an organization into the future, as past, present and future is tied in a chain. An organization's objectives, strategies, policies and operating plans affect its future effectiveness, as decisions made and activities undertaken in the present continue to have their impact into the future. Some of the plans affect the near future, while others affect it in the long run. For example, plans for product diversification or production capacity affect a company long into the future, and are not easily reversible, whereas plans relating to the layout of its office locations can be changed with relatively less difficulty in the future. This focuses on the need for better and more careful planning.
- 5. Planning is Antithesis of States Quo :** Planning is undertaken with the conscious purpose of attaining a position for the company that would not be accomplished otherwise. Planning, therefore, implies change in organizational objectives, policies, products, marketing strategies and so forth. However, planning itself is affected by unforeseen environmental changes. It, therefore, needs examination and re-examination, continual

reconsideration of the future, constant searching for more effective methods and improved results. Planning is thus an all pervasive, continuous and dynamic process. It imposes on all executives a responsibility to estimate and anticipate the future, prepare the organization to cope with its challenges as well as take advantage of the opportunities created by it, while at the same time, influence tomorrow's events by today's pre-emptive decisions and actions.

2.5 IMPORTANCE OF PLANNING, ADVANTAGES AND LIMITATIONS

While planning does not guarantee success in organizational objectives, there is evidence that companies that engaged in formal planning consistently performed better than those with none or limited formal planning and improved their own performance over a period of time. It is very rare for an organization to succeed solely by luck or circumstances. Some of the reasons as to why planning is considered a vital managerial function are given below :

- 1. Planning is essential in modern business :** The growing complexity of the modern business with rapid technological changes, dynamic changes in the consumer preferences and growing tough competition necessities orderly operations, not only in the current environment but also in the future environment. Since planning takes a future outlook, it takes into account the possible future developments.
- 2. Planning affects performance :** A number of empirical studies provide evidence of organizational success being a function of formal planning, the success being measured by such factors as return on investment, sales volume, growth in earnings per share and so on. An investigation of firms in various industrial products as machinery, steel, oil, chemicals and drugs revealed that companies that engaged in formal planning consistently performed better than those with no formal planning.
- 3. Planning puts focus on objectives :** The effectiveness of formal planning is primarily based upon clarity of objectives. Objectives provide a direction and all planning decisions are directed towards achievement of these

objectives. Plans continuously reinforce the importance of these objectives by focusing on them. This ensures maximum utility of managerial time and efforts.

4. **Planning anticipates problems and uncertainties :** A significant aspect of any formal planning process in collection of relevant information for the purpose of forecasting the future as accurately as possible. This would minimize the chances of haphazard decisions. Since the future needs of the organization are anticipated in advance, the proper acquisition and allocation of resources can be planned, thus minimizing wastage and ensuring optimal utility of these resources.
5. **Planning is necessary to facilitate control :** Controlling involves the continual analysis and measurement of actual operations against the established standards. These standards are set in the light of objectives to be achieved. Periodic reviews of operations can determine whether the plans are being implemented correctly. Well developed plans can aid the process of control in two ways. First, the planning process establishes a system of advance warning of possible deviations from the expected performance. Second contribution of planning to the control process is that it provides quantitative data which would make it easier to compare the actual performance in quantitative terms, not only with the expectations of the organization but also with the industry statistics or market forecasts.
6. **Planning helps in the process of decision making :** Since planning specifies the actions and steps to be taken in order to accomplish organizational objectives, it serves as a basis for decision-making about future activities. It also helps managers to make routine decisions about current activities since the objectives, plans, policies, schedules and so on are clearly laid down.

❖ **ADVANTAGES AND LIMITATIONS OF PLANNING**

The importance of formal planning has already been discussed. A vigorous and detailed planning programme helps managers to be future oriented. It gives the managers some purpose and direction. A sound blue print for plans with specific

objective and action statements has numerous advantages for the organization which are as follows :

1. **Focuses Attention on Objectives :** Since all planning is directed towards achieving enterprise objectives, the very act of planning focuses attention on these objectives. Laying down the objectives is the first step in planning. If the objectives are clearly laid down, the execution of plans will also be directed towards these objectives.
2. **Ensures Economical Operation :** Planning involves a lot of mental exercise which is directed towards achieving efficient operation in the enterprise. It substitutes joint directed effort for uncoordinated piecemeal activity, even flow of work for uneven flow, and deliberate decisions for snap judgement costs. This helps in better utilization of resources and thus minimizing costs.
3. **Reduces Uncertainty :** Planning helps in reducing uncertainties of future because it involves anticipation of future events. Effective planning is the result of deliberate thinking based on facts and figures. It involves forecasting also. Planning gives an opportunity to a business manager to foresee various uncertainties which may be caused by changes in technology, taste and fashion of the people, etc. Sufficient provision is made in the plans to offset these uncertainties.
4. **Facilitates Control :** Planning helps the managers in performing their function of control. Planning and control are inseparable in the sense that unplanned action cannot be controlled because control involves keeping activities on the predetermined course by rectifying deviations from plans. Planning helps control by furnishing standards of control. It lays down objectives and standards of performance which are essential for the performance of control function.
5. **Encourages Innovation and Creativity :** Planning is basically the deciding function of management. It helps innovative and creative thinking among the managers because many new ideas come to the mind of a manager when he is planning. It creates a forward looking attitude among the

managers.

6. **Improves Motivation** : A good planning system ensures participation of all managers which improves their motivation. It improves the motivation of workers also because they know clearly what is expected of them. Moreover, planning serves as a good training device for future managers.
7. **Improves Competitive Strength** : Effective planning gives a competitive edge to the enterprise over other enterprises that do not have planning or have ineffective planning. This is because planning may involve expansion of capacity, changes in work methods, changes in quality, anticipation tastes and fashion of people and technological changes, etc.
8. **Achieves Better Coordination** : Planning secures unity of direction towards the organizational objectives. All the activities are directed towards the common goals. There is an integrated effort throughout the enterprise. It will also help in avoiding duplication of efforts.

Thus, there will be better coordination in the organization.

Limitations of Planning : Sometimes, planning fails to achieve the expected results. There are many causes of failure of planning in practice. These are discussed below:

1. **Lack of reliable data** : There may be lack of reliable facts and figures over which plans may be based. Planning loses its value if reliable information is not available or if the planner fails to utilize the reliable information. In order to make planning successful, the planner must determine the reliability of facts and figures and must base his plans on reliable information only.
2. **Lack of initiative** : Planning is a forward looking process. If a manager has a tendency to follow rather than lead, he will not be able to make good plans. Therefore, the planner must take the required initiative. He should be an active planner and should take adequate follow up measure to see that plans are understood and implemented properly.

3. **Costly process** : Planning is time consuming and expensive process. This may delay action in certain cases. But it is also true that if sufficient time is not given to the planning process, the plans so produced may prove to be unrealistic. Similarly, planning involves costs of gathering and analyzing information and evaluation of various alternatives. If the management is not willing to spend on planning, the results may not be good.
4. **Rigidity in organizational working** : Internal inflexibility in the organization may compel the planners to make rigid plans. This may deter the managers from taking initiative and doing innovative thinking. So the planners must have sufficient discretion and flexibility in the enterprise. They should not always be required to follow the procedures rigidly.
5. **Non-acceptability of change** : Resistance to change is another factor which puts limits on planning. It is a commonly experienced phenomenon in the business world. Sometimes, planners themselves do not like change and on other occasions they do not think it desirable to bring change as it makes the planning process ineffective.
6. **External limitations** : The effectiveness of planning is sometimes limited because of external factors which are beyond the control of the planners. External strategies are very difficult to predict. Sudden break-out of war, government control, natural havocs and many other factors are beyond the control of management. This makes the execution of plans very difficult.
7. **Psychological barriers** : Psychological factors also limit the scope of planning. Some people consider present more important than future because present is certain. Such persons are psychologically opposed to planning. But it should not be forgotten that dynamic managers always look ahead. Long-range wellbeing of the enterprise cannot be achieved unless proper planning is done for future.

❖ MEASURES TO OVERCOME LIMITATIONS OF PLANNING

Some people say that planning is a mere ritual in the fast changing environment. This is not a correct assessment on managerial planning. Planning may be associated

with certain difficulties such as non-availability of data, lethargy on the part of the planners, rigidity of procedures, resistance to change and changes in external environment. But these problems can be overcome by taking the following steps :

1. **Setting Clear-cut Objectives :** The existence of clear-cut objectives is necessary for efficient planning. Objectives should not only be understandable but rational also. The overall objectives of the enterprise must be the guiding pillars for determining the objectives of various departments. This would help in having coordinated planning in the enterprise.
2. **Management Information System :** An efficient system of management information should be installed so that all relevant facts and figures are made available to the managers before they perform the planning function. Availability of right type of information will help in overcoming the problems of complete understanding of the objectives and resistance to change on the part of the subordinates.
3. **Carefully Premising :** The planning premises constitute a framework within which planning is done. They are the assumptions of what is likely to happen in future. Planning always requires some assumptions to be made regarding future happenings. In other words, it is a prerequisite to determine future settings such as marketing, pricing, Government policy, tax structure, business cycle, etc. before giving the final shape to the overall business plan. Due weightage should be given to the relevant factors at the time of premising. It may be pointed out that the premises which may be of strategic significance to one enterprise may not be of equal significance to another because of size, nature of business, nature of market, etc.
4. **Business Forecasting :** Business is greatly influenced by economic, social, political and international environment. The management must have a mechanism of forecasting changes in such environment. Good forecasts will contribute to the effectiveness of planning.
5. **Dynamic Managers :** The persons concerned with the task of planning should be dynamic in outlook. They must take the required initiative to

make business forecasts and develop planning premises. A manager should always keep in mind that planning is looking ahead and he is making plans for future which is highly uncertain.

6. **Flexibility** : Some element of flexibility must be introduced in the planning process because modern business operates in an environment which keeps on changing. For achieving effective results, there should always be a scope to make necessary addition, deletion, or alternation in the plans as is demanded by the circumstances.
7. **Availability of Resources** : Determination and evaluation of alternatives should be done in the light of resources available to the management. Alternatives are always present in any decision problem. But their relative plus and minus points are to be evaluated in the light of the resources available. The alternative which is chosen should not only be concerned with the objectives of the enterprise, but also capable of being accomplished with the help of the given resources.
8. **Cost-Benefit Analysis** : The planners must undertake cost-benefit analysis to ensure that the benefits of planning are more than the cost involved in it. This necessarily calls for establishing measurable goals, clear insight to the alternative courses of action available, premising reasonable and formulation of derivative plans keeping in view the fact that environment is fast changing.

❖ **BASIC PRINCIPLES OF PLANNING**

The important principles of planning are as follows:

1. **Principle of contribution to objective** : The purpose of plans and their components is to develop and facilitate the realization of organizational aims and objectives. Long-range plans should be interwoven with medium-range plans which, in turn, should be meshed with short-range ones in order to accomplish organizational objectives more effectively and economically.
2. **Principle of limiting factors** : Planning must take the limiting factors (manpower, money, machines, materials, and management) into account

by concentrating on them when developing alternative plans, strategies, policies, procedures and standards.

3. **Principle of pervasiveness of planning :** Planning is found at all levels of management. Strategic planning or long-range planning is related to top management, while intermediate and short-range planning is the concern of middle and operative management respectively.
4. **Principle of navigational change :** This principle requires that managers should periodically check on events and redraw plans to maintain a course towards a desired goal. It is the duty of the navigator to check constantly, whether his ship is following the right direction in the vast ocean to reach the destination as scheduled. In the same way, a manager should check his plans to ensure that these are processing as required. He should change the direction of his plans if he faces unexpected events. It is useful if plans contain an element of flexibility. It is the responsibility of the manager, to adapt and change the direction of plans, to meet the challenge of constantly changing environment that could not be foreseen.
5. **Principle of flexibility :** Flexibility should be built into organizational plans. Possibility of error in forecasting and decisionmaking and future uncertainties is the two common factors which call for flexibility in managerial planning. The principal of flexibility states the management should be able to change an existing plan because of changes in environment, without due cost or delay, so that activities keep moving towards established goals. Thus, an unexpected slump in demand for a product will require change in sales plan as well as production plan. Change in these plans can be introduced, only when these possess the characteristics of flexibility. Adapting plans to suit future uncertainties or changing environment is easier if flexibility is an important consideration while planning.

❖ CATEGORIES AND LEVELS OF PLANNING

Planning can be classified on different bases which are discussed below :

1. **Strategic and Functional Planning :** In strategic or corporate planning, the top management determines the general objectives of the enterprise and the steps necessary to accomplish them in the light of resources currently available and likely to be available in the future. Functional planning, on the other hand, is planning that covers functional areas like production, marketing, finance and purchasing.
2. **Long-range and short-range planning :** Long-range planning sets long-term goals of the enterprise and then proceeds to formulate specific plans for attaining these goals. It involves an attempt to anticipate, analyze and make decisions about basic problems and issues which have significance reaching well beyond the present operating horizon of the enterprise. Short-range planning, on the other hand, is concerned with the determination of short-term activities to accomplish long-term with the determination of shortterm activities to accomplish long-term objectives. Short range planning relates to a relatively short period and has to be consistent with the long-range plans. Operational plans are generally related to short periods.
3. **Adhoc and Standing Planning :** Adhoc planning committees may be constituted for certain specific matters, as for instance, for project planning. But standing plans are designed to be used over and over again. They include organizational structure, standard procedures, standard methods etc.
4. **Administrative and Operational Planning :** Administrative planning is done by the middle level management which provides the foundation for operative plans. Operative planning, on the other hand, is done by the lower level mangers to put the administrative plans into action.
5. **Physical Planning :** It is concerned with the physical location and arrangement of building and equipment.
6. **Formal and Informal Planning :** Various types of planning discussed above are of formal nature. They are carried on systematically by the management. They specify in black and white the specific goals and the

steps to achieve them. They also facilitate the installation of internal control systems. Informal planning, on the other hand, is mere thinking by some individuals which may become the basis of formal planning in future.

LEVELS OF PLANNING

In management theory it is usual to consider that there are three basic level of planning, though in practice there may be more than three levels of management and to an extent there will be some overlapping of planning operations. The three level of planning are as under :

- 1. Top Level Planning :** Also known as overall or strategic planning, top level planning is done by the top management, i.e. board of directors or governing body. It encompasses the long-range objectives and policies of organization and is concerned with corporate results rather than sectional objective. Top level planning is entirely long-range and is inextricably linked with long-term objectives. It might be called the 'what' of planning.
- 2. Second Level Planning :** Also known as tactical planning, it is done by middle level managers or department heads. It is concerned with 'how' of planning. It deals with deployment of resources to the best advantage. It is concerned mainly, but not exclusively, with longrange planning, but its nature is such that the time spans are usually shorter than those of strategic planning. This is because its attentions are usually devoted to the step by step attainment of the organization's main objectives. It is, in fact, oriented to functions and departments rather than to the organization as a whole.
- 3. Third Level Planning :** Also known as operational or activity planning, it is the concern of department managers and supervisors. It is confined to putting into effect the tactical or departmental plans. It is usually for short-term and may be revised quite often to be in tune with the tactical planning.

2.6 ESSENTIAL STEPS IN PLANNING/PROCESS

Planning is a process which embraces a number of steps to be taken. It is an intellectual exercise and a conscious determination of courses of action. Therefore, it requires a serious thought on numerous factors necessary to be considered in

making plans. Facts are collected and analyzed and the best out of all is chosen and adopted. The planning process, valid for one organization and for one plan, may not be valid for all other organizations or all types of plans, because various factors that go into planning process may differ from organization to organization or plan to plan. For example, planning process for a large organization may not be the same as for a small organization. The steps generally involved in planning are as follows :

- 1. Establishing Verifiable Goals or Set of Goals to be Achieved :** The first step in planning is to determine the enterprise objectives. These are most often set by upper level or top managers, usually after a number of possible objectives have been carefully considered. There are many types of objectives managers may select: a desired sales volume or growth rate, the development of a new product or service, or even a more abstract goal such as becoming more active in the community. The type of goal selected will depend on number of factors: the basic mission of the organization, the values its managers hold, and the actual and potential ability of the organization.
- 2. Establishing Planning Premises :** The second step in planning is to establish planning premises, i.e. certain assumptions about the future on the basis of which the plan will be intimately formulated. Planning premises are vital to the success of planning as they supply economic conditions, production costs and prices, probable competitive behaviour, capital and material availability, governmental control and so on.
- 3. Deciding the planning period :** Once upper-level managers have selected the basic long-term goals and the planning premises, the next task is to decide the period of the plan. Business varies considerably in their planning periods. In some instances plans are made for a year only while in others they span decades. In each case, however, there is always some logic in selecting a particular time range for planning. Companies generally base their period on a future that can reasonably be anticipated. Other factors which influence the choice of a period are as follows: : (a) lead time in development and commercialization of a new product; (b) time required to

recover capital investments or the pay back period; and (c) length of commitments already made.

- 4. Findings Alternative Courses of Action :** The fourth step is planning is to search for and examining alternative courses of action. For instance, technical know-how may be secured by engaging a foreign technician or by training staff abroad. Similarly, products may be sold directly to the consumer by the company's salesmen or through exclusive agencies. There is seldom a plan for which reasonable alternatives do not exist, and quite often an alternative that is not obvious proves to be the best.
- 5. Evaluating and Selecting a Course of Action :** Having sought alternative courses, the fifth step is to evaluate them in the light of the premises and goals and to select the best course or courses of action. This is done with the help of quantitative techniques and operations research.
- 6. Developing Derivative plans :** Once the plan has been formulated, its broad goals must be translated into day-to-day operations of the organization. Middle and lower-level managers must draw up the appropriate plans, programmes and budgets for their sub-units. These are described as derivative plans. In developing these derivative plans, lower-level managers take steps similar to those taken by upper-level managers - selecting realistic goals, assessing their sub-units particular strength and weaknesses and analyzing those parts of the environment that can affect them.
- 7. Measuring and Controlling the Progress :** Obviously, it is foolish to let a plan run its course without monitoring its progress. Hence the process of controlling is a critical part of any plan. Managers need to check the progress of their plans so that they can (a) take whatever remedial action is necessary to make the plan work, or (b) change the original plan if it is unrealistic.

2.7 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, intuition, 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 choicewherein 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.

❖ 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.

❖ 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, problemsolving

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 decisionmaking 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.

2.8 PROCESS OF DECISION MAKING

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 of 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. Killar, 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.

❖ 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 nonprogrammed 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 problemsolving 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.

❖ **TOOLS OR TECHNIQUES OF DECISION MAKING**

The following are some of the important decision making techniques :

- (A) Qualitative Techniques
 - (B) Quantitative Techniques
- (A) **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-I : 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

Strategy	State of Nature	
	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.

❖ DECISION MAKING MODELS

I. The Rational-Economic (or Classical) Model

- Is prescriptive in that it focuses on how decisions ought to be made.
- Assumes the decision maker is completely rational (i.e., seeks to maximize the payoff and utilizes a search process that proceeds in a planned, orderly and consistent fashion) and unbiased.
- Assumes that the decision maker has available all the information needed to make a decision and that all possible alternatives are considered.
- The decision maker selects the optimum or best choice.
- Decision making proceeds through the following sequence of steps: problem identification, development of criteria against which alternative solutions can be evaluated, identification of alternative courses of action, evaluation of alternatives, selection of the best alternative, and

implementation.

II. The Administrative (or Behavioral) Model

- Is descriptive in that it describes how decisions are actually made.
- Decision makers seek to simplify problems and make them less complex because they are constrained by their individual capabilities (e.g., limited information processing ability) and by organizational conditions (e.g., availability of resources).
- Assumes that decision makers operate with limited (or “bounded”) rationality; this means that decision makers are rational within a simplified model which contains fewer components (e.g., fewer decision making criteria, fewer options, etc.).
- Assumes that decision makers identify a limited number of decision making criteria, that they examine a limited range of alternatives (only those which are easy to find, highly visible, have been tried before or are only slightly different from the status quo) and that they do not possess all the information needed to make a decision.
- The decision maker selects a satisficing alternative. This is an alternative that is “good enough” or satisfactory in that it meets the minimum criteria established for a desired solution.
- Decision making proceeds sequentially: alternatives are examined one at a time and the first satisfactory alternative that is found is selected.

III. The Implicit Favorite Model

- Is descriptive in that it describes how decisions are actually made.
- The decision maker seeks to simplify the decision making process by identifying an “implicit favorite” before alternatives are evaluated; this often occurs subconsciously.
- The decision maker is neither rational nor objective and unbiased.
- After a “favorite” is selected, the decision maker tries to appear rational and objective by developing decision criteria and by identifying and

evaluating various alternatives; however, this is done in a biased way so as to ensure that the favorite appears superior on these criteria and thus, can legitimately be selected as the “best” solution.

- In this model, “decision making” is essentially a process of confirming a choice /decision that has already been made. The actual decision was made in an intuitive and unscientific fashion.

IV. The Political Model

- Is descriptive in that it describes how decisions are actually made.
- The decision maker is neither rational nor objective and unbiased.
- Since the group members have different agendas, they need to negotiate with each other.
- The process involves a cycle of bargaining among the decision makers in order for each one to try to get his or her perspective to be the one of choice – more specifically, to sway powerful people within the situation to adopt his or her viewpoint and influence the remaining decision makers.
- This model does not involve making full information available, since it is based upon negotiation that is often influenced by power and favors. In fact, information is often withheld in order to better maneuver a given perspective.
- In this model, potential problems and conflict often can be foreseen and minimized. Once powerful people have been swayed to support a particular viewpoint, other group members usually fall in line behind them.
- The nature of bargaining and maneuvering (e.g., withholding information and social pressure) can produce effects that are long-lasting and detrimental. Once they discover it, the individuals involved in the decision may not appreciate the duplicity inherent in the process.

2.9 ORGANISING

The term 'organization' connotes different meanings to different people. Many writers have attempted to state the nature, characteristics and principles of

organization in their own way. For instance, to the sociologists organization means a study of the interactions of the people, classes, or the hierarchy of an enterprise; to the psychologists organization means an attempt to explain, predict and influence behaviour of individuals in an enterprise; to a top level executive it may mean the weaving together the functional components in the best possible combination so that an enterprise can achieve its goals. The word 'organization' is also used widely to connote a group of people and the structure of relationships. Some important definitions of organization are given below :

"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'Donnel

"The process of identifying and grouping the work 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 objects". Louis A. Allen "The structure and process by which a cooperative group of human beings allocates its tasks among its members, identifies relationship, and integrates its activities towards common objectives". Joseph L. Massive. From the above definitions, it is clear that organizing 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 organization.

An analysis of the above definitions reveals the following characteristics of an organization :

1. It is a group of individuals which may be large or small.
2. The group in the organization 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 structure of duties and responsibilities.

7. It is established for accomplishment of common objectives
8. It is a functional concept.

Sound organization brings about the following advantages :

1. Facilitates attainment of the objectives of the enterprise.
2. Facilitates optimum use of resources and new technological development.
3. Facilitates growth and diversification.
4. Stimulates creativity and innovation.
5. Facilitates effective communication.
6. Encourages better relations between the labour and the management.
7. Increase employee satisfaction and decreases employee turnover.

❖ NATURE OF ORGANISATION

The term 'organization' is used in two different senses. In the first sense it is used to denote the process of organizing. In the second sense, it is used to denote the results of that process, namely, the organizational structure. So, the nature of organization can be viewed in two ways :

- (a) Organization as a process; and
 - (b) Organization as a structure or framework of relationship.
- (a) Organization as a process :** As a process, organization is an executive function. It becomes a managerial function involving the following activities :
- (i) Determining activities necessary for the accomplishment of the business objective.
 - (ii) Grouping of interrelated activities.
 - (iii) Assigning duties to persons with requisite competence,
 - (iv) Delegating authority, and
 - (v) Coordinating the efforts of different persons and groups.

When we consider organization as a process, it becomes the function of every manager. Organizing 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 reassignment of duties. Right

persons have to be recruited and necessary training has to be imparted to enable them to be competent to handle the jobs. The process of organization thus, involves dividing the work into rational way and interpreting the activities with work situation and personnel. It also represents humanistic view of the enterprise since it is the people which are uppermost in the process of integration of activities. Continuous review and adjustment makes this dynamic as well.

Organization as a structure or framework of relationships : As structure, organization is a network of internal authority, responsibility relationships. It is the framework of relationship of persons, operating at various levels, to accomplish common objectives. An organization 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, analysis of different types has 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, organization 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 organization is, thus, a static one. It is also called classical concept. Organization charts are prepared depicting the relationship of different persons. In an organizational structure, both formal and informal organizations 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 organization. Both formal and informal organizations, thus, have structure.

❖ STEPS IN THE PROCESS OF ORGANISING

The managerial function of organizing may be called as the 'process of organizing'. When the objectives have been set and policies framed, the necessary infrastructure of organization has to be built up. The concentration goes to activities and functions. These form 'the building blocks' of the organizational structure. There are no such rules as to which will lead to the best organizational structure. But the following steps can be of great help in the designing a suitable structure, which will laid in achieving enterprise objectives :

1. **Clear definition of objectives** : The first step in developing an organizational structure is to lay down its objectives in very clear terms. This will help in determining the type, stability and basic characteristics of the organization. In fact, organization activities are detailed in terms of objective to be achieved.
2. **Determining activities** : In order to achieve the objectives of the enterprise, certain activities are necessary. The activities will depend upon the nature and size of the enterprise. For example, a manufacturing concern will have production, marketing and other activities. There is no production activity in retail establishment. Each major activity is divided into smaller parts. For instance, production activity may be further divided into purchasing of materials, plant layout, quality control, repairs and maintenance, production research etc.
3. **Assigning duties** : The individual groups of activities are then allotted to different individuals according to their ability and aptitude. The responsibility of every individual should be defined clearly to avoid duplication and overlapping of efforts. Each person is given a specific job suited to him and he is made responsible for its execution. Right man is put in the right job.
4. **Delegating authority** : Every individual is given the authority necessary

to perform the assigned activity effectively. By authority we mean power to take decisions, issue instructions, guiding the subordinates, supervise and control them. Authority delegated to a person should commensurate with his responsibility. An individual cannot perform his job without the necessary authority or power. Authority flows from top to bottom and responsibility from bottom to top.

5. **Coordinating activities :** The activities and efforts of different individuals are then synchronized. Such coordination is necessary to ensure effective performance of specialized functions. Interrelationship between different job and individuals are clearly defined so that everybody knows from whom he has to take orders and to whom he is answerable.
6. **Providing physical facilities and right environment :** The success of an organization depends upon the provision of proper physical facilities and right environment. Whereas it is important to have right persons on right jobs, it is equally important to have right working environment. This is necessary for the smooth running and the prosperity of the enterprise.
7. **Establishment of structural relationship for overall control :** It is very essential to establish well defined clear-cut structural relationships among individuals and groups. This will ensure overall control over the working of all departments and their coordinated direction towards the achievements of predetermined goals of business.

It is thus clear from the foregoing analysis that organization provides a structural framework of duties and responsibilities. It not only establishes authority relationship but also provides a system of communication. The various processes of organization explained above are technically performed through (a) departmentation (b) delegation of authority and fixation of responsibilities and (c) decentralization of authority subject to central control through centralization of decision-making.

❖ OBJECTIVES 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

organization but just a mob. But when, for instance they are invited to participate in a conference, an element of purpose has been introduced. A purpose refers to commitment to desired future. Objectives and purposes, generally, are interchangeable terms. Why should business enterprise organize itself ? The answer to this question brings out its objectives. Objectives of a business organization are distinguished from the objectives of other social organizations. To put it more precisely, the nature of an organization (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 organizing business :

- 1. Effective management of the enterprise :** Effective management largely depends upon effective organization. It is the effective organization which ensures proper balance between authority and responsibility. It achieves a clear line of communication, and defines the areas of work. It is the organization which allows the top management to concentrate on overall planning and supervision, leaving the routine work for the lower levels of administration. It saves the entire enterprise from adhocism, 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 organization 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 will 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. A static business soon grows stale and get out of run. It should grow from a small scale concern to a medium scale one and from a medium scale concern to large scale one. Organization plays an important role in this respect. Execution of policies in organized manner builds the necessary

capacity and confidence in undertaking bigger activities.

4. Cooperation of employees : The organizational structure will succeed only if employees cooperate in the work. The employees learn working in closer cooperation of others. The management introduces various incentive schemes and gives monetary and other benefits to the employees, so that they work in a team spirit.

5. Discharging social responsibility : Maximizing of profits, no doubt, is the motive of every business. Without profit, no business can exist. But business is a part and parcel of society at large. It cannot survive long by exploiting consumers and society. It has to serve the society by providing it with goods of good quality at reasonable prices. It has to ensure smooth supply of goods as per the needs to consumers. The service motto cannot be realized without a well-knit organization structure. So, to discharge social obligation is an important objective of building up sound organization. The purpose of sound organization 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 groupgoals.
- (iii) to create relationships which minimize friction, focus on the objective, closely define the responsibilities of all parts and facilitate the attainment of the objective.
- (iv) to subdivide the management process by which plans are translated into actions so as to make management most effective.

Thus, to sum up we can say that organization is a process by which the manger brings order out of chaos, removes conflicts between people over work or responsibility, and establishes an environment suitable for teamwork.

❖ **PRINCIPLES OF ORGANISATION**

Effective and efficient working of any organization depends on how the managerial

function of organization is being performed. The function of organization can be carried effectively with the help of under mentioned principles:

- (i) **Division of work :** While structuring organization, division of work, at the very outset, should be considered as the basis of efficiency. It is an established fact that group of individuals can secure better results by having division of work. Therefore, while designing the organization we should aim at making suitable grouping of activities. This is also called the principle of specialization.
- (ii) **Attention to objectives :** An organization is a mechanism to accomplish certain goals or objectives. The objectives of an organization play an important role in determining the type of structure which should be developed. Clearly defined objectives facilitate grouping of activities, delegation of authority and consequently effective coordination.
- (iii) **Span of management :** Span of management also refers to span of control signifying the number of subordinates reporting directly to any executive. It is an established fact that larger the number of subordinates reporting directly to the executive, the more difficult it tends to be for him to supervise and coordinate them effectively. This important principle of management should also be kept in mind.
- (iv) **Unity of command :** Organization structure should also be designed in such a way that there exists unity of command in the sense that a single leader is the ultimate source of authority. This facilitates consistency in directing, coordinating and controlling to achieve the end objectives.
- (v) **Flexibility :** While designing the organization it should be kept in mind that organizational structure should not be regarded as static. Every organization is a living entity in a living environment which is fast changing . As such there must be sufficient room for changing and modifying the structure in the light of environmental changes so that the ultimate objective of the organization is achieved.
- (vi) **Proper balance :** It is important to keep various segment or departments of an organization in balance. The problem of balance basically arises

when an activity or a department is further divided and subdivided into smaller segments. The problems of balancing also crops up with the growing of any organization in its size and functioning.

- (vii) **Management by exception** : It is a fundamental principle that makes any organization effective in its true sense. This principle signifies that problems of unusual nature only should be referred upward and decided by higher level executives in the managerial hierarchy, whereas the routine problems should be passed on to lower levels and resolved there. Application of this principle as such, certainly requires adhering to the principle of delegation of authority. The principle of exception is thus of significant practical utility and applies to all levels in the organization structure.
- (viii) **Decentralization** : This principles is of great significance to big organizations. Decentralization implies selective dispersal of authority to help departments and units to run effectively and efficiently without frequent interruptions from the top of the enterprise. It requires very careful selection of what decisions to push down into the organization, of what to hold at or near the top specific policy making to guide the decision-making, selection and training of people and adequate control. Decentralization, as such, embraces all areas of management and evidently is of overwhelming significance in organization structure.
- (ix) **Departmentation** : Departmentation is the process of grouping activities into units for purposes of administration. In other words, it denotes grouping of related jobs and activities without violating the principle of homogeneity over which an executive has authority to exercise and assert. The main advantages of departmentation are that it enables individual executive to mange his subordinates effectively since a manageable number of persons are brought under the direct supervision of individual executive.
- (x) **Efficiency** : The organization should be able to attain the predetermined objectives at the minimum cost. It is done so, it will satisfy the test of efficiency. From the point of view of an individual, a good organization should provide the maximum work satisfaction. Similarly, from the social point of view, an organization will be efficient when it contributes the

maximum towards the welfare of the society.

- (xi) **Scalar principle** : Scalar chain refers to the vertical placement of superiors starting from the chief executive at the top through the middle level to the supervisory level at the bottom. Proper scalar chain or line of command is prerequisite for effective organization.
- (xii) **Unity of direction** : This means that each group of activities having the same objectives should have one plan and one head. There should be one plan or programme for each segment of work which is to be carried under the control and supervision of one head or superior. If different plans or policies are followed in one department by the subordinates, confusion is bound to occur.
- (xiii) **Continuity** : The form of organization structure should be such which is able to serve the enterprise to attain its objectives for a long period of time.
- (xiv) **Coordination** : The principal of coordination underlines that there should be proper liaison and cooperation between different departments and units of work. Unity of efforts for the accomplishment of desired objectives is the main aim of organization. This can be achieved through the principle of coordination.
- (xv) **Authority and responsibility** : Authority should commensurate with responsibility. While assigning the responsibility, authority should also be assigned. If authority is not granted, the subordinates cannot discharge their responsibility properly.

❖ **ADVANTAGES OF ORGANISATION**

The primary duty of management is to achieve the objectives of the enterprise. The objectives may be social, economic, political or religious. Proper organization of men, materials, money and equipment is necessary. Organization is the mechanism through which management directs,

coordinates and controls the business. A sound organization offers the following advantages, which summarizes its importance :

1. **Enhancement of managerial efficiency :** A sound organization brings a proper coordination among various factors of production and leads to their optimum utilization. It avoids confusion, duplication and delays in work. It motivates the worker by proper division of work and labour. It reduces the work load of executives by delegation of authority.
2. **Growth, expansion and diversification :** Organization provides the framework within which an enterprise can expand and grow. Through organization, management can multiply its strength. In a good organization, the money and effort spent on different activities are in proportion to their contributions. It is through proper organization setup that many firms have grown from humble beginning to a giant size.
3. **Specialization :** A sound organization structure provides the benefits of specialization. Various activities are allocated between different individuals according to their qualifications, experience and aptitude. It increases their efficiency. Systematic organization of activities helps to secure economics and to minimize costs.
4. **Adoption of new technology :** A properly designed and wellbalanced organization permits prompt adoption and optimum use of technological improvements. It has the capacity to absorb changes in the environment of business and to provide a suitable reaction to such changes. A good organization helps in the development of new and improved means of doing things.
5. **Coordination :** Organization facilitates coordination of diverse activities. Different functions are welded together to accomplish the desired objectives. Clear lines of authority and responsibility between various positions, ensure mutual cooperation and harmony in the enterprise. A good organization enables people to work with team spirit.
6. **Training and Development :** By delegating authority to lower levels, training and development of future executives is made possible. A good organization puts 'right man at the right job' and provide them right training

and managerial development programmes. By appointing employees in different department assigning them different jobs, their training needs can be ascertained.

7. **Creativity, initiative and innovation :** A good organization encourages initiative and creative thinking. Employees are motivated to break new grounds and try unconventional methods. A sound organization offers the scope for recognition of merit followed by financial incentives to the personnel showing creativity.
8. **Check on corrupt practices :** A weak and unsound organization is source of corruption and inefficiencies. Well organized, welldefined, disciplined and sound organizations boost the morale and motivation of workers. It develops a feeling of involvement, belongingness, devotion, honesty and sincerity among employees. It prevents corruption, inefficiencies and wastage in an enterprise.
9. **Proper weightage to all activities :** A sound organization divides the entire enterprise into different departments, sections and subsections according to the functions to be performed by them. Each function of an enterprise has got its own importance. Emphasis is given according to their relative importance. Funds and manpower is allocated to their relative importance.
10. **Better human relations :** Human beings involved in an organization are only dynamic element of organization. A dedicated and satisfied group of persons proves an asset to any establishment. An organization, built on sound principles, helps harmony in human relations. With properly defined authority, responsibility and accountability, different persons enjoy job-satisfaction. Organization consists of human beings and their satisfaction helps in improving human relations. Thus, organization is the foundation of management. Sound organization is an indispensable mean for efficient management and better business performance. It not only facilitates efficient administration but also encourages growth and diversification. It provides for optimum use of new technology, stimulates innovation and creativity.

❖ FORMAL AND INFORMAL ORGANISATION

Formal organization refers to the structure of relationships deliberately built up by the top management to realize the objectives. In this form instructions, responsibility, authority, accountability, lines of command, and positions and authority are clearly defined and declared. Each person is aware of his duties and authority. Every subordinate is expected to obey his supervisor in the formal chain of command. Each individual is fitted in the organization like a cog in the machine. It is designed after careful identification, classification and assignment of business activities. So, it is conscious creation of relationships.

Informal organization refers to the network of personal and social relationships which arise spontaneously when people working together interact on personal whims, likes and prejudices. Such relations are not created by the top management and they are not recognized formally. The informal groups sometimes run parallel to the formal ones. Informal relations are not portrayed on organization charts and manuals. An informal organization provides an opportunity to workers to come close to each other, develop a feeling of cooperation and coordination among themselves.

Difference Between Formal and Informal Organizations

The difference between formal and informal organizations can be enumerated briefly as below :

- 1. Formation :** Formal organization is deliberately created by management. It is the result of a conscious and deliberate effort involving delegation of authority. On the other hand, informal organization arises spontaneously and no conscious efforts are made to create it. It takes place on the basis of relationships, caste, culture, occupations and on personal interests etc. No delegation of authority is essential in informal organization.
- 2. Basis :** A formal organization is based upon rules and procedures, while an informal organization is based upon attitudes and emotions of the people. It depends on informal, social contacts between people working and associating with one another.

3. **Nature** : A formal organization is stable and predictable and it cannot be changed according to the whims or fancies of people. But an informal organization is neither stable nor predictable.
4. **Set up** : A formal organization is a system of well defined relationships with a definite authority assigned to every individual. It follows predetermined lines of communication. On the contrary, an informal organization has no definite form and there are no definite rules as to who is to report to whom. Even a low-placed employee may have an informal relationship with an officer far above him in the formal hierarchy.
5. **Emphasis** : In a formal organization, the main emphasis is placed on authority and functions. In an informal organization the stress is on people and their relationships.
6. **Authority** : Formal authority is attached to a position and it flows from top to bottom. Informal authority is attached to a person and it flows either downwards or horizontally.
7. **Existence** : A formal organizations exists independently of the informal groups that are formed within it. But an informal organization exists within the framework of a formal structure.
8. **Rationality** : A formal organization operates on logic rather than on sentiments or emotions. All activities follow a predetermined course. As an association between like-minded people, an informal organization has little rationality behind it. In an informal organization, activities are influenced by emotions and sentiments of its members.
9. **Depiction** : Formal organization can be shown in an organization chart or a manual. But an informal organization cannot be depicted in the chart or manual of the enterprise.

❖ **FORMS OF ORGANISATION STRUCTURE**

Organization requires the creation of structural relationship among different

departments and the individuals working there for the accomplishment of desired goals. The establishment of formal relationships among the individuals working in the organization is very important to make clear the lines of authority in the organization and to coordinate the efforts of different individuals in an efficient manner. In order to organize the efforts of individuals, any of the following types of organization structures may be set up : (i) Line organization, (ii) Line and staff organization, (iii) Functional organization, (iv) Committee organization, (v) project Organization, and (vi) Matrix organization. The nature, merits and demerits of line organization, and line and staff organization are discussed as under :

❖ Line Organization

The line organization represents the structure in a direct vertical relationship through which authority flows. It is the simplest form of organization structure and is also known as scalar or military organization. Under this, the line of authority flows vertically downward from top to bottom throughout the organization. The quantum of authority is highest at the top and reduces at each successive level down the hierarchy. Every person in the organization is in the direct chain of command as shown in

Fig.1

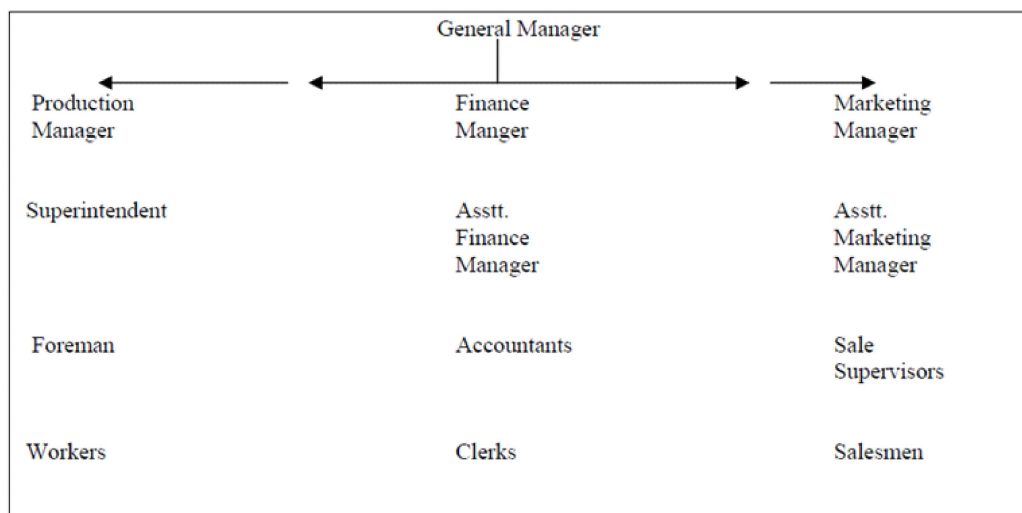


Fig 1: Line Organisation

In line organization, the line of authority consists of an uninterrupted series of authority steps and forms a hierarchical arrangement. The line authority not only becomes the avenue of command to operating personnel but also provides the channel of communication, coordination and accountability in enterprise.

Advantages of Line Organization

- (i) It is very easy to establish line organization and it can be easily understood by the employees.
- (ii) It facilitates unity of command and thus conforms to the scalar principle of organization.
- (iii) There is clear-cut identification of authority and responsibility relationship. Employees are fully aware of the boundaries of their jobs.
- (iv) It ensures excellent discipline in the enterprise because every individual knows to whom he is responsible.
- (v) It facilitates prompt decision-making because there is definite authority at every level. An executive cannot shift his decision making to others, nor can the blame be shifted.

Disadvantages of Line Organization

- (i) With growth, the line organization makes the superiors too overloaded with work. If the executive try to keep up with every activity, they are bogged down in myriad details and are unable to pay proper attention to each one. It will hamper their effectiveness.
- (ii) There is concentration of authority at the top. If the top executives are not capable, the enterprise will not be successful.
- (iii) Line organization is not suitable to big organizations because it does not provide specialists in the structure. Many jobs require specialized knowledge

to perform them.

- (iv) There is partially no communication from bottom upwards because of concentration of authority at the higher levels. If superiors take a wrong decision, it would be carried out without anybody having the courage to point out its deficiencies.

In spite of these drawbacks, the line organization structure is very popular particularly in small organizations where there are less number of levels of authority and a small number of people. A modification of this structure is line and staff organization under which specialists are attached to line executives to provide them specialized assistance on matters of great importance to be enterprise.

❖ LINE AND STAFF ORGANIZATION

The line executive is often described as the individual who stands in the primary chain of command and is directly concerned with the accomplishment of primary objectives. Line organization provides decision-making authority to the individuals at the top of the organization structure and a channel for the flow of communication through a scalar chain of authority. Line executives are generalists and do not possess specialized knowledge which is a must to tackle complicated problems.

With a view to give specialist aid to line executives, staff positions are created throughout the structure. Staff elements bring expert and specialized knowledge to provide advice to line managers so that they may discharge their responsibilities successfully.

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 men 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 organization as they are employed to provide expert advice to the line officers. Staff means a supporting function intended to help the line manager. In most organizations, the use of staff can be traced to the need for help in handling details, gathering data for decision-making and offering advice on specific managerial problems. Staff investigates and supplies information and recommendations to managers who make decisions. Specialized staff positions are created to give counsel and assistance in each specialized field of effort as shown in Fig.2

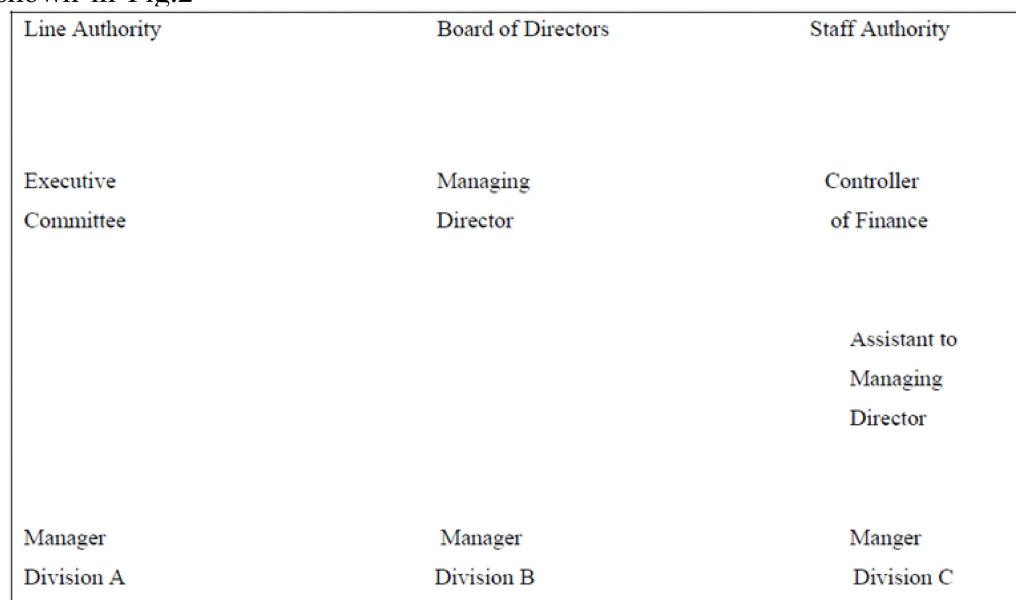


Fig 2 : Line and Staff Organisation

Line and staff structure has gained popularity because certain problems of management have become very complex and, in order to deal with them, expert knowledge is necessary which can be provided by the staff officers.

For instance, personnel department is established as staff department to advise the line executives on personnel matters. Similarly, finance, law and public relations departments may be set up to advice on problems related to finance and accounting, law and public relations.

The staff officers do not have any power of command in the organization as they are employed to provide advice to the line officers. In most organizations, the use of staff can be traced to the need for help in handling details, gathering data and offering advice on specific managerial problems.

Advantages of Line and Staff Organization

- (i) **Specialized knowledge.** Line managers get the benefit of specialized knowledge of staff specialists at various levels.
- (ii) **Reduction of burden.** Staff specialists relieve the line managers of the botheration of concentrating on specialized functions like accounting, selection and training, public relations, etc.
- (iii) **Proper weightage.** Many problems that are ignored or poorly handled in the line organization can be properly covered in the line and staff organization by the use of staff specialists.
- (iv) **Better decisions.** Staff specialists help the line executives in taking better decisions by providing them with adequate information of right type at the right moment and expert advice.
- (v) **Flexibility.** Line and staff organization is more flexible as compared to the line organization. General staff can be employed to help line managers at various levels.
- (vi) **Unity of command.** Under this system, the experts provide special guidance without giving orders. It is the line manager who only has got the right to give orders. The result is that the enterprises takes advantage of functional organization while maintaining the unity of command i.e., one subordinate receiving orders from one boss only.

Demerits of Line and Staff Organization

Line and staff organization suffers from the following drawbacks :

- (i) There is generally a conflict between the line and staff executives. There is a danger that the staff may encroach on the line authority. Line managers

feel that staff specialists do not always give right type of advice, and staff officials generally complain that their advice is not properly attended to.

- (ii) The allocation of duties between the line and staff executives is generally not very clear. This may hamper coordination in the organization.
- (iii) Since staff men are not accountable for the results, they may not be performing their duties well.
- (iv) There is a wide difference between the orientation of the line and staff men. Line executives' deals with problems in a more practical manner. But staff officials who are specialists in their fields tend to be more theoretical.

Superiority of Line and Staff Organization over Line Organization

Line and staff organization is considered better than the line organization because of the following reasons :

- (i) Staff makes available expert advice to line executives. This is necessary to deal with complex problems of management. For instance, personnel department is established as a staff department to advise the top executives and other line executives on personnel matters.
- (ii) Better decisions are ensured in line and staff organization as compared to a simple line organization.
- (iii) Line and staff structure is more suitable for large organizations as expert advice is always available. The line managers can make use of the knowledge of staff specialists to deal with complicated problems. Therefore, line and staff organization is certainly better than line organization.

❖ VIRTUAL ORGANISATION STRUCTURE

This new form of organisation, *i.e.*, 'virtual organisation' emerged in 1990 and is also known as digital organisation, network organisation or modular organisation. Simply speaking, a virtual organisation is a network of cooperation made possible by, what is called ICT, *i.e.* Information and Communication Technology, which is flexible and comes to meet the dynamics of the market.

Alternatively speaking, the virtual organisation is a social network in which all the horizontal and vertical boundaries are removed. In this sense, it is a boundary less organisation. It consists of individual's working out of physically dispersed work places, or even individuals working from mobile devices and not tied to any particular workspace. The ICT is the backbone of virtual organisation.

It is the ICT that coordinates the activities, combines the workers' skills and resources with an objective to achieve the common goal set by a virtual organisation. Managers in these organisations coordinate and control external relations with the help of computer network links. The virtual form of organisation is increasing in India also. Nike, Reebok, Puma, Dell Computers, HLL, etc., are the prominent companies working virtually.

While considering the issue of flexibility, organisations may have several options like flexi-time, part-time work, job-sharing, and home-based working. Here, one of the most important issues in-volved is attaining flexibility to respond to changes - both internal and external - is determining the extent of control or the amount of autonomy the virtual organisations will impose on their members.

This is because of the paradox of flexibility itself. That is: while an organisation must possess some procedures that enhance its flexibility to avoid the state of rigidity, on the one hand, and simultaneously also have some stability to avoid chaos, on the other.

Characteristics:

A virtual organisation has the following characteristics:

1. Flat organisation
2. Dynamic
3. Informal communication
4. Power flexibility
5. Multi-disciplinary (virtual) teams
6. Vague organisational boundaries
7. Goal orientation

8. Customer orientation
9. Home-work
10. Absence of apparent structure
11. Sharing of information
12. Staffed by knowledge workers.

In fact, this list of the characteristics of virtual organisation is not an exhaustive one but illustrative only. One can add more characteristics to this list.

Types of virtual organisations:

Depending on the degree or spectrum of virtuality, virtual organisations can be classified into three broad types as follows:

1. Telecommuters
2. Outsourcing employees/competencies
3. Completely virtual

A brief description of these follows in turn.

Telecommuters:

These companies have employees who work from their homes. They interact with the workplace via personal computers connected with a modem to the phone lines. Examples of companies using some form of telecommuting are Dow Chemicals, Xerox, Coherent Technologies Inc., etc.

Outsourcing Employees/Competencies:

These companies are characterised by the outsourcing of all/most core competencies. Areas for outsourcing include marketing and sales, human resources, finance, research and development, engineering, manufacturing, information system, etc. In such case, virtual organisation does its own on one or two core areas of competence but with excellence. For example, Nike performs in product design and marketing very well and relies on outsources for information technology as a means for maintaining inter-organisational coordination.

Completely Virtual:

These companies metaphorically described as companies without walls that are tightly linked to a large network of suppliers, distributors, retailers and customers as well as to strategic and joint venture partners. Atlanta Committee for the Olympic Games (ACOG) in 1996 and the development efforts of the PC by the IBM are the examples of completely virtual organisations.

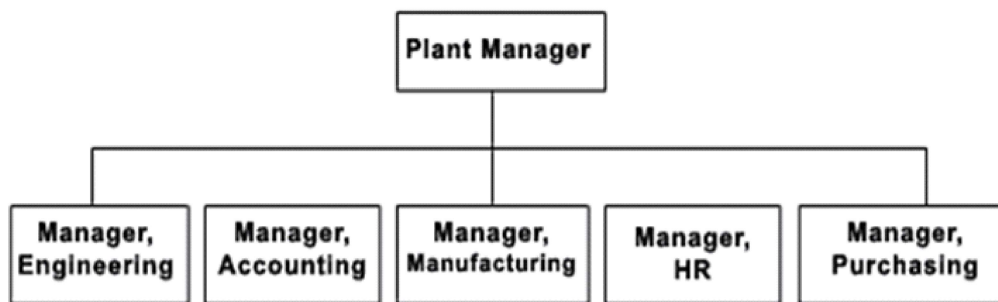
BASES OF DEPARTMENTATION

the six different basis of departmentation in an organisation. The basis are: 1. Departmentation by Function 2. Departmentation by Products 3. Departmentation by Territory/Geographic Departmentation 4. Departmentation by Customers 5. Departmentation by Process 6. Combined Base.

Basis of Departmentation # 1. Departmentation by Function:

Similar activities of a business are grouped into major departments or divisions under an executive who reports to the chief executive.

This departmentation is most widely used basis for organising activities and is present in every organisation at some level (Fig. 6.6).



Merits of Departmentation by Function:

1. It suits well the small enterprises for creating major departments.
2. It promotes specialization.
3. It economizes operations and makes possible the adoption of logical and comprehensible structure.

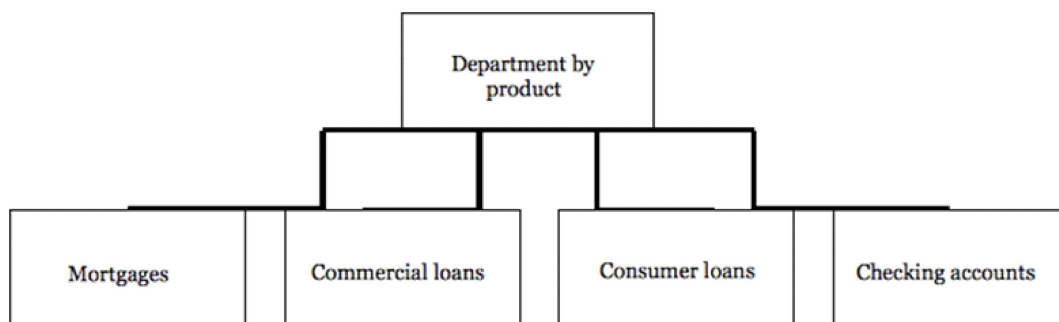
4. It facilitates inter-departmental co-ordination.
5. It suits well for those organisations which have single product line.

Demerits of Departmentation by Function:

1. It may lead to excessive centralization.
2. Decision making process is delayed.
3. Poor inter-departmental co-ordination.
4. It is rather difficult to set up specific accountability and profit centres within functional departments so the performance is not accurately measured.
5. It hinders human development in all the areas.

Basis of Departmentation # 2. Departmentation by Product:

In a multiproduct organisation the departmentation by product most suits. Here the activities are grouped on the basis of produce or product lines. All functions related to particular product are brought together under the umbrella of product manager. Fig. 6.7 illustrates the product departmentation.



Merits of Departmentation by Product:

1. Each product division can be taken as a viable profit centre for accountability purposes. The performance of individual products can be easily accessed

to distinguish between profitable and unprofitable products.

2. Marketing strategy becomes more pragmatic.
3. Top management is relieved of operating task responsibility and can concentrate on such centralized activities as finance, research etc.
4. It facilitates decentralization.
5. Attention is given to product lines, which is good for further diversification and expansion.

Demerits of Departmentation by Product:

- (1) It increases management cost. Service functions are duplicated both at the top and at the operating levels of management.
- (2) High cost of operation prevents the small & medium sized concerns from adopting this basis of classification, particularly for creating major units.
- (3) There are problems at the top of co-ordination.

Basis of Departmentation # 3. Departmentation by Territory:

It is suitable for organisations having wide geographical market such as pharmaceuticals, banking, consumer goods, insurance, railways etc. Here, the market is broken up into sales territories and a responsible executive is put in charge of each territory. The territory may be known as district, division or region. The fig. 6.8 shows the geographical departmentation.



Merits of Departmentation by Territory:

1. It helps in achieving the benefits of local operations such as local supply of materials & labour, local markets etc.
2. Full attention can be paid to local customer groups.
3. A regional division achieves a better co-ordination and supervision of activities in a particular area.
4. It helps in reducing transportation and distribution costs.
5. It facilitates the expansion of business to different regions.
6. It provides an opportunity to a regional manager to gain broad experience as he looks after the complete operation in a particular territory

Demerits of Departmentation by Territory:

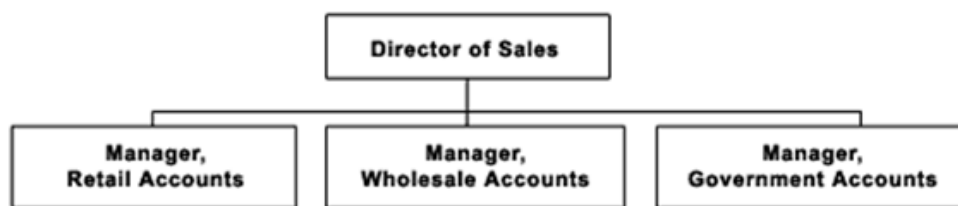
1. It creates the problem of communication and co-ordination between various regional offices.
2. It may be uneconomical due to costly duplication of personnel & physical facilities.
3. It may be difficult to provide efficient centralized services to various departments located in different areas.
4. Various regional units may become so engrossed in short term competition among themselves that the overall long term interests of the organisation as a whole may be overlooked.
5. The problem of top management control becomes difficult.

Basis of Departmentation # 4. Departmentation by Customers:

This type of classification is adopted by enterprises offering specialized services. To give the attention to heterogeneous groups of buyers in the market, marketing activities are often split into various several parts.

Such groups are suitable to organisations serving several segments like a pharmaceutical company supplying to institutional buyers such as hospitals and government and non-institutional buyers as wholesalers and retail chemists.

The general organisation of this type of departmentation is depicted big fig 6.9:



Merits of Departmentation by Customers:

1. The main advantage of following this type of departmentation is that particular needs of the particular- customers can be solved.
2. Benefits of specialization can be obtained.

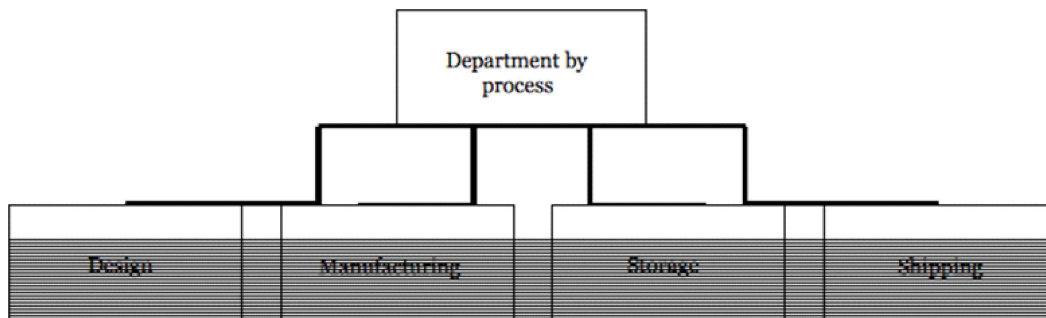
Demerits of Departmentation by Customers:

1. There may be duplication and underutilization of facilities and resources.
2. It may be difficult to maintain co-ordination among the different customer departments.

Thus, customers' departmentation is useful for those enterprises which have to cater to the special and varied needs of different classes of customers.

Basis of Departmentation # 5. Departmentation by Process:

The production function may be further subdivided on the basis of the process of production when the production process has distinct activity groups, they are taken as the basis of departmentation. The departmentation by process can be shown as (Fig 6.10).



Process departmentation is suitable when the machines or equipment's used are costly and required special skill for operating. It is useful for organisations which are engaged in the manufacture of products which involves several processes.

Merits of Departmentation by Process:

1. It provides economy of operation
2. The benefits of specialization are available.
3. Efficient maintenance of equipment's is possible.
4. It simplifies supervision and plant layout.

Demerits of Departmentation by Process:

1. There may be difficulties in coordinating the activities of different departments
2. Due to specialized activity, the employee mobility is reduced.
3. Extreme specialization may reduce flexibility of operations.
4. This type of departmentation may not provide opportunity for the all-round development of managerial talent.
5. Conflicts may arise among managers of different processes, particularly when they loose sight of the overall company goals.

2.10 AUTHORITY & RESPONSIBILITY

Authority is a legal power which is possessed by a person from his superior officers and with the help of which he succeeds in getting the things done by his sub-ordinates. Authority is the key to managerial functions. If the managers do not possess required authority, they will not be able to

perform their duties properly. A manager is in a position to influence his subordinates only by the use of his authority. It is the authority which enables him to discharge the important functions of planning, coordination, motivation and controlling etc. in an enterprise. If proper authority is not vested in him, he cannot perform these functions in the required manner and he cannot be held responsible for all these functions in the absence of proper authorities. It is only the authority by virtue of which he dominates his sub-ordinates and gets work done by them.

Definitions

- "Authority is the right to give order and the power to exact obedience".
- Henri Fayol
- "Authority is the power to command, to act or not to act in a manner deemed by the possessor of the authority to further enterprise or departmental performance". - Koontz and O'Donnell

While concluding the meaning of authority it can be said that authority in ordinary sense of the term is nothing more than a legal right. It empowers an individual to take decisions. He is given a right to command and to exercise control over those who are responsible for the execution of policies and programmes of the enterprise. For decisions taken the authorized person is held responsible and is made answerable to his superiors and the organization as a whole.

❖ FACTORS FOR SUCCESSFUL USE OF AUTHORITY

For the successful use of authority following factors may be taken into consideration:

- 1. Favourable Atmosphere :** For the implementation of authority, favourable atmosphere must be created in the enterprise so that sweet human relations may be established in the enterprise.

2. **Justified Behaviour :** The second important use for successful implementation of authority is the justified behaviour of the officers towards their subordinates. They must feel and treat all the employees on an equal ground. If they do not do so, the employees may not contribute their efforts towards the attainment of objectives of enterprise.
3. **Mutual Co-operation and Faith :** There must be mutual cooperation and mutual trust between officers and employees of the enterprise for the successful use of authority.
4. **Interest in the work :** A very important condition of the successful use of authority is that the employees must have an interest in the work for which they are responsible. If they are not interested in their work, it may be very difficult for the higher officers to implement their authority.
5. **Respect to Superiors :** There must be an atmosphere in the enterprise in which the employees pay their best regards to their bosses. If they do not have a feeling of regard for them, they may not obey their orders.

❖ SOURCES OF AUTHORITY

There are three different schools of thought about the sources of authority which are discussed below :

1. **Formal Authority :** Theory According to this theory, all authority originates in the formal structure of an organization. The ultimate authority in a joint stock company lies with the shareholders. Shareholders entrust the management of the company to the Board of Directors and delegate to it most of their authority. The Board of Directors delegates authority to the chief executive and chief executive in turn to the departmental managers and so on. Every manager or executive possesses authority because of his organizational position and this authority is known as formal authority. Authority conferred by law is also regarded as formal authority. Subordinates accept the formal authority of a manager because of his position in the organization. The subordinates are aware of the fact that if they disregard the formal authority they will be punished according to the rules and

regulations of the company. The formal authority theory further states that the superiors have the right to delegate their authority. Thus, formal authority always flows from top to bottom.

2. Acceptance Theory : This theory states that authority is the power that is accepted by others. Formal authority is reduced to nominal authority if it is not accepted by the subordinates. The subordinates accept the authority if the advantages to be derived by its acceptance exceed the disadvantages resulting from its refusal. The subordinates give obedience to the managers because they visualize the following advantages :

- (a) Receipt of financial incentives.
- (b) Contribution in attaining the objectives of the enterprise.
- (c) Fulfillment of responsibilities.
- (d) Appreciation from colleagues.
- (e) Setting of an example for others.
- (f) Responsibility to leadership of superior
- (g) Moral obligation because of regard for old age, experience, competence, etc.

According to acceptance theory, authority flows from bottom to top. A manager has authority if he gets obedience from the subordinates. Subordinates obey the manager because of the fear of losing financial rewards. This theory emphasizes sanctions that a manager can use and overlooks the influence of social institutions like trade unions.

3. Competence Theory

The supporters of this view assert that an individual derives authority because of his personal qualities and technical competence. Many persons derive informal authority because of their competence. For instance a person possesses expert knowledge in a particular subject. People will go to him for guidance in that matter even though he has got no formal authority.

❖ MEANING AND SOURCES OF POWER

Power is a method of operating in order to influence the behaviour of others. It is the power politics within the organization that gives rise to power centres in the organization. The power-centres need not necessarily be located at the position of higher authority. Nobody wants to lose power because power can be used in desirable or undesirable ways. Power may be defined as "the ability to exert influence. If a person has power it means that he is able to change the attitude of other individuals". In any organization for sound organizational stability, power and right to do things must be equated, when power and authority for a given person or position are roughly equated, we may call the situations as "Legitimate Power".

Sources of Powers

If we study the origin and sources of power we cannot forget the name of John French and Bertram Raven. They have written that there are five sources of power which are found at all levels of the organization. They are as follows :

- (i) **Legitimate Power** : The power corresponds to the term authority. It exists when an influencer acknowledges that the influencer is lawfully entitled to exert influence. In this the influencee has an obligation to accept this power.
- (ii) **Reward Power** : This power is based on the influencer having the ability to reward the influencee for carrying out orders.
- (iii) **Corrective Power** : It is based on the influencer's ability to punish the influencee for not carrying out orders or for not meeting requirements.
- (iv) **Referent Power** : It is based on the influencer's desire to identify with or imitate the influencee. For example - a manager will have referent power over the subordinates if they are motivated to emulate his work habits.
- (v) **Expert Power** : This power is based on belief that the influencer has some relevant expertise or special knowledge that the influencee does not have. For example a doctor has expert power on his patients. In having the study

of power the role of the influence in accepting or rejecting the attempted influence is very important. It must be noted that each of the five power bases is potentially inherent in a manager's position and his activities.

Difference between 'Authority' and 'Power'

If we study from close in practice the terms 'Authority' and 'Power' are generally used interchangeably but there is a clear-cut difference between these two words and they are as follows :

1. **Right to Command** : Authority is the right to command where as power is the ability or power to command.
2. **Right to Exercise** : Authority usually resides in the position in the organization, but power is exercised by the person. Authority includes the right to exercise which have been institutionalized.
3. **Positional and Legitimate** : Authority is always positional and legitimate and is conferred on the position. But power is not institutional, rather it is personal. It is acquired by people in various ways and then exercised upon others. It is acquired through political means or by having certain personal attributes.
4. **Authority Increases** : It has been observed that authority increases as soon as one goes up in the organizational hierarchy, but it need not necessary be accompanied by more power. In actual practice - the power centres may be located at the power levels in the organization. Therefore, one cannot have an idea of power centres in an organization by merely looking at its organization chart.
5. **Authority Relationships** : In practice, authority relationships are modified by power politics in the organization. Some individuals may have more power and less authority or more authority and less power. It is the operating mechanism of the organization which is relevant for studying organizational behaviour.
6. **Authority a Downward Concept** : Authority is a downward flowing concept; whereas power flows in all directions.

- 7. Delegation of Authority :** Authority can be delegated to the lower levels in the organization. The lower we go down the lesser is the authority.

❖ **DELEGATION OF AUTHORITY AND ITS METHODS**

Delegation means devolution of authority on subordinates to make them to perform the assigned duties or tasks. It is that part of the process of organization by which managers make it possible for others to share the work of accomplishing organizational objectives. Delegation consists of granting authority or the right to decision-making in certain defined areas and charging the sub-ordinate with responsibility for carrying through the assigned tasks.

Delegation refers to the assignment of work to others and confer them the requisite authority to accomplish the job assigned.

- 1. In the words of F.G. Moore :** "Delegation means assigning work to others and gives them authority to do it."
- 2. Louis A. Allen has said :** "Delegation is the dynamics of management, it is the process a manager follows in dividing the work assigned to him so that he performs that part which only he, because of his unique organizational placement, can perform effectively and so that he can get others to help him with what remains".
- 3. E.F.L. Brech has also said :** "Delegation is a process of sharing a few or all of the four elements of the management process, i.e. command, planning, co-ordination and control". He goes on to say that the delegation is not a question of issuing instructions but is a bringing down of the executive's responsibility and transmission of part or all of it to other persons. Since one person constitutes only one man power, so F.G. Moore has once said that - "Delegation, therefore, is necessary for enlarging his capacity by asking trusted subordinates to share his burden." Without delegation says S.S. Chatterjee, "The very existence of organization is shattered at once. If there are no duties to be divided and no authorities to be shared in the enterprise, the existence of an organization structure is nullified and becomes absurd. Management of that organization becomes impossible without

delegation." For this reason activities are to be integrated, coordinated and unity of purpose to be achieved, this necessitates effective delegation.

METHODS OF DELEGATION

In a big manufacturing concern the following may be the methods of delegation of authority to ensure better result, unified direction and command and effective delegation :

1. **Administrative Delegation** : When a few of the administrative functions are delegated to sub-ordinate staff it is called administrative delegation. These functions are generally of routine nature, e.g. to maintain discipline, to supervise the work, to recommend for the reward or punishment etc.
2. **Geographical Delegation** : When the work of enterprise is located at different distant places it is not possible for an executive to manage the whole affairs single handed. He then proceeds to delegate his authority to those who are posted at the places where physically he cannot be present round the year. This is known as geographical method of delegating the authority.
3. **Functional Delegation** : When the enterprise is organized on the basis of functional organization, the delegation of authority is also done on the functional basis. All the heads are given to manage their departments according to their skill, knowledge and experience of course, they are accountable to the chief executives.
4. **Technical Delegation** : This method of delegation of authority is based on technical knowledge and skill. Here the authority is delegated in order to get the advantages of expert and experienced hands and their technical skill.

❖ ELEMENTS OF DELEGATION AND ITS TYPES

The elements of delegation of authority involve three steps :

1. **Authority** : The superior grants authority to the subordinate to carry out the assigned task or duty. This may include right to use resources, spend

money, engage people, etc.

2. **Responsibility** : The superior entrusts some responsibility or duty to a subordinate.
3. **Accountability** : The last step in delegation is concerned with creating an obligation to carry out duty or responsibility and render an account of the results achieved through the use of delegated authority. The subordinate must be held accountable for the exercise of authority granted to him. By accepting the duties and authority, a subordinate becomes responsible to his superior.

❖ **Authority :**

Authority is the sum of the rights entrusted to an individual to make possible the performance of the work delegated. It includes such rights or powers as that spending money, of using certain kinds of quantities of materials, of hiring and firing people. Allen talks of authority of knowledge, authority of position and legal authority. Authority of knowledge according to him is possessed generally by the staff specialists appointed by the company. The consultants more often influence the action of persons in line by virtue of the knowledge possessed by them. Similarly, some persons acquire authority by virtue of their position. For instance, a person close to the person having line authority wields considerable authority. A Private Secretary to Managing Director or even a Staff Assistant may have no formal power and authority. Legal authority is the authority which is entrusted to a person by the law of the land.

A company, for instance, is a legal person which enjoys several rights under the Companies Act. The organizations are built on authority relationships between their members. Authority is a building force in an organization and is the key to the executive job. An executive cannot get things done through others without the right to command them.

❖ **Responsibility :**

Responsibility represents the work or duties assigned to a person by virtue of his position in the organization. It refers to the mental and physical activities which

must be performed to carry out the task or duty. That means every person who performs some kind of mental or physical activities as an assigned task has responsibility. In order to enable the subordinates perform his responsibility well, the superior must clearly tell the former as to what is expected of him. In other words, the delegator must determine clearly the task or duty that is assigned to the delegatee. The duty must be expressed either in terms of function or in terms of objectives. If a subordinate is asked to control the operations of a machine, the duty is in terms of function. But if he is asked to produce a certain number of pieces of a product, the duty is in terms of target or objective. Determination of duties in terms of objective will enable the subordinate to know by what standards his performance will be evaluated.

According to Alwin Brown, responsibility is capable of being understood in two senses. In one, it denotes the definition of a part or role to be performed in administration. In the other, it denotes the obligation for the performance of that part. Two meanings are reciprocal. In most circumstances, there is so little difference between the concept of the part and the concept of the obligation that it is more useful to view them as inseparably-related aspects of the same concept, and to refer to them by single term. Taken in this sense, many authors have held that responsibility cannot be delegated. But authority and responsibility are co-extensive; and responsibility or duty can be delegated within the framework of authority. In fact, it is the accountability which cannot be delegated. Therefore, it is essential to make a distinction between responsibility and accountability.

Responsibility or duty implies the task assigned to a person to be completed in accordance with the standards laid down. It is his superior who has entrusted this task to him. He should not find any difficulty in expecting it because his superior knows his plus and minus points at work. He would not assign a task which the subordinate is unable to complete. In fact he has divided and subdivided the task pertaining to this division in such a manner that each one of his subordinates gets the task of his choice. Hence there is no ground for the subordinate to object the duty assigned to him by his superior unless the superior has acted deliberately in an indicative manner. If he does so, there are other ways to remedy the situation. Whenever the superior assigns any task to his subordinate, it is implied that he has

delegated his responsibility. In this process, though he may hold his subordinate accountable for the task delegated to him, but he continues to be accountable to his own boss on the ground that accountability can never be delegated. The extent of authority delegated should be commensurate with the responsibilities or duties assigned. In other words, there must be a balance between responsibility and authority. However, in practice, it is very difficult to achieve a balance between responsibility and authority. According to McGregor, the realities of business place most managers in situations where they cannot effectively control everything that affects the results they are attempting to achieve. Uncontrollable factors include unexpected changes in consumer preferences, action of labour unions, government legislations and the fluctuations of business cycles. The recognition of these problems does not reduce or destroy the utility of this concept. If a manager is abreast of the time, he will make allowance for the unforeseen events outside the control of the subordinate. Many factors prevent a superior to delegate sufficient authority. The risk of losing control is an important factor. Real or presumed non-availability of qualified subordinates, lack of delegating skills and enhancement of one's indispensability are the other factors which cause an imbalance of responsibility and authority. An effective manager is willing to delegate authority as needed to accomplish the desired objectives. Responsibility can not be delegated or transferred. The superior can delegate to subordinate the authority to perform and accomplish a specific job. But he can not delegate responsibility in the sense that once duties are assigned, he is relieved for his responsibility for them. This delegation of tasks does not absolve the superior from his own responsibility for effective performance of his subordinate. In other words, we can say that responsibility is divided into two parts at the time of delegation : (a) operating responsibility; and (b) ultimate responsibility. The subordinate assumes only the operating responsibility for the task. The superior retains ultimate responsibility for getting the job done. If the subordinate fails to perform the job (operating responsibility), the superior is held responsible for this failure (ultimate responsibility). To explain that the ultimate responsibility cannot be shifted or reduced by assigning duties to another. Newman cites the example of a person borrowing money from the bank and then realigning it to his son. This transaction

with his son in no way reduces his own obligation and responsibility to repay the money to the bank. Responsibility may be specific or continuing. It is specific when on being discharged by a subordinate it does not arise again. Thus, a consultant's responsibility is specific. It ceases when the assignment is completed. The responsibility of a foreman is, however, of a continuing nature.

❖ **Accountability :**

Accountability is a logical derivative of authority. When a subordinate is given an assignment and is granted the necessary authority to complete it, the final phase in basic organization relationship is holding the subordinate responsible for results. In other words, the subordinate undertakes an obligation to complete the assignment by the fair use of authority and account for the discharge of responsibility assigned. Accountability is the obligation to carry out responsibility and exercise authority in terms of performance standards established by the superior. Creation of accountability is the process of justifying the granting of authority to a subordinate for the accomplishment of a particular task. In order to make this process effective, the standards of performance should be determined before assigning a task and should be accepted by the subordinate. An important principle of management governing this basic relationship is that of single accountability. An individual should be answerable to only one immediate superior and no more. The extent of accountability depends upon the extent of delegation of authority and responsibility. A person cannot be held answerable for the acts not assigned to him by his superior. For instance, if the production manager is given responsibility and authority to produce a specified quantity of certain product and the personnel department is given responsibility and authority for the development of workforce, the production manager cannot be held accountable for the development of workforce. "Accountability is, by the act which creates it, of the same quality and weight as the accompanying responsibility and authority".

❖ **Accountability cannot be delegated :**

Though it is incurred as a result of assignment of duty and conferring of authority, accountability in itself cannot be delegated. The diligent cannot abdicate responsibility. He remains accountable to his superior for that which the latter has

delegated to him. Since accountability cannot be delegated, the accountability of persons higher in the hierarchy for the acts of subordinates is unconditional.

TYPES OF DELEGATION

The important kinds of delegation of authority are as follows :

1. General and Specific Delegation :

- (i) **General Delegation :** It is that delegation in which the authority is given to perform general managerial functions, like planning, organizing, directing etc. The sub-ordinate managers perform these functions and enjoy the authority required to carry out these responsibilities. The Chief Executive exercises over all control and guides the subordinates from time-to-time.
- (ii) **The Specific Delegation :** Specific Delegation relates to a particular function or an assigned task. The authority delegated to the production manager for carrying out this function will be a specific delegation. Various departmental managers get specific authority to undertake their department duties.

2. Formal or Informal Delegation :

- (i) **Formal Delegation :** Formal delegation has been considered as a part of organizational structure. Whenever a task is assigned to a person, the required authority is also given to him. This delegation is a part of the normal functioning of the organization. Every person is automatically given authority as per his duties. When production manager gets powers to increase production then it is formal delegation of authority.
- (ii) **Informal Delegation :** This delegation does not arise due to position but it arises according to the circumstances of the case. A person may undertake a particular task not because he has been assigned it but because it is necessary to do his normal work.

3. Written or Unwritten Delegation :

- (i) **Written Delegation :** Written delegation is normally given through letters, instructions, circulars etc. Whatever has been delegated it must be in writing.

- (ii) **Unwritten Delegation** : Unwritten delegation is given to the person concerned not in any particular way but through conventions, customs and usages the other party has to do work accordingly.

4. Downward or Upward Delegation

- (i) **Downwards Delegation** : Downwards delegation is a common type of delegation and is used in every type of the working concern. This delegation has been considered as a superior's delegation of authority to his immediate subordinate.
- (ii) **Upward Delegation** : This type of delegation takes place when a subordinate assigns some of his tasks to his superiors. This is an uncommon type of delegation and its instances are very rare.

❖ PRINCIPLES OF DELEGATION

The following principles may be considered as essential for effective delegation of authority :

- (i) **There must be Proper Planning** : An executive must plan as to what is to be achieved, if delegation of authority is made. He should define clearly the objectives to be achieved and the functions to be performed by delegating the authority. The job should be designed and divided in such a way as to achieve the objectives. The subordinates must understand clearly what activities they must undertake and what delegator expects from him.
- (ii) **Select appropriate subordinate of delegation** : The subordinate should be selected in the light of the work to be achieved. The qualification of the individual concerned may influence the nature of the delegation of authority. This is the purpose of the managerial function of staffing, most carefully considered.
- (iii) **Maintain purity of authority and responsibility** : Authority should be delegated commensurate with responsibility. This is on the assumption that where subordinates are held responsible for performance of certain duties it is fair that they should be vested with the necessary authority to carry out such duties. Although technically it would be inaccurate to stress the

questions of equality as the executive does without a certain amount of authority, there must be adequate correlation between duty and authority delegated.

- (iv) **Ensure unity of command** : This is one of the common principles of organization advocated by Henry Fayol which stresses that subordinates should have only one boss to whom he should be accountable, to avoid confusion and friction. Of course, in practice, it is not possible to follow this principle.
- (v) **Maintain adequate communication** : There should be free and continuous flow of information between the superior and the subordinate with a view to furnish the subordinate with relevant information to help him make decisions and also to interpret properly the authority delegated to him. Plans may change and decisions have to be taken in the light of the changed conditions.
- (vi) **Reward effective delegation** : Effective delegation and successful assumption of authority must be rewarded. This will provide a proper environmental climate for fuller delegation and effective assumption of authority.
- (vii) **Establish a climate of confidence** : The subordinate to whom authority is delegated must generally feel free from fear and have a feeling of confidence that delegation will not result in punishment but is an opportunity for his own self-development and growth.
- (viii) **Establish a strong belief in delegation** : For delegation to be successful, the man who delegates must himself be convinced of the need and benefits of delegation. He must also be willing to allow his subordinates to make mistakes although he can be strict if the same mistake is repeated.
- (ix) **Proper Selection and Training of Personnel** : Selection of personnel to various jobs should be fair and just. It should not be arbitrary but it must be based on certain principles. Only right persons should be placed on the right job. The person selected must also be given proper training to enable him to

handle the post efficiently and to perform the assigned job properly. Proper selection and training helps to develop their self-confidence and morale.

- (x) **Proper Control Techniques be Developed :** In a good organization proper control techniques be developed and major deviations from standard should be checked. There should be no interference in dayto- day functioning of subordinates.

❖ **VARIOUS STEPS IN THE PROCESS OF DELEGATION**

The following steps are essential and they must be kept in mind while delegating :

1. The delegation should define the result expected from his subordinates.
2. Duties should be assigned according to the qualifications, experience and aptitude of the subordinates. They may be described either in terms of activity or set of activities to be performed by a subordinate or in terms of results that are expected from the performance of activities.

For Example : How much sale is to be achieved by salesman? It is better to assign duties in terms of results expected, because the subordinate knows in advance the terms in which his performance will be judged, while assessing duties and responsibilities. The delegator must ensure that subordinates understand and accept the assignment, otherwise delegation would be meaningless or ineffective.

3. **Adequate authority must be given to sub-ordinates :** The authority to be delegated to each particular sub-ordinate is determined in advance. The delegator confers upon the subordinate the right to act in a specified way within limited boundaries. It decides what actions we may take and what action we cannot take. Proper authority to any sub-ordinate not given in time, will not give or produce expected results. For Example : A sales manager, charged with the responsibility of increasing sales of company's product should be given authority to hire competent salesmen, pay wages and incentives, allow concessions, within specified limits.

- 4. The subordinate must produce expected results from the task assigned to him :** It is obligatory on the part of the subordinate that he must give satisfactory performance from the tasks assigned. He becomes answerable for the proper performance of the assigned duties and for the exercise of the delegated authority. Authority without accountability is likely to be misused. Accountability without authority may be frustrating to the subordinates. The extent of accountability depends upon the extent of delegated authority and responsibility. A subordinate cannot be held responsible for acts not assigned to him by his superior. He is accountable only to his immediate superior.
- 5. Proper Evaluation of the Performance must be made :** In the end, information and control system must be established to check and evaluate the performance of the subordinates to whom authority has been delegated. Duties, authority and responsibility are the three interdependent essential steps in the process of delegation. In this connection an eminent authority H.W. Newman has said - "These three inevitable attributes of delegation are like a three legged stool, each depends on the others to support the whole and no two can stand alone." What to delegate and when to delegate are two ticklish questions which a delegator has to answer to himself within the framework of the organization? An executive according to Louise A. Allen can follow the undermentioned rules while delegating :
1. Established goals that are to be attained.
 2. Define and enumerate the authority which the delegatee can exercise and the responsibility he is to shoulder.
 3. Motivate the subordinate and provide him sufficient guidance. If necessary proper and adequate training should also be given to the delegatee before authority is delegated to him.
 4. Ask for the completed work. In between if any help is needed by the delegatee he should be provided with such help either directly through someone who knows the work and is writing of help.

5. Establish an adequate control so as to supervise and provide necessary guidance.

MERITS OF DELEGATION

- (i) **It avoids wastage of time :** Present-day management is a complicated process. A manager has to perform various functions as a matter of routine work. It is not possible for him to give proper attention to all matters coming to him. Delegation helps him in transferring the less important subject to his juniors and attends to more important works.
- (ii) **It helps in training the new incumbents :** The lower units that use the delegated power, get a spontaneous feel of their future responsibility. They become aware of the works at the higher level to which they may be promoted. Delegation also helps in developing the managerial personnel within the organization.
- (iii) **It avoids over-work :** Delegation shifts some portions of the responsibility and work from the shoulders of the manager. To quote Beach : "The over worked manager who learns the art of delegation, is at one and the same time able to relieve himself of some of his burden, increase the competence of his men, and raise the level of accomplishment of his unit.
- (iv) **It develops increased sense of responsibility :** Delegation generates an increased sense of responsibility in the subordinate personnel. It also increases their working capacity and helps in enhancing their unspotted caliber which could be helpful for management. Delegation also helps in avoiding any kind of act at a higher level which may, otherwise undermine the powers vested in the lower level units.
- (v) **It avoids delay :** Delegation helps in taking timely and accurate decisions. The personnel at lower level, being delegated, act quickly which serves the organization with due economy, efficiency and rapidly.

❖ RELATIONSHIP OF AUTHORITY AND RESPONSIBILITY

In every business unit, internal organization is necessary for its efficient and smooth running. Under internal organization, duties are determined and distributed

among the employees. All activities are combined and coordinated. The lines of authority are to be determined, a well recognized principle, to be followed for any organization and management. In the internal organization of any concern, there must be a proper assignment of duties among the various personnel. This means that some people assign and some others have to perform those duties. The former people have an authority. The latter are subordinates to the former. The relationship of authority and subordination among the various personnel and groups should be properly determined. The position of each individual is to be fixed, i.e., whether he is to be in the position of authority or in the subordinate position. This work is very important. In this connection, the following principle is to be followed. The greater the responsibility attached to a post, the higher will be the position of the person holding the post, in the hierarchy. Thus, it is stated that authority should go with responsibility.

❖ **DISTINCTION BETWEEN AUTHORITY AND RESPONSIBILITY**

When the duties are assigned, there will be two types of employees. Some have authority and others take up responsibility. The former occupy a superior position, while the latter are placed in a subordinate position. Authority refers to the right to make decision and to command subordinate to follow these decisions. It is the supreme coordinating power and is very important for the managerial job. Responsibility refers to the obligation of a subordinate. Every subordinate has to perform the duty assigned to him. The essence of authority is obligation. It arises from the superior-subordinate relationship. It has a meaning, only when it is applied to a person. Authority seems to flow from the superiors to the subordinates. Every manager can see that his orders are executed by persuasion, coercion or economic social sanctions. Persuasion is the best means. Otherwise, the task may not be successfully accomplished, responsibility cannot be delegated. But authority can be delegated. When these expressions 'Authority' and 'Subordination' are used, they should not create a sense of superiority or inferiority in the minds of the employees. Authority cannot be concentrated in the hands of one or a few individuals. It appears to flow from top to bottom. But it is not really so. There must be de-personalization of orders. This will help in developing good industrial relations among all the employees. In management literature, responsibility is one

of the most misunderstood words, usually, responsibility is referred to as 'Delegation of Responsibility' holding a person responsible or carrying out a responsibility. People use the word responsibility in different senses as referring to a duty, an activity or an authority. Actually responsibility can be defined as the 'obligation' of a subordinate to perform a duty which has been assigned to him. Thus, obligation is the essence of responsibility. Normally the superior subordinate relationship gives rise to this responsibility as the superior is vested with the authority to require specified services from his subordinates. In case of business, this authority is generally a result of the contractual arrangement under which the subordinate has agreed to perform certain services in return for a monetary reward. In this sense, authority flows from the superior to the subordinate manager to whom certain duties are assigned and responsibility is the obligation of the subordinate to accomplish these duties. Responsibility can be discharged by a single action or it may be a continuous obligation.

❖ **DISTINCTION BETWEEN AUTHORITY AND ACCOUNTABILITY**

The term 'Accountability' is used by a few writers in the field of management to indicate the managers' liability for the proper discharge of the duties by his subordinates. In the military, the concept of accountability is used to indicate the duty and an officer to maintain accurate records and to safeguard public property and funds.

Thus, the three words confusingly used in varying sense in management literature are authority, responsibility and accountability. A less confusing use would be to use the word 'authority' as referring to the power to get something done, the word responsibility as the liability of the individual for failing to discharge his responsibility. One is thus accountable for failures

to his boss. Accountable is similar to tendering of accounts in its case, which refers to discharging of the responsibility. To carry out responsibility, a manager requires adequate authority or power.

❖ **DISTINCTION BETWEEN RESPONSIBILITY AND DELEGATION**

Whilst a manager can delegate his authority to his subordinates, responsibility

cannot be so delegated. A manager is responsible for the performance of his duties even though he may delegate to a subordinate, authority to accomplish a service and the subordinate also in his turn may delegate a part of authority received by him. Therefore, delegation does not absolve a manager of his own responsibilities to perform his duties. In short no manager can shift responsibility to his subordinates. For example, the managing director of a company employed by the board of directors cannot avoid total responsibility for the conduct of the enterprise. Therefore, responsibility cannot be delegated in this sense. A manager cannot relieve himself of his responsibility although he can delegate authority and assign duties to his subordinates.

❖ DIFFICULTIES IN DELEGATION

There is a fear aspect in delegation which plays a dominant role in a decision as to "what to delegate" and "to whom to delegate". Executive knows for certain that once authority is delegated they will loose the grip over their subordinates and also control over the operations. It is natural that the executives may not like to lose either the grip or control over the operation. But the important psychology is that by their nature executives have no confidence in their subordinates. They feel that the subordinates are not capable of shouldering the responsibility, therefore, the question of delegation of authority does not arise. Sometimes, executives suffer from inferiority psychosis. They know for certain that though they occupy a position of strength but their knowledge and skill are not up to the mark. Their subordinates are well equipped and thus they may do the assigned job well. No executive would like to delegate when he feels that his subordinate may surpass him. From the above discussion we may come to a conclusion that there are three types of fears which discourage delegation and thus create difficulties in delegation. They are :

1. Fear of loosing the grip and control over the operations;
2. Fear of not a better performance by the sub-ordinate to whom the authority may be delegated; and
3. Fear of better performance by the subordinate to whom the authority may

be delegated.

The above difficulties arise out of :

- (i) Lack of mutual confidence;
- (ii) Non-existence of atmosphere of team-work;
- (iii) Non independence in thinking and behaviour;
- (iv) No proper and ambiguous definition of common goals to be achieved;
- (v) No inter-exchange of ideas and suggestions;
- (vi) No favourable management climate;
- (vii) Existence of element of fear and frustration ; and
- (viii) Incapable hands manning the executive positions.

Delegation is an important managerial technique. Every effort should be made to encourage delegation. This creates a sense of belonging among subordinates. It develops the personality of the subordinates and helps in evaluating the managerial performance. It also induces a sense of security among both the executives and their subordinates. A favourable management climate should be created for encouraging delegation.

❖ **DECENTRALISATION OF AUTHORITY**

Decentralization is a word that we frequently hear take about by political leaders and business managers. Many of them view decentralization as a panacea or a magical device that will compensate for poor management, encourage participation, increase efficiency, and raise morale. Most people do not have a clear view of what decentralization is and, as often as not when an organization is having "decentralization", it is for the wrong reasons and in the wrong way the term is understood and used.

Earnest Dale mentions four criteria to measure the extent of decentralization in an organization. He states that whenever decentralization is greater.

1. The greater is the number of decisions made at lower levels;

2. The more important are the decisions made lower levels;
3. The more is the number of areas in which decisions can be made at lower levels; and
4. The fewer are the people to be consulted the less is the checking required on the decisions made at the lower levels.

The way many people use the term, decentralization mean about the same thing as delegation-simply pushing authority down to subordinates. But decentralization means much more than simple delegation. Decentralization is a philosophy of the organization and management, one that implies both selectively determining what authority to push down into the organization; developing standing plans (such as policies) to guide subordinates who have this authority delegated to them; and implementing selective but adequate controls for monitoring performance. Thus, decentralization is a philosophy of organization and management which involves both selective delegation of authority as well as concentration of authority through the imposition of policies and selective but adequate controls.

According to McFarland, decentralization is a situation in which ultimate authority to command and ultimate responsibility for results is localized as far down in the organization as efficient management of the organization permits. According to Allen, decentralization refers to the systematic effort to delegate to the lowest levels all authority except that which can only be exercised at central points. Thus, decentralization means reservation of some authority (to plan, organize, direct and control) at the top level and delegation of authority to make routine decisions at points as near as possible to where action takes place.

❖ **Essential Characteristics of Decentralization**

The essential characteristics of decentralization are :

- (i) **Decentralization not the same thing as delegation** : It is something more than delegation. Delegation means demi-transfer of responsibility and authority from one individual to another. But decentralization means scattering of authority throughout the organization. It is the diffusion of

authority within the entire enterprise. Delegation can take place from one person to another and be a complete process. But decentralization is completed only when the fullest possible delegation is made to all or most of the people. Under delegation control rests entirely with the diligent, but under decentralization, the top management may exercise minimum control and delegate the authority of controlling to the departmental managers. It should be noted that complete decentralization may not be possible or desirable, but it certainly involves more than one level in the organization.

- (ii) **Decentralization is distinct from dispersion :** Decentralizing is often confused with the separation of physical facilities which is not correct. Dispersion occurs when plants and offices are located at different places with physical distance between them. Performance of work in dispersed plants and offices does not necessarily lead to decentralization. Decentralization can proceed without separation of facilities and facilities can be separated without decentralization. A company may be highly decentralized even though all physical facilities and employees are located in a single building. Thus, decentralization can take place even without dispersion.
- (iii) **Decentralization is not a type of organization :** Some people believe that a company can decentralize by changing its organizational structure. This is not true. Decentralization may be achieved even without changing the organizational structure as it refers primarily to the systematic delegation authority throughout the organization industries in which markets are less uncertain, production processes technologically less dynamic and competitive relationships more stable, tend to become more centralized.

❖ **Gauging the Degree of Decentralization :**

How decentralized a particular organization is? There are no hard and fast rules, but the following guidelines may be used to test the degree of decentralization in a company :

- (i) **The narrower the breadth of the control imposed on managers, the greater the decentralization :** Thus, a company in which each product-

division manager simply has to report once or twice a year on the rate of return his division has earned on its investment is more decentralized. The division in which a variety of day-to-day production, marketing, and personnel decisions are monitored is less decentralized;

- (ii) **The greater the discretion permitted by the company's policies, procedures and rules, the greater the decentralization;**
- (iii) **The greater the breadth of decision in terms of the number of functions they cover, the more the decentralization :** Thus, the company in which division managers are authorized to take production, marketing and personnel decisions is more decentralized than one in which the managers can take only production and personnel decisions;
- (iv) **The less a subordinate has to check with his superior before taking decisions, the greater is the degree of decentralization :** Thus, a company in which a manager does not have to check at all with his superior is more decentralized than one in which the manager must get most of his decisions approved beforehand;
- (v) **The closer the level to which the decision is made in the relation to the point where the problem arise, the greater the decentralization :** Suppose a customer in Maharashtra has a problem, and the western division manager is authorized to make the necessary decisions, then to that extent the company is more decentralized than if the boss in the New Delhi had to make the decisions; and
- (vi) **The more important are the decisions that can be made at the lower levels, the greater the decentralization :** For example, a company in which divisional managers can make equipment purchase decisions of up to Rs. 500,000 is more decentralized than one in which they are authorized to make these decisions up to a limit of Rs. 1,00,000.

❖ **Advantages of Decentralization :**

The merits of decentralization are listed below :

- (i) It leads to a competitive climate in the organization.

- (ii) It relieves the management of much workload;
- (iii) It makes jobs at the lower levels of the organization more attractive and interesting. As a result, the level of motivation of the employee increases;
- (iv) It encourages initiative at lower levels where the employees are allowed to participate in the decision-making process;
- (v) Decision made closer to the actual situations is likely to be more realistic. Effective decisions are possible because of the speed and first-hand knowledge that decentralization provides.

❖ **Disadvantages of Decentralization :**

- (i) It increases the administrative cost due to duplication of specialized services and the appointment of capable executives at lower levels;
- (ii) It becomes difficult for top management to exercise control over what people at lower levels are doing or even to know what decisions they are taking;
- (iii) Emergency situations cannot be tackled properly in decentralized structure. Adjustment to changing conditions may be difficult; and
- (iv) It hampers uniformity in decision making and consistency of procedures.

❖ **DECENTRALISATION VS. DELEGATION**

Though both delegation and decentralization are related concepts, but the distinction between the two terms must be clearly understood. Decentralization could be differentiated from delegation in the following way :

- (i) Delegation creates authority: responsibility relationship between a superior and his subordinates, whereas decentralization refers to the creation of semi-autonomous decision-making units or even profit centres functionally related to the top management. In other words, decentralization is diffusion of decision making authority throughout the multiple layers of the organization;

- (ii) Decentralization is simply not an extension of delegation- The purpose of delegation may be confined to relieve the excessive burden of key managerial personnel, but decentralization has a deeper meaning bordering on a new philosophy of organization and management;
- (iii) Delegation is a process whereby the superior assigns certain tasks and responsibilities within his control to his subordinates, immediately vests part of his decision - making authority in them and precisely it is an obligation from them for proper discharge of authority conferred upon them and for effective performance in the area of delegated activity. But, on the other hand, decentralization refers to structural dispersal of authority for decision making in various facts of organizational operations throughout the organization in the form of semi autonomous units, subject to overall control by the top management.
- (iv) Delegation takes place between a superior and a subordinate and is a complete process. It may consist of certain tasks alone. But decentralization involves spreading out the total decision-making power throughout the organization.
- (v) Sheer pressure of managerial workload forces managers to delegate a part of their burden to their subordinates, as a matter of necessity with few alternatives. Decentralization, on the other hand, could be only one of the options open to an enterprise out of several alternative ways of organizing expanding operations. This means that delegation of authority could take place without decentralization, whereas there can be no decentralization without delegation of authority.
- (vi) In case of delegation of authority, the superior has directive responsibility in relation to his subordinates. But in a decentralized setting, direction is to a large extent substituted by control by the top management. The control mechanism is also elaborate so as to ensure that the dispersal of authority strengthens the entire organization and that the semi autonomous units

- have a central focus on viability and vitality of the organization; and
- (vii) Delegation could be a routine administrative activity involving only managers and their subordinates while decentralization is a conscious and deliberate organizational action with strategy overtones, to manage growth and expansion under conditions of environmental pressures, challenges and opportunities.

❖ CENTRALISATION OF AUTHORITY

According to Allen, centralization is the systematic and consistent reservation of authority at central points in an organization, while decentralization refers to consistent and systematic dispersal to the lowest levels all authority except that which can only be exercised at central points. Centralization denotes that a majority of the decisions having to do with the work being performed are not made by those doing the work but at a point higher in the organization. Everything that goes to increase the importance of the subordinate's role is decentralization, everything which goes to reduce it is centralization.

Centralization represents certain attitudes and approaches which the management follows. The major implication of centralization is the reservation of decision-making power in regard to planning, organizing, directing and control at the top level. The other implications will depend on the philosophy of management. For instance, in a company where the top management is very particular about the use of authority, it will make all the operations and decisions at lower levels subject to its approval.

Centralization of authority has certain merits also. In case of centralization, most of the decisions are taken not at a point where work is being done, but at a point higher in the organization. They may involve considerable cost and delay in making the decisions. Centralization of authority increases the burden on the top managers and hampers the growth of low level managers. Because of these disadvantages, absolute centralization is not found in practice. Different organizations follow

centralization in different degrees. It should be noted that complete decentralization is also not a feasible proposition of creating an effective organization structure. Some authority must be reserved at the highest level of management. Greater the reservation of authority at the top level, higher is the degree of centralization and lower is the degree of decentralization and vice-versa.

❖ CENTRALISATION VS. DECENTRALISATION

Centralization and decentralization are the opposite ends of an organization continuum. On the one hand, centralization brings uniformity of policy and action, utilizes the skills of centralized and specialized staff, and enables closer control over operating units. And on the other hand, decentralization tends to effect faster decision-making and action on the spot without consulting higher levels. Decentralization has the effect of motivating the subordinates since they have a greater share in management decisionmaking. The question of centralization or decentralization is a matter of degree. It is not possible to conceive of an organization which is exclusively centralized as some decentralization of authority is bound to exist. Likewise, there can be no absolute decentralized structure as the top executive cannot delegate all his authority. The issue of centralization and decentralization has to be decided objectively taking into consideration the size and nature of enterprise, diversity of the company's product, economies of division of labour, location of markets, nature of services to be performed, availability of trained and efficient managers, philosophy of management, etc. Centralization is not a system of management good or bad by itself, capable of being adopted or discarded at the whim of managers or of circumstances; it is always present to a greater or less extent.

2.11 SUMMARY

Planning has a primacy over other management functions and is a pervasive element in organizations. It involves the major activities such as setting objectives, determining policies and making decisions. Planning is a higher order mental process requiring the use of intellectual faculties, imagination, foresight and sound

judgement. By planning managers minimize uncertainty and help focus the sight of their organization on its goals.

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.

The word organization has two common meanings. The first meaning refers to the process of organizing. The second meaning signifies the institution or group which comes into existence as a result of organizing. The organizing process involves a number of steps, viz. consideration of objectives, grouping of activities into departments, deciding which departments will be treated line and which will be related staff, determining the levels at which various types of decisions are to be made, determining the span of supervision and setting up a coordination mechanism. There are a number of principles of organizing, which should be remembered in the process of organizing.

2.12 GLOSSARY

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. It helps to bridge the gap from where we are, to where we want to go.

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. Brainstorming 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.

Organising : 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

Line Organisation : The line organization represents the structure in a direct vertical relationship through which authority flows. It is the simplest form of organization structure and is also known as scalar or military organization. Under this, the line of authority flows vertically downward from top to bottom throughout the organization.

2.13 SELF ASSESSMENT QUESTIONS :

1. "Managerial planning seeks to achieve a coordinated structure of operations". Comment.

2. "Without planning an enterprise would soon disintegrate, its actions would be as random as leaves scampering before an autumn wind, and its employee as confused as ants in an upturned ant hill". Comment
3. What do you understand by planning? Define its objectives and assess its importance. What should be done to overcome its limitations?
4. What is decision-making? What are its basic characteristics?
5. "Decision-making is the primary task of the manager". Discuss and explain the scientific process of decision-making.
6. Explain the various steps in the process of decision-making. Which one is most important and why?
7. What are the principles of decision-making? Design the role of employees' participation in decision-making.
8. Explain the various types of decisions.
9. Define organization and discuss its characteristics.
10. Explain the meaning of organization and state its principles.
11. Discuss the nature and importance of organization.
12. What are the important steps in the process of organization?

2.14 LESSON END EXERCISES

1. "Planning involves a choice between alternative courses of action". Comment briefly.

2. Describe in detail the steps involved in the planning process.

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3. "Decision-making is the essence of management". Comment.

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4. Explain the quantitative techniques of decision-making

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5. "Organization is an important tool to achieve organizational objectives,"
Comment.

6. Explain the various steps in the process of organizing.

2.15 SUGGESTED READINGS

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DIRECTING

STRUCTURE:

- 3.1 Introduction/Definition
- 3.2 Objectives
- 3.3 Creativity And Innovation
- 3.4 Motivation And Satisfaction Motivation
- 3.5 Nature And Characteristics Of Motivation
- 3.6 Importance Of Motivation
- 3.7 Types of Motivation Techniques
- 3.8 Leadership Style
- 3.9 Communication
- 3.10 Summary
- 3.11 Glossary
- 3.12 Self Assessment Questions
- 3.13 Lesson End Exercises
- 3.14 Suggested Readings

3.1 INTRODUCTION/DEFINITION

"Activating deals with the steps a manager takes to get sub-ordinates and others to carry out plans" - Newman and Warren.

Directing concerns the total manner in which a manager influences the actions of subordinates. It is the final action of a manager in getting others to act after all preparations have been completed.

Characteristics

- Elements of Management
- Continuing Function
- Pervasive Function
- Creative Function
- Linking function
- Management of Human Factor

Scope of Directing

- Initiates action
- Ensures coordination
- Improves efficiency
- Facilitates change
- Assists stability and growth

Elements of Directing

The three elements of directing are

- Motivation
- Leadership
- Communication

3.2 OBJECTIVES :

The key objective of this chapter is to understand the process of Directing as heart of management process.

3.3 CREATIVITY AND INNOVATION

Often used interchangeably, they should to be considered separate and distinct. Creativity can be described as problem identification and idea generation and innovation is considered as idea selection, development and commercialization.

Creativity is creation of new ideas and Innovation is implementation of the new ideas. There cannot be innovation without creativity. There can be creativity without innovation but it has no value.



Steps involved in creativity

- a) **Preparation:** This is the first stage at which the base for creativity and innovation is defined; the mind is prepared for subsequent use in creative thinking. During preparation the individual is encouraged to appreciate the fact that every opportunity provides situations that can educate and experiences from which to learn. The creativity aspect is kindled through a quest to become more knowledgeable. This can be done through reading about various topics and/or subjects and engaging in discussions with others. Taking part in brainstorming sessions in various forums like professional and trade association seminars, and taking time to study other countries and cultures to identify viable opportunities is also part of preparation. Of importance is the need to cultivate a personal ability to listen and learn from others.
- b) **Investigation :** This stage of enhancing entrepreneurial creativity and innovation involves the business owner taking time to study the problem at hand and what its various components are.
- c) **Transformation :** The information thus accumulated and acquired should then be subjected to convergent and divergent thinking which will serve to highlight the inherent similarities and differences. Convergent thinking will help identify aspects that are similar and connected while divergent thinking will highlight the differences. This twin manner of thinking is of particular importance in realizing creativity and innovation for the following reasons:
- One will be able to skim the details and see what the bigger picture is the situation/problem's components can be reordered and in doing so new patterns can be identified.
 - It will help visualize a number of approaches that can be used to simultaneously tackle the problem and the opportunity.
 - One's decision-making abilities will be bettered such that the urge to make snap decisions will be resisted.

- d) Incubation :** At this stage in the quest for creativity and innovation it is imperative that the subconscious reflect on the accumulated information, *i.e.* through incubation, and this can be improved or augmented when the entrepreneur:
- Engages in an activity completely unrelated to the problem/opportunity under scrutiny.
 - Takes time to daydream *i.e.* letting the mind roam beyond any restrictions self-imposed or otherwise.
 - Relax and play
 - Study the problem/opportunity in a wholly different environment
- e) Illumination :** This happens during the incubation stage and will often be spontaneous. The realizations from the past stages combine at this instance to form a breakthrough.
- f) Verification :** This is where the entrepreneur attempts to ascertain whether the creativity of thought and the action of innovation are truly effective as anticipated. It may involve activities like simulation, piloting, prototype building, test marketing, and various experiments. While the tendency to ignore this stage and plunge headlong with the breakthrough may be tempting, the transformation stage should ensure that the new idea is put to the test.

3.4 MOTIVATION AND SATISFACTION

"Motivation" is a Latin word, meaning "to move". Human motives are internalized goals within individuals. Motivation may be defined as those forces that cause people to behave in certain ways. Motivation encompasses all those pressures and influences that trigger, channel, and sustain human behavior. Most successful managers have learned to understand the concept of human motivation and are able to use that understanding to achieve higher standards of subordinate work performance. According to Koontz and O'Donnell, "Motivation is a class of drives, needs, wishes and similar forces".

3.5 NATURE AND CHARACTERISTICS OF MOTIVATION

Psychologists generally agree that all behavior is motivated, and that people have reasons for doing the things they do or for behaving in the manner that they do. Motivating is the work a manager performs to inspire, encourage and impel people to take required action. The characteristics of motivation are given below:-

- **Motivation is an Internal Feeling**

Motivation is a psychological phenomenon which generates in the mind of an individual the feeling that he lacks certain things and needs those things. Motivation is a force within an individual that drives him to behave in a certain way.

- **Motivation is Related to Needs**

Needs are deficiencies which are created whenever there is a physiological or psychological imbalance. In order to motivate a person, we have to understand his needs that call for satisfaction.

- **Motivation Produces Goal-Directed Behaviour**

Goals are anything which will alleviate a need and reduce a drive. An individual's behavior is directed towards a goal.

- **Motivation can be either Positive or Negative**

Positive or incentive motivation is generally based on reward. According to Flippo - "positive motivation is a process of attempting to influence others to do your will through the possibility of gain or reward". Negative or fear motivation is based on force and fear. Fear causes persons to act in a certain way because they are afraid of the consequences if they don't.

3.6 IMPORTANCE OF MOTIVATION

A manager's primary task is to motivate others to perform the tasks of the organization. Therefore, the manager must find the keys to get subordinates to come to work regularly and on time, to work hard, and to make positive contributions towards the effective and efficient achievement of organizational objectives.

Motivation is an effective instrument in the hands of a manager for inspiring the work force and creating confidence in it. By motivating the work force, management creates "will to work" which is necessary for the achievement of organizational goals. The various benefits of motivation are:-

- Motivation is one of the important elements in the directing process. By motivating the workers, a manager directs or guides the workers' actions in the desired direction for accomplishing the goals of the organization.
- Workers will tend to be as efficient as possible by improving upon their skills and knowledge so that they are able to contribute to the progress of the organization thereby increasing productivity.
- For performing any tasks, two things are necessary. They are: (a) ability to work and (b) willingness to work. Without willingness to work, ability to work is of no use. The willingness to work can be created only by motivation.
- Organizational effectiveness becomes, to some degree, a question of management's ability to motivate its employees, to direct at least a reasonable effort towards the goals of the organization.
- Motivation contributes to good industrial relations in the organization. When the workers are motivated, contented and disciplined, the frictions between the workers and the management will be reduced.
- Motivation is the best remedy for resistance to changes. When changes are introduced in an organization, generally, there will be resistance from the workers. But if the workers of an organization are motivated, they will accept, introduce and implement the changes wholeheartedly and help to keep the organization on the right track of progress.
- Motivation facilitates the maximum utilization of all factors of production, human, physical and financial resources and thereby contributes to higher production.
- Motivation promotes a sense of belonging among the workers. The workers feel that the enterprise belongs to them and the interest of the enterprise is their interests.

- Many organizations are now beginning to pay increasing attention to developing their employees as future resources upon which they can draw as they grow and develop.

❖ SATISFACTION

Employee satisfaction (Job satisfaction) is the terminology used to describe whether employees are happy and contented and fulfilling their desires and needs at work. Many measures purport that employee satisfaction is a factor in employee motivation, employee goal achievement, and positive employee morale in the workplace.

Employee satisfaction, while generally a positive in your organization, can also be a downer if mediocre employees stay because they are satisfied with your work environment. Factors contributing to employee satisfaction include treating employees with respect, providing regular employee recognition, empowering employees, offering above industry-average benefits and compensation, providing employee perks and company activities, and positive management within a success framework of goals, measurements, and expectations. Employee satisfaction is often measured by anonymous employee satisfaction surveys administered periodically that gauge employee satisfaction in areas such as:

- management,
- understanding of mission and vision,
- empowerment,
- teamwork,
- communication, and
- Coworker interaction.

The facets of employee satisfaction measured vary from company to company. A second method used to measure employee satisfaction is meeting with small groups of employees and asking the same questions verbally. Depending on the culture of the company, either method can contribute knowledge about employee satisfaction to managers and employees.

❖ JOB DESIGN

It is the process of Work arrangement (or rearrangement) aimed at reducing or overcoming job dissatisfaction and employee alienation arising from repetitive and mechanistic tasks. Through job design, organizations try to raise productivity levels by offering non-monetary rewards such as greater satisfaction from a sense of personal achievement in meeting the increased challenge and responsibility of one's work.

Approaches to job design include :

- **Job Enlargement:** Job enlargement changes the jobs to include more and/or different tasks. Job enlargement should add interest to the work but may or may not give employees more responsibility.
- **Job Rotation:** Job rotation moves employees from one task to another. It distributes the group tasks among a number of employees.
- **Job Enrichment:** Job enrichment allows employees to assume more responsibility, accountability, and independence when learning new tasks or to allow for greater participation and new opportunities.

3.7 TYPES OF MOTIVATION TECHNIQUES

If a manager wants to get work done by his employees, he may either hold out a promise of a reward (positive motivation) or he/she may install fear (negative motivation). Both these types are widely used by managements.

a) Positive Motivation : This type of motivation is generally based on reward. A positive motivation involves the possibility of increased motive satisfaction. According to Flipppo - "Positive motivation is a process of attempting to influence others to do your will through the possibility of gain or reward". Incentive motivation is the "pull" mechanism. The receipt of awards, due recognition and praise for work well done definitely lead to good team spirit, co-operation and a feeling of happiness.

- Positive motivation include:-
- Praise and credit for work done

- Wages and Salaries
- Appreciation
- A sincere interest in subordinates as individuals
- Delegation of authority and responsibility

b) Negative Motivation : This type of motivation is based on force and fear. Fear causes persons to act in a certain way because they fear the consequences. Negative motivation involves the possibility of decreased motive satisfaction. It is a "push" mechanism. The imposition of punishment frequently results in frustration among those punished, leading to the development of maladaptive behaviour. It also creates a hostile state of mind and an unfavourable attitude to the job. However, there is no management which has not used the negative motivation at some time or the other.

❖ **MOTIVATION THEORIES**

Some of the motivation theories are discussed below

a) McGregor's Theory X and Theory Y:

McGregor states that people inside the organization can be managed in two ways. The first is basically negative, which falls under the category X and the other is basically positive, which falls under the category Y. After viewing the way in which the manager dealt with employees, McGregor concluded that a manager's view of the nature of human beings is based on a certain grouping of assumptions and that he or she tends to mold his or her behaviour towards subordinates according to these assumptions.

Under the assumptions of theory X :

- Employees inherently do not like work and whenever possible, will attempt to avoid it. Because employees dislike work, they have to be forced, coerced or threatened with punishment to achieve goals.
- Employees avoid responsibilities and do not work without formal directions are issued.

- Most workers place a greater importance on security over all other factors and display little ambition.

In contrast under the assumptions of theory Y :

- Physical and mental effort at work is as natural as rest or play.
- People do exercise self-control and self-direction and if they are committed to those goals.
- Average human beings are willing to take responsibility and exercise imagination, ingenuity and creativity in solving the problems of the organization.
- That the way the things are organized, the average human being's brainpower is only partly used.

On analysis of the assumptions it can be detected that theory X assumes that lower-order needs dominate individuals and theory Y assumes that higher-order needs dominate individuals. An organization that is run on Theory X lines tends to be authoritarian in nature, the word "authoritarian" suggests such ideas as the "power to enforce obedience" and the "right to command." In contrast Theory Y organizations can be described as "participative", where the aims of the organization and of the individuals in it are integrated; individuals can achieve their own goals best by directing their efforts towards the success of the organization.

b) Abraham Maslow's "Need Hierarchy Theory":

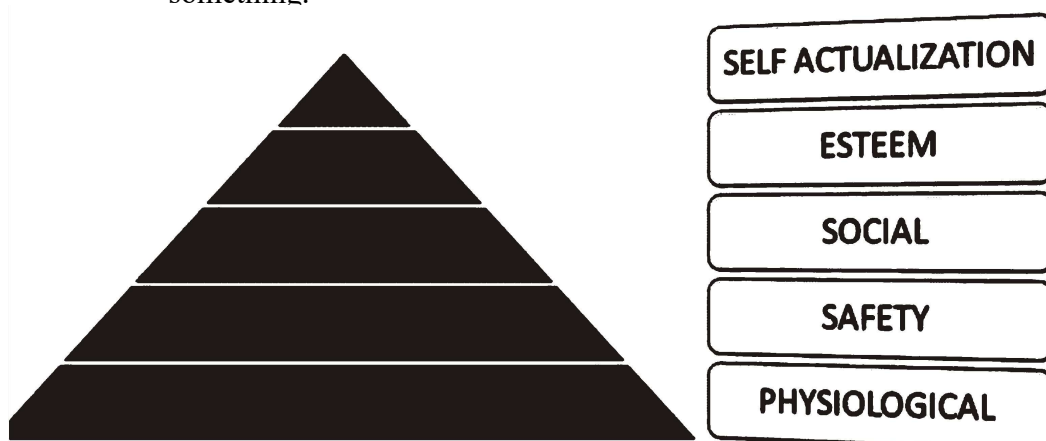
One of the most widely mentioned theories of motivation is the hierarchy of needs theory put forth by psychologist Abraham Maslow. Maslow saw human needs in the form of a hierarchy, ascending from the lowest to the highest, and he concluded that when one set of needs is satisfied, this kind of need ceases to be a motivator.

As per his theory these needs are:

- (i) **Physiological needs:** These are important needs for sustaining the human life. Food, water, warmth, shelter, sleep, medicine and education are the basic physiological needs which fall in the primary list of

needsatisfaction. Maslow was of an opinion that until these needs were satisfied to a degree to maintain life, no other motivating factors can work.

- (ii) **Security or Safety needs :** These are the needs to be free of physical danger and of the fear of losing a job, property, food or shelter. It also includes protection against any emotional harm.
- (iii) **Social needs:** Since people are social beings, they need to belong and be accepted by others. People try to satisfy their need for affection, acceptance and friendship.
- (iv) **Esteem needs:** According to Maslow, once people begin to satisfy their need to belong, they tend to want to be held in esteem both by themselves and by others. This kind of need produces such satisfaction as power, prestige status and self-confidence. It includes both internal esteem factors like self-respect, autonomy and achievements and external esteem factors such as status, recognition and attention.
- (v) **Need for self-actualization:** Maslow regards this as the highest need in his hierarchy. It is the drive to become what one is capable of becoming; it includes growth, achieving one's potential and self-fulfillment. It is to maximize one's potential and to accomplish something.



All of the needs are structured into a hierarchy and only once a lower level of need has been fully met, would a worker be motivated by the opportunity of having the next need up in the hierarchy satisfied. For example a person who is dying of hunger will be motivated to achieve a basic wage in order to buy food before worrying about having a secure job contract or the respect of others.

A business should therefore offer different incentives to workers in order to help them fulfill each need in turn and progress up the hierarchy. Managers should also recognize that workers are not all motivated in the same way and do not all move up the hierarchy at the same pace. They may therefore have to offer a slightly different set of incentives from worker to worker.

c) Frederick Herzberg's motivation-hygiene theory:

Frederick has tried to modify Maslow's need Hierarchy theory. His theory is also known as two-factor theory or Hygiene theory. He stated that there are certain satisfiers and dissatisfiers for employees at work. Intrinsic factors are related to job satisfaction, while extrinsic factors are associated with dissatisfaction. He devised his theory on the question: "What do people want from their jobs?" He asked people to describe in detail, such situations when they felt exceptionally good or exceptionally bad. From the responses that he received, he concluded that the opposite of satisfaction is not dissatisfaction. Removing dissatisfying characteristics from a job does not necessarily make the job satisfying. He states that the presence of certain factors in the organization is natural and the presence of the same does not lead to motivation. However, their non-presence leads to de-motivation. In a similar manner there are certain factors, the absence of which causes

no dissatisfaction, but their presence has motivational impact. Examples of Hygiene factors are:

Security, status, relationship with subordinates, personal life, salary, work conditions, relationship with supervisor and company policy and administration.

Examples of Motivational factors are:

Growth prospectus job advancement, responsibility, challenges, recognition and achievements.

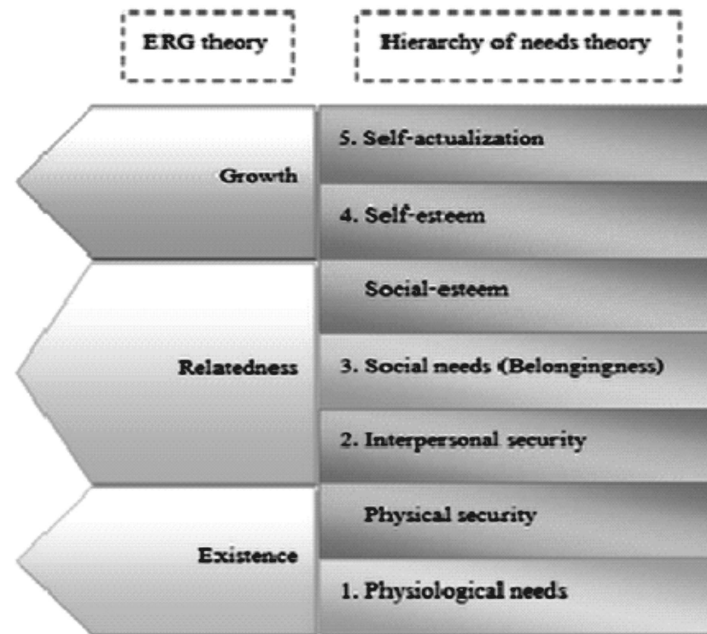
- d) Victor Vroom's Expectancy theory :** The most widely accepted explanations of motivation have been propounded by Victor Vroom. His theory is commonly known as expectancy theory. The theory argues that the strength of a tendency to act in a specific way depends on the strength of an expectation that the act will be followed by a given outcome and on the attractiveness of that outcome to the individual to make this simple, expectancy theory says that an employee can be motivated to perform better when there is a belief that the better performance will lead to good performance appraisal and that this shall result into realization of personal goal in form of some reward.

Therefore an employee is:

Motivation = Valence x Expectancy.

The theory focuses on three things:

- Efforts and performance relationship
- Performance and reward relationship
- Rewards and personal goal relationship



e) **Clayton Alderfer's ERG Theory** : Alderfer has tried to rebuild the hierarchy of needs of Maslow into another model named ERG i.e. Existence - Relatedness - Growth. According to him there are 3 groups of core needs as mentioned above. The existence group is concerned mainly with providing basic material existence. The second group is the individual's need to maintain interpersonal relationship with other members in the group. The final group is the intrinsic desire to grow and develop personally. The major conclusions of this theory are :

- In an individual, more than one need may be operative at the same time.
- If a higher need goes unsatisfied then the desire to satisfy a lower need intensifies.
- It also contains the frustration-regression dimension.

f) **McClelland's Theory of Needs:**

David McClelland has developed a theory on three types of motivating

needs :

- (i) Need for Power
- (ii) Need for Affiliation
- (iii) Need for Achievement

Basically people for high need for power are inclined towards influence and control. They like to be at the center and are good orators. They are demanding in nature, forceful in manners and ambitious in life. They can be motivated to perform if they are given key positions or power positions.

In the second category are the people who are social in nature. They try to affiliate themselves with individuals and groups. They are driven by love and faith. They like to build a friendly environment around themselves. Social recognition and affiliation with others provides them motivation.

People in the third area are driven by the challenge of success and the fear of failure. Their need for achievement is moderate and they set for themselves moderately difficult tasks. They are analytical in nature and take calculated risks. Such people are motivated to perform when they see at least some chances of success. McClelland observed that with the advancement in hierarchy the need for power and achievement increased rather than Affiliation. He also observed that people who were at the top, later ceased to be motivated by this drives.

g) Stacey Adams' Equity Theory:

As per the equity theory of J. Stacey Adams, people are motivated by their beliefs about the reward structure as being fair or unfair, relative to the inputs. People have a tendency to use subjective judgment to balance the outcomes and inputs in the relationship for comparisons between different individuals. Accordingly:

$$\frac{\text{Out comes by a person}}{\text{Inputs by a person}} = \frac{\text{Out comes by another person}}{\text{Input by another person}}$$

If people feel that they are not equally rewarded they either reduce the quantity or quality of work or migrate to some other organization. However, if people perceive that they are rewarded higher, they may be motivated to work harder.

h) Skinner's Reinforcement Theory:

B.F. Skinner, who propounded the reinforcement theory, holds that by designing the environment properly, individuals can be motivated. Instead of considering internal factors like impressions, feelings, attitudes and other cognitive behavior, individuals are directed by what happens in the environment external to them. Skinner states that work environment should be made suitable to the individuals and that punishment actually leads to frustration and demotivation. Hence, the only way to motivate is to keep on making positive changes in the external environment of the organization.

3.8 LEADERSHIP STYLE

Leadership is defined as influence, the art or process of influencing people so that they will strive willingly and enthusiastically toward the achievement of group goals.

- Leaders act to help a group attain objectives through the maximum application of its capabilities.
- Leaders must instill values - whether it be concern for quality, honesty and calculated risk taking or for employees and customers.

Importance of Leadership

1. Aid to authority
2. Motive power to group efforts
3. Basis for co operation
4. Integration of Formal and Informal Organization.

❖ LEADERSHIP STYLES

The leadership style we will discuss here are:

- a) Autocratic style
- b) Democratic Style
- c) Laissez Faire Style

a) Autocratic style : Manager retains as much power and decision-making authority as possible. The manager does not consult employees, nor are they allowed to give any input. Employees are expected to obey orders without receiving any explanations. The motivation environment is produced by creating a structured set of rewards and punishments. Autocratic leadership is a classical leadership style with the following characteristics:

- Manager seeks to make as many decisions as possible
- Manager seeks to have the most authority and control in decision making
- Manager seeks to retain responsibility rather than utilize complete delegation
- Consultation with other colleagues is minimal and decision making becomes a solitary process
- Managers are less concerned with investing their own leadership development, and prefer to simply work on the task at hand.

Advantages

- Reduced stress due to increased control
- A more productive group 'while the leader is watching'
- Improved logistics of operations
- Faster decision making

Disadvantages

- Short-termistic approach to management.
- Manager perceived as having poor leadership skills
- Increased workload for the manager

- People dislike being ordered around
- Teams become dependent upon their leader

b) Democratic Style

Democratic Leadership is the leadership style that promotes the sharing of responsibility, the exercise of delegation and continual consultation. The style has the following characteristics:

- Manager seeks consultation on all major issues and decisions.
- Manager effectively delegates tasks to subordinates and give them full control and responsibility for those tasks.
- Manager welcomes feedback on the results of initiatives and the work environment.
- Manager encourages others to become leaders and be involved in leadership development.

Advantages

- Positive work environment
- Successful initiatives
- Creative thinking
- Reduction of friction and office politics
- Reduced employee turnover

Disadvantages

- Takes long time to take decisions
- Danger of pseudo participation
- Like the other styles, the democratic style is not always appropriate. It is most successful when used with highly skilled or experienced employees or when implementing operational changes or resolving individual or group problems.

c) Laissez-Faire Style

This French phrase means "leave it be" and is used to describe a leader who leaves his/her colleagues to get on with their work. The style is largely a "hands off" view that tends to minimize the amount of direction and face time required.

Advantages

- No work for the leader
- Frustration may force others into leadership roles
- Allows the visionary worker the opportunity to do what they want, free from interference
- Empowers the group

Disadvantages

- It makes employees feel insecure at the unavailability of a manager.
- The manager cannot provide regular feedback to let employees know how well they are doing.
- Managers are unable to thank employees for their good work.
- The manager doesn't understand his or her responsibilities and is hoping the employees can cover for him or her.

❖ LEADERSHIP THEORIES

The various leadership theories are

a) Great Man Theory:

Assumptions

- Leaders are born and not made.
- Great leaders will arise when there is a great need.

Description

Early research on leadership was based on the study of people who were already great leaders. These people were often from the aristocracy, as few from lower classes had the opportunity to lead. This contributed to the notion that leadership had something to do with breeding. The idea of the Great Man also strayed into the mythic domain, with notions that in times of need, a Great Man would arise, almost by magic. This was easy to verify, by pointing to people such as Eisenhower and Churchill, let alone those further back along the timeline, even to Jesus, Moses, Mohammed and the Buddha.

Discussion

Gender issues were not on the table when the 'Great Man' theory was proposed. Most leaders were male and the thought of a Great Woman was generally in areas other than leadership. Most researchers were also male, and concerns about androcentric bias were a long way from being realized.

b) Trait Theory :

Assumptions

- People are born with inherited traits.
- Some traits are particularly suited to leadership.
- People who make good leaders have the right (or sufficient) combination of traits.

Description

Early research on leadership was based on the psychological focus of the day, which was of people having inherited characteristics or traits. Attention was thus put on discovering these traits, often by studying successful leaders, but with the underlying assumption that if other people could also be found with these traits, then they, too, could also become great leaders. McCall

and Lombardo (1983) researched both success and failure identified four primary traits by which leaders could succeed or 'derail':

Emotional stability and composure : Calm, confident and predictable, particularly when under stress.

Admitting error : Owning up to mistakes, rather than putting energy into covering up.

Good interpersonal skills : able to communicate and persuade others without resort to negative or coercive tactics.

Intellectual breadth : Able to understand a wide range of areas, rather than having a narrow (and narrow-minded) area of expertise.

c) Behavioral Theory:

Assumptions

- Leaders can be made, rather than are born.
- Successful leadership is based in definable, learnable behavior.

Description

Behavioral theories of leadership do not seek inborn traits or capabilities. Rather, they look at what leaders actually do.

If success can be defined in terms of describable actions, then it should be relatively easy for other people to act in the same way. This is easier to teach and learn than to adopt the more ephemeral 'traits' or 'capabilities'.

d) Participative Leadership:

Assumptions

- Involvement in decision-making improves the understanding of the issues involved by those who must carry out the decisions.
- People are more committed to actions where they have involved in

the relevant decision making.

- People are less competitive and more collaborative when they are working on joint goals.
- When people make decisions together, the social commitment to one another is greater and thus increases their commitment to the decision.
- Several people deciding together make better decisions than one person alone.

Description

A Participative Leader, rather than taking autocratic decisions, seeks to involve other people in the process, possibly including subordinates, peers, superiors and other stakeholders. Often, however, as it is within the managers' whim to give or deny control to his or her subordinates, most participative activity is within the immediate team. The question of how much influence others are given thus may vary on the manager's preferences and beliefs, and a whole spectrum of participation is possible

e) Situational Leadership:

Assumptions

- The best action of the leader depends on a range of situational factors.

Description

When a decision is needed, an effective leader does not just fall into a single preferred style. In practice, as they say, things are not that simple.

Factors that affect situational decisions include motivation and capability of followers. This, in turn, is affected by factors within the particular situation. The relationship between followers and the leader may be another factor that affects leader behavior as much as it does follower behavior.

The leaders' perception of the follower and the situation will affect what

they do rather than the truth of the situation. The leader's perception of themselves and other factors such as stress and mood will also modify the leaders' behavior.

f) Contingency Theory:

Assumptions

- The leader's ability to lead is contingent upon various situational factors, including the leader's preferred style, the capabilities and behaviors of followers and also various other situational factors.

Description

- Contingency theories are a class of behavioral theory that contend that there is no one best way of leading and that a leadership style that is effective in some situations may not be successful in others. An effect of this is that leaders who are very effective at one place and time may become unsuccessful either when transplanted to another situation or when the factors around them change. Contingency theory is similar to situational theory in that there is an assumption of no simple one right way. The main difference is that situational theory tends to focus more on the behaviors that the leader should adopt, given situational factors (often about follower behavior), whereas contingency theory takes a broader view that includes contingent factors about leader capability and other variables within the situation.

g) Transactional Leadership :

Assumptions

- People are motivated by reward and punishment.
- Social systems work best with a clear chain of command.
- When people have agreed to do a job, a part of the deal is that they cede all authority to their manager.
- The prime purpose of a subordinate is to do what their manager tells them to do.

Description

The transactional leader works through creating clear structures whereby it is clear what is required of their subordinates, and the rewards that they get for following orders. Punishments are not always mentioned, but they are also well-understood and formal systems of discipline are usually in place. The early stage of Transactional Leadership is in negotiating the contract whereby the subordinate is given a salary and other benefits, and the company (and by implication the subordinate's manager) gets authority over the subordinate. When the Transactional Leader allocates work to a subordinate, they are considered to be fully responsible for it, whether or not they have the resources or capability to carry it out. When things go wrong, then the subordinate is considered to be personally at fault, and is punished for their failure (just as they are rewarded for succeeding).

h) Transformational Leadership:

Assumptions

- People will follow a person who inspires them.
- A person with vision and passion can achieve great things.
- The way to get things done is by injecting enthusiasm and energy.

Description

Working for a Transformational Leader can be a wonderful and uplifting experience. They put passion and energy into everything. They care about you and want you to succeed. Transformational Leaders are often charismatic, but are not as narcissistic as pure Charismatic Leaders, who succeed through a belief in themselves rather than a belief in others. One of the traps of Transformational Leadership is that passion and confidence can easily be mistaken for truth and reality. Transformational Leaders, by definition, seek to transform. When the organization does not need transforming and people are happy as they are, then such a leader will be frustrated. Likewise, wartime leaders, however, given the right situation they come into their own and can be personally responsible for saving entire companies.

3.9 COMMUNICATION

Communication is the exchange of messages between people for the purpose of achieving common meanings. Unless common meanings are shared, managers find it extremely difficult to influence others. Whenever group of people interact, communication takes place. Communication is the exchange of information using a shared set of symbols. It is the process that links group members and enables them to coordinate their activities. Therefore, when managers foster effective communication, they strengthen the connections between employees and build cooperation. Communication also functions to build and reinforce interdependence between various parts of the organization. As a linking mechanism among the different organizational subsystems, communication is a central feature of the structure of groups and organizations. It helps to coordinate tasks and activities within and between organizations.

DEFINITION

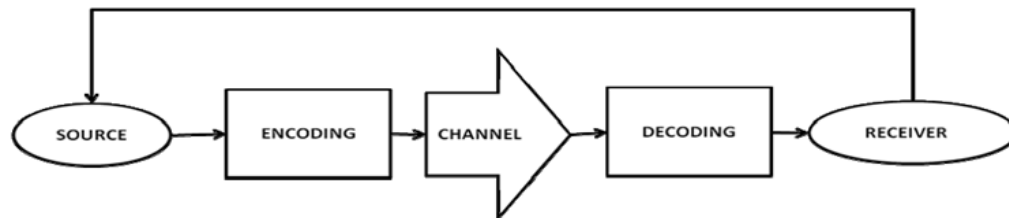
According to Koontz and O'Donnell, "Communication, is an intercourse by words, letters, symbols or messages, and is a way that the organization members share meaning and understanding with another".

❖ THE COMMUNICATION PROCESS

Communication is important in building and sustaining human relationships at work. Communication can be thought of as a process or flow. Before communication can take place, a purpose, expressed as a message to be conveyed is needed. It passes between the sender and the receiver. The result is transference of meaning from one person to another. The figure below depicts the communication process. This model is made up of seven parts:

(1) Source, (2) Encoding, (3) Message, (4) Channel, (5) Decoding, (6) Receiver, and (7)

Feedback.



a) Source:

The source initiates a message. This is the origin of the communication and can be an individual, group or inanimate object. The effectiveness of a communication depends to a considerable degree on the characteristics of the source. The person who initiates the communication process is known as sender, source or communicator. In an organization, the sender will be a person who has a need or desire to send a message to others. The sender has some information which he wants to communicate to some other person to achieve some purpose. By initiating the message, the sender attempts to achieve understanding and change in the behaviour of the receiver.

b) Encoding:

Once the source has decided what message to communicate, the content of the message must be put in a form the receiver can understand. As the background for encoding information, the sender uses his or her own frame of reference. It includes the individual's view of the organization or situation as a function of personal education, interpersonal relationships, attitudes, knowledge and experience. Three conditions are necessary for successful encoding the message.

- **Skill :** Successful communicating depends on the skill you possess. Without the requisite skills, the message of the communicator will not reach the receiver in the desired form. One's total communicative success includes speaking, reading, listening and reasoning skills.

Attitudes: Our attitudes influence our behaviour. We hold predisposed ideas on a number of topics and our communications are affected by these attitudes.

- **Knowledge :** We cannot communicate what we don't know. The amount of knowledge the source holds about his or her subject will affect the message he or she seeks to transfer.
- c) **The Message :** The message is the actual physical product from the source encoding. The message contains the thoughts and feelings that the communicator intends to evoke in the receiver. The message has two primary components:-
 - The Content: The thought or conceptual component of the message is contained in the words, ideas, symbols and concepts chosen to relay the message.
 - The Affect: The feeling or emotional component of the message is contained in the intensity, force, demeanour (conduct or behaviour), and sometimes the gestures of the communicator.

d) The Channel:

The actual means by which the message is transmitted to the receiver (Visual, auditory, written or some combination of these three) is called the channel. The channel is the medium through which the message travels. The channel is the observable carrier of the message. Communication in which the sender's voice is used as the channel is called oral communication. When the channel involves written language, the sender is using written communication. The sender's choice of a channel conveys additional information beyond that contained in the message itself. For example, documenting an employee's poor performance in writing conveys that the manager has taken the problem seriously.

f) Decoding:

Decoding means interpreting what the message means. The extent to which the decoding by the receiver depends heavily on the individual characteristics of the sender and receiver. The greater the similarity in the background or

status factors of the communicators, the greater the probability that a message will be perceived accurately. Most messages can be decoded in more than one way. Receiving and decoding a message are a type of perception. The decoding process is therefore subject to the perception biases.

g) The Receiver:

The receiver is the object to whom the message is directed. Receiving the message means one or more of the receiver's senses register the message - for example, hearing the sound of a supplier's voice over the telephone or seeing the boss give a thumbs-up signal. Like the sender, the receiver is subject to many influences that can affect the understanding of the message. Most important, the receiver will perceive a communication in a manner that is consistent with previous experiences. Communications that are not consistent with expectations are likely to be rejected.

- h) Feedback :** The final link in the communication process is a feedback loop. Feedback, in effect, is communication travelling in the opposite direction. If the sender pays attention to the feedback and interprets it accurately, the feedback can help the sender learn whether the original communication was decoded accurately. Without feedback, one-way communication occurs between managers and their employees. Faced with differences in their power, lack of time, and a desire to save face by not passing on negative information, employees may be discouraged from providing the necessary feedback to their managers.

Guidelines for effective Communication

- (i) Senders of message must clarify in their minds what they want to communicate. Purpose of the message and making a plan to achieve the intended end must be clarified.
- (ii) Encoding and decoding be done with symbols that are familiar to the sender and the receiver of the message.
- (iii) For the planning of the communication, other people should be consulted and encouraged to participate.

- (iv) It is important to consider the needs of the receivers of the information. Whenever appropriate, one should communicate something that is of value to them, in the short run as well as in the more distant future.
- (v) In communication, tone of voice, the choice of language and the congruency between what is said and how it is said influence the reactions of the receiver of the message.
- (vi) Communication is complete only when the message is understood by the receiver. And one never knows whether communication is understood unless the sender gets a feedback.
- (vii) The function of communication is more than transmitting the information. It also deals with emotions that are very important in interpersonal relationships between superiors, subordinates and colleagues in an organization.
- (viii) Effective communicating is the responsibility not only of the sender but also of the receiver of the information.

❖ **BARRIERS TO EFFECTIVE COMMUNICATION**

Barriers to communication are factors that block or significantly distort successful communication. Effective managerial communication skills help overcome some, but not all, barriers to communication in organizations. The more prominent barriers to effective communication which every manager should be aware of is given below:

- a) **Filtering** : Filtering refers to a sender manipulating information so it will be seen more favourably by the receiver. The major determinant of filtering is the number of levels in an organization's structure. The more vertical levels in the organization's hierarchy, the more opportunities for filtering. Sometimes the information is filtered by the sender himself. If the sender is hiding some meaning and disclosing in such a fashion as appealing to the receiver, then he is "filtering" the message deliberately. A manager in the process of altering communication in his favour is attempting to filter the information.

- b) Selective Perception:** Selective perception means seeing what one wants to see. The receiver, in the communication process, generally resorts to selective perception i.e., he selectively perceives the message based on the organizational requirements, the needs and characteristics, background of the employees etc. Perceptual distortion is one of the distressing barriers to the effective communication. People interpret what they see and call it a reality. In our regular activities, we tend to see those things that please us and to reject or ignore unpleasant things.

Selective perception allows us to keep out dissonance (the existence of conflicting elements in our perceptual set) at a tolerable level. If we encounter something that does not fit our current image of reality, we structure the situation to minimize our dissonance. Thus, we manage to overlook many stimuli from the environment that do not fit into our current perception of the world. This process has significant implications for managerial activities. For example, the employment interviewer who expects a female job applicant to put her family ahead of her career is likely to see that in female applicants, regardless of whether the applicants feel that way or not.

- c) Emotions :** How the receiver feels at the time of receipt of information influences effectively how he interprets the information. For example, if the receiver feels that the communicator is in a jovial mood, he interprets that the information being sent by the communicator to be good and interesting. Extreme emotions and jubilation or depression are quite likely to hinder the effectiveness of communication. A person's ability to encode a message can become impaired when the person is feeling strong emotions. For example, when you are angry, it is harder to consider the other person's viewpoint and to choose words carefully. The angrier you are, the harder this task becomes. Extreme emotions - such as jubilation or depression - are most likely to hinder effective communication. In such instances, we are most prone to disregard our rational and objective thinking processes and substitute emotional judgments.
- d) Language:** Communicated message must be understandable to the receiver. Words mean different things to different people. Language reflects not only

the personality of the individual but also the culture of society in which the individual is living. In organizations, people from different regions, different backgrounds, and speak different languages. People will have different academic backgrounds, different intellectual facilities, and hence the jargon they use varies. Often, communication gap arises because the language the sender is using may be incomprehensible, vague and indigestible. Language is a central element in communication. It may pose a barrier if its use obscures meaning and distorts intent. Words mean different things to different people. Age, education and cultural background are three of the more obvious variables that influence the language a person uses and the definitions he or she gives to words. Therefore, use simple, direct, declarative language. Speak in brief sentences and use terms or words you have heard from your audience. As much as possible, speak in the language of the listener. Do not use jargon or technical language except with those who clearly understand it.

- e) **Stereotyping** : Stereotyping is the application of selective perception. When we have preconceived ideas about other people and refuse to discriminate between individual behaviours, we are applying selective perception to our relationship with other people. Stereotyping is a barrier to communications because those who stereotype others use selective perception in their communication and tend to hear only those things that confirm their stereotyped images. Consequently, stereotypes become more deeply ingrained as we find more "evidence" to confirm our original opinion. Stereotyping has a convenience function in our interpersonal relations. Since people are all different, ideally we should react and interact with each person differently. To do this, however, requires considerable psychological effort. It is much easier to categorize (stereotype) people so that we can interact with them as members of a particular category. Since the number of categories is small, we end up treating many people the same even though they are quite different. Our communications, then, may be directed at an individual as a member of a category at the sacrifice of the more effective communication on a personal level.

- f) Status Difference :** The organizational hierarchy pose another barrier to communication within organization, especially when the communication is between employee and manager. This is so because the employee is dependent on the manager as the primary link to the organization and hence more likely to distort upward communication than either horizontal or downward communication. Effective supervisory skills make the supervisor more approachable and help reduce the risk of problems related to status differences. In addition, when employees feel secure, they are more likely to be straightforward in upward communication.
- g) Use of Conflicting Signals :** A sender is using conflicting signals when he or she sends inconsistent messages. A verbal message might conflict with a nonverbal one. For example, if a manager says to his employees, "If you have a problem, just come to me. My door is always open", but he looks annoyed whenever an employee knocks on his door". Then we say the manager is sending conflicting messages. When signals conflict, the receivers of the message have to decide which, if any, to believe.
- h) Reluctance to Communicate :** For a variety of reasons, managers are sometimes reluctant to transmit messages. The reasons could be:-
- They may doubt their ability to do so.
 - They may dislike or be weary of writing or talking to others.
 - They may hesitate to deliver bad news because they do not want to face a negative reaction.

When someone gives in to these feelings, they become a barrier to effective communications.

- i) Projection:** Projection has two meanings.
- (a) Projecting one's own motives into others behavior. For example, managers who are motivated by money may assume their subordinates are also motivated by it. If the subordinate's prime motive is something other than money, serious problems may arise.

- (b) The use of defense mechanism to avoid placing blame on oneself. As a defense mechanism, the projection phenomenon operates to protect the ego from unpleasant communications. Frequently, individuals who have a particular fault will see the same fault in others, making their own fault seem not so serious.
- j) **The "Halo Effect":** The term "halo effect" refers to the process of forming opinions based on one element from a group of elements and generalizing that perception to all other elements. For example, in an organization, a good attendance record may cause positive judgments about productivity, attitude, or quality of work. In performance evaluation system, the halo effect refers to the practice of singling out one trait of an employee (either good or bad) and using this as a basis for judgments of the total employee.

❖ CHANNELS OF COMMUNICATION

- a) **Formal Communication :** Formal communication follows the route formally laid down in the organization structure. There are three directions in which communications flow: downward, upward and laterally (horizontal).
- i) **Downward Communication :** Downward communication involves a message travelling to one or more receivers at the lower level in the hierarchy. The message frequently involves directions or performance feedback. The downward flow of communication generally corresponds to the formal organizational communications system, which is usually synonymous with the chain of command or line of authority. This system has received a great deal of attention from both managers and behavioral scientists since it is crucial to organizational functioning.
- ii) **Upward Communication :** In upward communication, the message is directed toward a higher level in the hierarchy. It often takes the form of progress reports or information about successes and failures of the individuals or work groups reporting to the receiver of the message. Sometimes employees also send suggestions or complaints upward through

the organization's hierarchy. The upward flow of communication involves two distinct manager-subordinate activities in addition to feedback:

- The participation by employees in formal organizational decisions.
- Employee appeal is a result against formal organization decisions. The employee appeal is a result of the industrial democracy concept that provides for two-way communication in areas of disagreement.

iii) Horizontal Communication : When takes place among members of the same work group, among members of work groups at the same level, among managers at the same level or among any horizontally equivalent personnel, we describe it as lateral communications. In lateral communication, the sender and receiver(s) are at the same level in the hierarchy. Formal communications that travel laterally involve employees engaged in carrying out the same or related tasks. The messages might concern advice, problem solving, or coordination of activities.

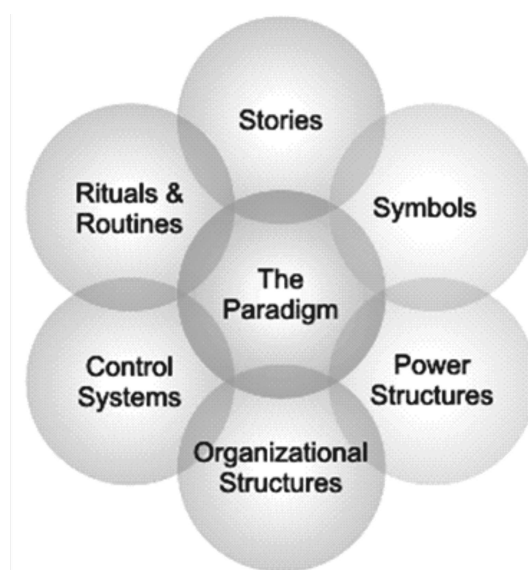
- b) Informal Communication or Grapevine :** Informal communication, generally associated with interpersonal communication, was primarily seen as a potential hindrance to effective organizational performance. This is no longer the case. Informal communication has become more important to ensuring the effective conduct of work in modern organizations. Probably the most common term used for the informal communication in the workplace is "grapevine" and this communication that is sent through the organizational grapevine is often considered gossip or rumor. While grapevine communication can spread information quickly and can easily cross established organizational boundaries, the information it carries can be changed through the deletion or exaggeration of crucial details thus causing the information to be inaccurate - even if it's based on truth. The use of the organizational grapevine as an informal communication channel often results when employees feel threatened, vulnerable, or when the organization is experiencing change and when communication from management is restricted and not forthcoming.

❖ ORGANIZATIONAL CULTURE

Organizational culture is an idea in the field of organizational studies and management which describes the psychology, attitudes, experiences, beliefs and values (personal and cultural values) of an organization. It has been defined as "the specific collection of values and norms that are shared by people and groups in an organization and that control the way they interact with each other and with stakeholders outside the organization."

ELEMENTS OF ORGANIZATIONAL CULTURE

Johnson and Scholes described a cultural web, identifying a number of elements that can be used to describe or influence Organizational Culture:



The six elements are:

- a) **Stories :** The past events and people talked about inside and outside the company. Who and what the company chooses to immortalize says a great deal about what it values, and perceives as great behavior.
- b) **Rituals and Routines:** The daily behavior and actions of people that signal acceptable behavior. This determines what is expected to happen in given situations, and what is valued by management.
- c) **Symbols :** The visual representations of the company including logos, how plush the offices are, and the formal or informal dress codes.
- d) **Organizational Structure :** This includes both the structure defined by the organization chart, and the unwritten lines of power and influence that indicate whose contributions are most valued.
- e) **Control Systems :** The ways that the organization is controlled. These include financial systems, quality systems, and rewards (including the way they are measured and distributed within the organization.)
- f) **Power Structures :** The pockets of real power in the company. This may involve one or two key senior executives, a whole group of executives, or even a department. The key is that these people have the greatest amount of influence on decisions, operations, and strategic direction.

❖ TYPES OF ORGANIZATIONAL CULTURE

Deal and Kennedy argue organizational culture is based on two elements:

1. **Feedback Speed :** How quickly are feedback and rewards provided (through which the people are told they are doing a good or a bad job).
2. **Degree of Risk :** The level of risk taking (degree of uncertainty). The combination of these two elements results in four types of corporate cultures:
 - a) **Tough-Guy Culture or Macho Culture (Fast feedback and reward, high risk) :**
 - Stress results from the high risk and the high potential decrease or increase of the reward.

- Focus on now, individualism prevails over teamwork.
- Typical examples: advertising, brokerage, sports.

The most important aspect of this kind of culture is big rewards and quick feedback. This kind of culture is mostly associated with quick financial activities like brokerage and currency trading. It

can also be related with activities, like a sports team or branding of an athlete, and also the police team. This kind of culture is considered to carry along, a high amount of stress, and people working within the organization are expected to possess a strong mentality, for survival in the organization.

b) Work Hard/Play Hard (Fast feedback and reward, low risk):

- Stress results from quantity of work rather than uncertainty.
- Focus on high-speed action, high levels of energy.
- Typical examples: sales, restaurants, software companies.

This type of organization does not involve much risk, as the organizations already consist of a firm base along with a strong client relationship. This kind of culture is mostly opted by large organizations which have strong customer service. The organization with this kind of culture is equipped with specialized jargons and is qualified with multiple team meetings.

c) Bet Your Company Culture (Slow feedback and reward, high risk):

- Stress results from high risk and delay before knowing if actions have paid off.
- Focus on long-term, preparation and planning.
- Typical examples: pharmaceutical companies, aircraft manufacturers, oil prospecting companies.

In this kind of culture, the company makes big and important decisions over high stake endeavors. It takes time to see the consequence of these decisions. Companies that postulate experimental projects and researches as their core business, adopt this kind of culture. This kind

of culture can be adopted by a company designing experimental military weapons for example.

d) Process Culture (Slow feedback and reward, low risk):

- Stress is generally low, but may come from internal politics and stupidity of the system.
- Focus on details and process excellence.
- Typical examples: bureaucracies, banks, insurance companies, public services.

This type of culture does not include the process of feedback. In this kind of culture, the organization is extremely cautious about the adherence to laws and prefer to abide by them. This culture provides consistency to the organization and is good for public services. One of the most difficult tasks to undertake in an organization, is to change its work culture. An organizational culture change requires an organization to make amendments to its policies, its workplace ethics and its management system. It needs to start right from its base functions which includes support functions, operations and the production floor, which finally affects the overall output of the organization. It requires a complete overhaul of the entire system, and not many organizations prefer it as the process is a long and tedious one, which requires patience and endurance. However, when an organization succeeds in making a change on such a massive level, the results are almost always positive and fruitful. The different types of organizational cultures mentioned above must have surely helped you to understand them. You can also adopt one of them for your own organization, however, persistence and patience is ultimately of the essence.

❖ MANAGING CULTURAL DIVERSITY

Experts indicate that business owners and managers who hope to create and manage an effective, harmonious multicultural work force should remember the importance of the following:

- **Setting a good example**-This basic tool can be particularly valuable for small business owners who hope to establish a healthy environment for people of different cultural backgrounds, since they are generally able to wield significant control over the business's basic outlook and atmosphere.
- **Communicate in writing**-Company policies that explicitly forbid prejudice and discriminatory behavior should be included in employee manuals, mission statements, and other written communications. Jorgensen referred to this and other similar practices as "internal broadcasting of the diversity message in order to create a common language for all members of the organization."
- **Training programs**-Training programs designed to engender appreciation and knowledge of the characteristics and benefits of multicultural work forces have become ubiquitous in recent years. "Two types of training are most popular: awareness and skill-building," wrote Cox. "The former introduces the topic of managing diversity and generally includes information on work force demographics, the meaning of diversity, and exercises to get participants thinking about relevant issues and raising their own self-awareness. The skill building training provides more specific information on cultural norms of different groups and how they may affect work behavior." New employee orientation programs are also ideal for introducing workers to the company's expectations regarding treatment of fellow workers, whatever their cultural or ethnic background.
- **Recognize individual differences**-Writing in *The Complete MBA Companion*, contributor Rob Goffee stated that "there are various dimensions around which differences in human relationships may be understood. These include such factors as orientation towards authority; acceptance of power inequalities; desire for orderliness and structure; the need to belong to a wider social group and so on. Around these dimensions researchers have demonstrated systematic differences between national, ethnic, and religious groups." Yet Goffee also cautioned business owners, managers,

and executives to recognize that differences between individuals can not always be traced back to easily understood differences in cultural background: "Do not assume differences are always 'cultural.' There are several sources of difference. Some relate to factors such as personality, aptitude, or competence. It is a mistake to assume that all perceived differences are cultural in origin. Too many managers tend to fall back on the easy 'explanation' that individual behavior or performance can be attributed to the fact that someone is 'Italian' or 'a Catholic' or 'a woman.' Such conclusions are more likely to reflect intellectually lazy rather than culturally sensitive managers."

- Actively seek input from minority groups-Soliciting the opinions and involvement of minority groups on important work committees, etc., is beneficial not only because of the contributions that they can make, but also because such overtures confirm that they are valued by the company. Serving on relevant committees and task forces can increase their feelings of belonging to the organization. Conversely, relegating minority members to superfluous committees or projects can trigger a downward spiral in relations between different cultural groups.
- Revamp reward systems-An organization's performance appraisal and reward systems should reinforce the importance of effective diversity management, according to Cox. This includes assuring that minorities are provided with adequate opportunities for career development.
- Make room for social events-Company sponsored social events-picnics, softball games, volleyball leagues, bowling leagues, Christmas parties, etc.-can be tremendously useful in getting members of different ethnic and cultural backgrounds together and providing them with opportunities to learn about one another.
- Flexible work environment-Cox indicated that flexible work environments-which he characterized as a positive development for all workers-could have particularly "beneficial to people from nontraditional cultural

backgrounds because their approaches to problems are more likely to be different from past norms."

- Don't assume similar values and opinions-Goffee noted that "in the absence of reliable information there is a well-documented tendency for individuals to assume that others are 'like them.' In any setting this is likely to be an inappropriate assumption; for those who manage diverse work forces this tendency towards 'cultural assimilation' can prove particularly damaging."
- Continuous monitoring-Experts recommend that business owners and managers establish and maintain systems that can continually monitor the organization's policies and practices to ensure that it continues to be a good environment for all employees. This, wrote Jorgensen, should include "research into employees' needs through periodic attitude surveys."

"Increased diversity presents challenges to business leaders who must maximize the opportunities that it presents while minimizing its costs," summarized Cox. "The multicultural organization is characterized by pluralism, full integration of minority-culture members both formally and informally, an absence of prejudice and discrimination, and low levels of intergroup conflict.... The organization that achieves these conditions will create an environment in which all members can contribute to their maximum potential, and in which the 'value in diversity' can be fully realized."

3.10 SUMMARY

Directing 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 in 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. Leadership is an important element of the directing function of management. Wherever, there is an organized group of people working towards a common goal, some type of leadership becomes essential. "The power of leadership is the power of integrating. The leader stimulates what is best in us he unites and concentrates what we feel only gropingly and shatteringly. He is a person who gives form to the uncoarctate energy in every man. The person who influences me most is not he who does great Deeds, but he who makes me feel that I can do great deeds." Marry Parker Follet. Leadership is the ability to build up confidence and zeal among people and to create an urge in them to be led. To be a successful leader, a manager must possess the qualities of foresight, drive, initiative, self-confidence and personal integrity. Different situations may demand different types of leadership.

3.11 GLOSSARY

Motivation : Motivation may be defined as those forces that cause people to behave in certain ways. Motivation encompasses all those pressures and influences that trigger, channel, and sustain human behavior.

Satisfaction Employee satisfaction (Job satisfaction) is the terminology used to describe whether employees are happy and contented and fulfilling their desires and needs at work.

Leadership : Leadership is defined as influence, the art or process of influencing people so that they will strive willingly and enthusiastically toward the achievement of group goals.

Communication : It is the exchange of messages between people for the purpose of achieving common meanings. Unless common meanings are shared, managers find it extremely difficult to influence others.

3.12 SELF ASSESSMENT QUESTIONS

1. Explain the meaning and any three characteristics of Directing.
2. Explain how directing helps in effective and efficient working of an organization.
3. Does a leader need to be motivated? How can leaders maintain themselves to stay motivated?
4. What is leadership? What's the difference between leadership and management?

3.13 LESSON END EXERCISES

1. What is meant by Directing as a function of Management? Describe its importance.

2. Directing is the heart of the management process. Do you agree? Explain.

3. Can someone be a good leader, but not a good manager? Which is better for a company?

4. What's the "best" leadership style?

3.14 SUGGESTED READINGS

1. Bass, B.M., Organizational Decision Making. Homewood, III : Richard D. Irwin. Inc.
2. Duncan, J. 1973, Decision Making and Social Issues, Hindale, III : Richard D Irwin. Inc.
1. Sherlerkar and Sherlerkar, Principles of Management.
2. B.P. Singh, Business Management and Organizations.

CONTROLLING

STRUCTURE:

- 4.1 Introduction
- 4.2 Objectives
- 4.3 Control Process
- 4.4 Barriers For Controlling
- 4.5 Types of Control Systems
- 4.6 Classification of Budgets
- 4.7 Productivity
- 4.8 Cost Control
- 4.9 Purchase Control
- 4.10 Coordination
- 4.11 Summary
- 4.12 Glossary
- 4.13 Self Assessment Questions
- 4.14 Lesson End Exercises
- 4.15 Suggested Readings

4.1 INTRODUCTION

Control is the process through which managers assure that actual activities conform to planned activities. In the words of Koontz and O'Donnell - "Managerial control implies measurement of accomplishment against the standard and the correction of deviations to assure attainment of objectives according to plans."

4.2 OBJECTIVES :

After studying this chapter, students should be able to explain the meaning of controlling and explain the steps in the process of controlling and also describe the techniques of controlling.

Nature & Purpose of Control

- Control is an essential function of management
- Control is an ongoing process
- Control is forward - working because past cannot be controlled
- Control involves measurement
- The essence of control is action
- Control is an integrated system

4.3 CONTROL PROCESS

The basic control process involves mainly these steps as shown in Figure

a) The Establishment of Standards :



Because plans are the yardsticks against which controls must be revised, it follows logically that the first step in the control process would be to accomplish plans.

Plans can be considered as the criterion or the standards against which we compare the actual performance in order to figure out the deviations.

Examples for the standards

- **Profitability standards:** In general, these standards indicate how much the company would like to make as profit over a given time period- that is, its return on investment.
 - **Market position standards:** These standards indicate the share of total sales in a particular market that the company would like to have relative to its competitors.
 - **Productivity standards :** How much that various segments of the organization should produce is the focus of these standards.
 - **Product leadership standards :** These indicate what must be done to attain such a position.
 - **Employee attitude standards :** These standards indicate what types of attitudes the company managers should strive to indicate in the company's employees.
 - **Social responsibility standards :** Such as making contribution to the society.
 - Standards reflecting the relative balance between short and long range goals.
- b) Measurement of Performance :** The measurement of performance against standards should be on a forward looking basis so that deviations may be detected in advance by appropriate actions. The degree of difficulty in measuring various types of organizational performance, of course, is determined primarily by the activity being measured. For example, it is far more difficult to measure the performance of a highway maintenance worker than to measure the performance of a student enrolled in a college level management course.

c) Comparing Measured Performance to Stated Standards : When managers have taken a measure of organizational performance, their next step in controlling is to compare this measure against some standard. A standard is the level of activity established to serve as a model for evaluating organizational performance. The performance evaluated can be for the organization as a whole or for some individuals working within the organization. In essence, standards are the yardsticks that determine whether organizational performance is adequate or inadequate.

d) Taking Corrective Actions : After actual performance has been measured compared with established performance standards, the next step in the controlling process is to take corrective action, if necessary. Corrective action is managerial activity aimed at bringing organizational performance up to the level of performance standards. In other words, corrective action focuses on correcting organizational mistakes that hinder organizational performance. Before taking any corrective action, however, managers should make sure that the standards they are using were properly established and that their measurements of organizational performance are valid and reliable.

At first glance, it seems a fairly simple proposition that managers should take corrective action to eliminate problems - the factors within an organization that are barriers to organizational goal attainment. In practice, however, it is often difficult to pinpoint the problem causing some undesirable organizational effect.

4.4 BARRIERS FOR CONTROLLING

There are many barriers, among the most important of them:

- Control activities can create an undesirable overemphasis on short-term production as opposed to long-term production.
- Control activities can increase employees' frustration with their jobs and thereby reduce morale. This reaction tends to occur primarily where management exerts too much control.

- Control activities can encourage the falsification of reports.
- Control activities can cause the perspectives of organization members to be too narrow for the good of the organization.
- Control activities can be perceived as the goals of the control process rather than the means by which corrective action is taken.

❖ **REQUIREMENTS FOR EFFECTIVE CONTROL**

The requirements for effective control are

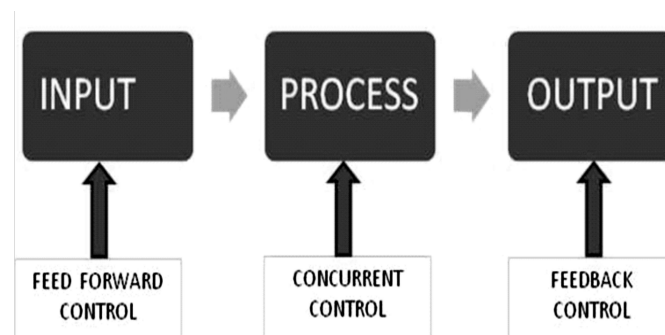
- a) Control should be tailored to plans and positions :** This means that, all control techniques and systems should reflect the plans they are designed to follow. This is because every plan and every kind and phase of an operation has its unique characteristics.
- b) Control must be tailored to individual managers and their responsibilities :** This means that controls must be tailored to the personality of individual managers. This is because control systems and information are intended to help individual managers carry out their function of control. If they are not of a type that a manager can or will understand, they will not be useful.
- c) Control should point up exceptions as critical points :** This is because by concentration on exceptions from planned performance, controls based on the time honored exception principle allow managers to detect those places where their attention is required and should be given. However, it is not enough to look at exceptions, because some deviations from standards have little meaning and others have a great deal of significance.
- d) Control should be objective :** This is because when controls are subjective, a manager's personality may influence judgments of performance inaccuracy. Objective standards can be quantitative such as costs or man hours per unit or date of job completion. They can also be qualitative in the case of training programs that have specific characteristics or are designed to accomplish a specific kind of upgrading of the quality of personnel.
- e) Control should be flexible :** This means that controls should remain

workable in the case of changed plans, unforeseen circumstances, or oversight failures. Much flexibility in control can be provided by having alternative plans for various probable situations.

- f) **Control should be economical :** This means that control must worth their cost. Although this requirement is simple, its practice is often complex. This is because a manager may find it difficult to know what a particular system is worth, or to know what it costs.
- g) **Control should lead to corrective actions :** This is because a control system will be of little benefit if it does not lead to corrective action, control is justified only if the indicated or experienced deviations from plans are corrected through appropriate planning, organizing, directing, and leading.

4.5 TYPES OF CONTROL SYSTEMS

The control systems can be classified into three types namely feed forward, concurrent and feedback control systems.



- a) **Feed forward controls :** They are preventive controls that try to anticipate problems and take corrective action before they occur. Example - a team leader checks the quality, completeness and reliability of their tools prior to going to the site.
- b) **Concurrent controls :** They (sometimes called screening controls) occur while an activity is taking place. Example - the team leader checks the

quality or performance of his members while performing.

- c) **Feedback controls** : They measure activities that have already been completed. Thus corrections can take place after performance is over. Example - feedback from facilities engineers regarding the completed job.

❖ **BUDGETARY CONTROL**

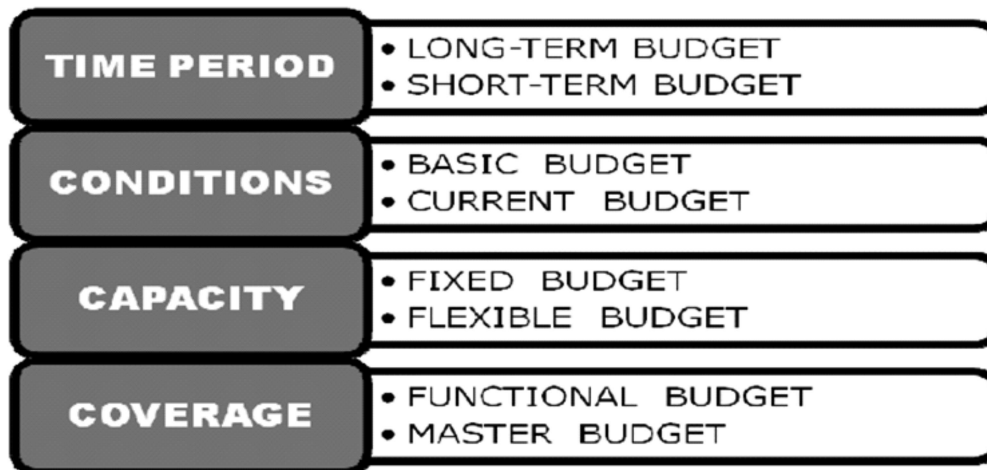
Definition : Budgetary Control is defined as "the establishment of budgets, relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results either to secure by individual action the objective of that policy or to provide a base for its revision.

Salient features :

- a. **Objectives**: Determining the objectives to be achieved, over the budget period, and the policy(ies) that might be adopted for the achievement of these ends.
- b. **Activities**: Determining the variety of activities that should be undertaken for achievement of the objectives.
- c. **Plans** : Drawing up a plan or a scheme of operation in respect of each class of activity, in physical as well as monetary terms for the full budget period and its parts.
- d. **Performance Evaluation** : Laying out a system of comparison of actual performance by each person, section or department with the relevant budget and determination of causes for the discrepancies, if any.
- e. **Control Action** : Ensuring that when the plans are not achieved, corrective actions are taken and when corrective actions are not possible, ensuring that the plans are revised and objectives achieved.

4.6 CLASSIFICATION OF BUDGETS

Budgets may be classified on the following bases -



a) BASED ON TIME PERIOD:

- (i) **Long Term Budget :** Budgets which are prepared for periods longer than a year are called LongTermBudgets. Such Budgets are helpful in business forecasting and forward planning.Eg: Capital Expenditure Budget and R&D Budget.
- (ii) **Short Term Budget :** Budgets which are prepared for periods less than a year are known as ShortTermBudgets. Such Budgets are prepared in cases where a specific action has to be immediately taken to bring any variation under control.Eg: Cash Budget.

b) BASED ON CONDITION:

- (i) **Basic Budget :** A Budget, which remains unaltered over a long period of time, is called BasicBudget.

- (ii) **Current Budget** : A Budget, which is established for use over a short period of time and is related to the current conditions, is called Current Budget.

c) BASED ON CAPACITY:

- (i) **Fixed Budget** : It is a Budget designed to remain unchanged irrespective of the level of activity actually attained. It operates on one level of activity and less than one set of conditions. It assumes that there will be no change in the prevailing conditions, which is unrealistic.
- (ii) **Flexible Budget** : It is a Budget, which by recognizing the difference between fixed, semi variable and variable costs is designed to change in relation to level of activity attained. It consists of various budgets for different levels of activity

d) BASED ON COVERAGE :

- (i) **Functional Budget** : Budgets, which relate to the individual functions in an organization, are known as Functional Budgets, e.g. purchase Budget, Sales Budget, Production Budget, plant Utilization Budget and Cash Budget.
- (ii) **Master Budget** : It is a consolidated summary of the various functional budgets. It serves as the basis upon which budgeted Profit & Loss Account and forecasted Balance Sheet are built up.

❖ BUDGETARY CONTROL TECHNIQUES

The various types of budgets are as follows

- (i) **Revenue and Expense Budgets** : The most common budgets spell out plans for revenues and operating expenses in rupee terms. The most basic of revenue budget is the sales budget which is a formal and detailed expression of the sales forecast. The revenue from sales of products or services furnishes the principal income to pay operating expenses and yield profits. Expense budgets may deal with individual items of expense, such

as travel, data processing, entertainment, advertising, telephone, and insurance.

- ii) **Time, Space, Material, and Product Budgets :** Many budgets are better expressed in quantities rather than in monetary terms. e.g. direct-labor-hours, machine-hours, units of materials, square feet allocated, and units produced. The Rupee cost would not accurately measure the resources used or the results intended.
- iii) **Capital Expenditure Budgets:** Capital expenditure budgets outline specifically capital expenditures for plant, machinery, equipment, inventories, and other items. These budgets require care because they give definite form to plans for spending the funds of an enterprise. Since a business takes along time to recover its investment in plant and equipment, (Payback period or gestation period) capital expenditure budgets should usually be tied in with fairly long-range planning.
- iv) **Cash Budgets :** The cash budget is simply a forecast of cash receipts and disbursements against which actual cash "experience" is measured. The availability of cash to meet obligations as they fall due is the first requirement of existence, and handsome business profits do little good when tied up in inventory, machinery, or other noncash assets.
- v) **Variable Budget :** The variable budget is based on an analysis of expense items to determine how individual costs should vary with volume of output. Some costs do not vary with volume, particularly in so short a period as 1 month, 6 months, or a year. Among these are depreciation, property taxes and insurance, maintenance of plant and equipment, and costs of keeping a minimum staff of supervisory and other key personnel. Costs that vary with volume of output range from those that are completely variable to those that are only slightly variable.

The task of variable budgeting involves selecting some unit of measure that reflects volume; inspecting the various categories of costs (usually by reference to the chart of accounts); and, by statistical studies, methods of

engineering analyses, and other means, determining how these costs should vary with volume of output.

- vi) **Zero Based Budget :** The idea behind this technique is to divide enterprise programs into "packages" composed of goals, activities, and needed resources and then to calculate costs for each package from the ground up. By starting the budget of each package from base zero, budgeters calculate costs afresh for each budget period; thus they avoid the common tendency in budgeting of looking only at changes from a previous period.

Advantages

There are a number of advantages of budgetary control:

- Compels management to think about the future, which is probably the most important feature of a budgetary planning and control system. Forces management to look ahead, to set out detailed plans for achieving the targets for each department, operation and (ideally) each manager, to anticipate and give the organization purpose and direction.

Promotes coordination and communication.

- Clearly defines areas of responsibility. Requires managers of budget centre's to be made responsible for the achievement of budget targets for the operations under their personal control.
- Provides a basis for performance appraisal (variance analysis). A budget is basically a yardstick against which actual performance is measured and assessed. Control is provided by comparisons of actual results against budget plan. Departures from budget can then be investigated and the reasons for the differences can be divided into controllable and non-controllable factors.
- Enables remedial action to be taken as variances emerge.
- Motivates employees by participating in the setting of budgets.
- Improves the allocation of scarce resources.
- Economises management time by using the management by exception principle.

Problems in budgeting

- Whilst budgets may be an essential part of any marketing activity they do have a number of disadvantages, particularly in perception terms.
- Budgets can be seen as pressure devices imposed by management, thus resulting in:
 - a) bad labour relations
 - b) inaccurate record-keeping.
- Departmental conflict arises due to:
 - a) disputes over resource allocation
 - b) departments blaming each other if targets are not attained.
- It is difficult to reconcile personal/individual and corporate goals.
- Waste may arise as managers adopt the view, "we had better spend it or we will lose it". This is often coupled with "empire building" in order to enhance the prestige of a department.
- Responsibility versus controlling, i.e. some costs are under the influence of more than one person, e.g. power costs.
- Managers may overestimate costs so that they will not be blamed in the future should they overspend.

❖ NON-BUDGETARY CONTROL TECHNIQUES

There are, of course, many traditional control devices not connected with budgets, although some may be related to, and used with, budgetary controls. Among the most important of these are: statistical data, special reports and analysis, analysis of break-even points, the operational audit, and the personal observation.

- i) Statistical data : Statistical analyses of innumerable aspects of a business operation and the clear presentation of statistical data, whether of a historical or forecast nature are, of course, important to control. Some managers can readily interpret tabular statistical data, but most managers prefer presentation of the data on charts.

- ii) **Break- even point analysis** : An interesting control device is the break even chart. This chart depicts the relationship of sales and expenses in such a way as to show at what volume revenues exactly cover expenses.
- iii) **Operational audit** : Another effective tool of managerial control is the internal audit or, as it is now coming to be called, the operational audit. Operational auditing, in its broadest sense, is the regular and independent appraisal, by a staff of internal auditors, of the accounting, financial, and other operations of a business.
- iv) **Personal observation** : In any preoccupation with the devices of managerial control, one should never overlook the importance of control through personal observation.
- v) **PERT** : The Program (or Project) Evaluation and Review Technique, commonly abbreviated PERT, is a method to analyze the involved tasks in completing a given project, especially the time needed to complete each task, and identifying the minimum time needed to complete the total project.
- vi) **GANTT CHART** : A Gantt chart is a type of bar chart that illustrates a project schedule. Gantt charts illustrate the start and finish dates of the terminal elements and summary elements of a project. Terminal elements and summary elements comprise the work breakdown structure of the project. Some Gantt charts also show the dependency (i.e., precedence network) relationships between activities.

4.7 PRODUCTIVITY

Productivity refers to the ratio between the output from production processes to its input. Productivity may be conceived of as a measure of the technical or engineering efficiency of production. As such quantitative measures of input, and sometimes output, are emphasized.

Typical Productivity Calculations

Measures of size and resources may be combined in many different ways. The

three common approaches to defining productivity based on the model of Figure 2 are referred to as physical, functional, and economic productivity. Regardless of the approach selected, adjustments may be needed for the factors of diseconomy of scale, reuse, requirements churn, and quality at delivery.

- a) **Physical Productivity** : This is a ratio of the amount of product to the resources consumed (usually effort). Product may be measured in lines of code, classes, screens, or any other unit of product. Typically, effort is measured in terms of staff hours, days, or months. The physical size also may be used to estimate software performance factors (e.g., memory utilization as a function of lines of code).
- b) **Functional Productivity** : This is a ratio of the amount of the functionality delivered to the resources consumed (usually effort). Functionality may be measured in terms of use cases, requirements, features, or function points (as appropriate to the nature of the software and the development method). Typically, effort is measured in terms of staff hours, days, or months. Traditional measures of Function Points work best with information processing systems. The effort involved in embedded and scientific software is likely to be underestimated with these measures, although several variations of Function Points have been developed that attempt to deal with this issue.
- c) **Economic Productivity** : This is a ratio of the value of the product produced to the cost of the resources used to produce it. Economic productivity helps to evaluate the economic efficiency of an organization. Economic productivity usually is not used to predict project cost because the outcome can be affected by many factors outside the control of the project, such as sales volume, inflation, interest rates, and substitutions in resources or materials, as well as all the other factors that affect physical and functional measures of productivity. However, understanding economic productivity is essential to making good decisions about outsourcing and subcontracting. The basic calculation of economic productivity is as follows:

$$\text{Economic Productivity} = \text{Value} / \text{Cost}$$

❖ PROBLEMS IN MEASUREMENT OF PRODUCTIVITY OF KNOWLEDGE WORKERS

Productivity implies measurement, which in turn, is an essential step in the control process. Although there is a general agreement about the need for improving productivity, there is little consensus about the fundamental causes of the problem and what to do about them. The blame has been assigned to various factors. Some people place it on the greater proportion of less skilled workers with respect to the total labor force, but others disagree. There are those who see cutback in research and the emphasis on immediate results as the main culprit. Another reason given for the productivity dilemma is the growing affluence of people, which makes them less ambitious. Still others cite the breakdown in family structure, the workers' attitudes, and government policies and regulations. Another problem is that the measurement of skills work is relatively easy, but it becomes more difficult for knowledge work. The difference between the two kinds is the relative use of knowledge and skills.

4.8 COST CONTROL

Cost control is the measure taken by management to assure that the cost objectives set down in the planning stage are attained and to assure that all segments of the organization function in a manner consistent with its policies.

Steps involved in designing process of cost control system:

- **Establishing norms :** To exercise cost control it is essential to establish norms, targets or parameters which may serve as yardsticks to achieve the ultimate objective. These standards, norms or targets may be set on the basis of research, study or past actual.
- **Appraisal :** The actual results are compared with the set norms to ascertain the degree of utilization of men, machines and materials. The deviations are analyzed so as to arrive at the causes which are controllable and uncontrollable.
- **Corrective measures :** The variances are reviewed and remedial measures or revision of targets, norms, standards etc., as required are taken.

Advantages of cost control

- Better utilization of resources
- To prepare for meeting a future competitive position.
- Reasonable price for the customers
- Firm standing in domestic and export markets.
- Improved methods of production and use of latest manufacturing techniques which have the effect of rising productivity and minimizing cost.
- By a continuous search for improvement creates proper climate for the increase efficiency.
- Improves the image of company for long-term benefits.
- Improve the rate of return on investment.

4.9 PURCHASE CONTROL

Purchase control is an element of material control. Material procurement is known as the purchase function. The functional responsibility of purchasing is that of the purchase manager or the purchaser. Purchasing is an important function of materials management because in purchase of materials, a substantial portion of the company's finance is committed which affects cash flow position of the company. Success of a business is to a large extent influenced by the efficiency of its purchase organization. The advantages derived from a good and adequate system of the purchase control are as follows:

- a) Continuous availability of materials :** It ensures the continuous flow of materials. So production work may not be held up for want of materials. A manufacturer can complete schedule of production in time.
- b) Purchasing of right quantity :** Purchase of right quantity of materials avoids locking up of working capital. It minimizes risk of surplus and obsolete stores. It means there should not be possibility of overstocking and understocking.

- c) **Purchasing of right quality** : Purchase of materials of proper quality and specification avoids waste of materials and loss in production. Effective purchase control prevents wastes and losses of materials right from the purchase till their consumptions. It enables the management to reduce cost of production.
- d) **Economy in purchasing** : The purchasing of materials is a highly specialized function. By purchasing materials at reasonable prices, the efficient purchaser is able to make a valuable contribution to the success of a business.
- e) **Works as information centre** : It serves as a function centre on the materials knowledge relating to prices, sources of supply, specifications, mode of delivery, etc. By providing continuous information to the management it is possible to prepare planning for production.
- f) **Development of business relationship** : Purchasing of materials from the best market and from reliable suppliers develops business relationships. The result is that there may be smooth supply of materials in time and so it avoids disputes and financial losses.
- g) **Finding of alternative source of supply** : If a particular supplier fails to supply the materials in time, it is possible to develop alternate sources of supply. The effect of this is that the production work is not disturbed.
- h) **Fixing responsibilities** : Effective purchase control fixes the responsibilities of operating units and individuals connected with the purchase, storage and handling of materials.

In short, the basic objective of the effective purchase control is to ensure continuity of supply of requisite quantity of material, to avoid hold up of production and loss in production and at the same time reduces the ultimate cost of the finished products.

❖ MAINTENANCE CONTROL

Maintenance department has to exercise effective cost control, to carry out the maintenance functions in a pre-specified budget, which is possible only through

the following measures:

First line supervisors must be apprised of the cost information of the various materials so that the objective of the management can be met without extra expenditure on maintenance functions. A monthly review of the budget provisions and expenditures actually incurred in respect of each center/shop will provide guidelines to the departmental head to exercise better cost control.

The total expenditure to be incurred can be uniformly spread over the year for better budgetary control. However, the same may not be true in all cases particularly where overhauling of equipment has to be carried out due to unforeseen breakdowns. Some budgetary provisions must be set aside, to meet out unforeseen exigencies.

The controllable elements of cost such as manpower cost and material cost can be discussed with the concerned personnel, which may help in reducing the total cost of maintenance. Emphasis should be given to reduce the overhead expenditures, as other expenditures cannot be compromised.

It is observed through studies that the manpower cost is normally fixed, but the same way increase due to overtime cost. However, the material cost, which is the prime factor in maintenance cost, can be reduced by timely inspections designed, to detect failures. If the inspection is carried out as per schedule, the total failure of parts may be avoided, which otherwise would increase the maintenance cost. The proper handling of the equipment by the operators also reduces the frequency of repair and material requirements. Operators, who check their equipment regularly and use it within the operating limits, can help avoid many unwanted repairs. In the same way a good record of equipment failures/ maintenance would indicate the nature of failures, which can then be corrected even permanently.

❖ QUALITY CONTROL

Quality control refers to the technical process that gathers, examines, analyze & report the progress of the project & conformance with the performance requirements

The steps involved in quality control process are

- 1) Determine what parameter is to be controlled.
- 2) Establish its criticality and whether you need to control before, during or

after results are produced.

- 3) Establish a specification for the parameter to be controlled which provides limits of acceptability and units of measure.
- 4) Produce plans for control which specify the means by which the characteristics will be achieved and variation detected and removed.
- 5) Organize resources to implement the plans for quality control.
- 6) Install a sensor at an appropriate point in the process to sense variance from specification.
- 7) Collect and transmit data to a place for analysis.
- 8) Verify the results and diagnose the cause of variance.
- 9) Propose remedies and decide on the action needed to restore the status quo.
- 10) Take the agreed action and check that the variance has been corrected.

Advantages and disadvantages

- Advantages include better products and services ultimately establishing a good reputation for a company and higher revenue from having more satisfied customers.
- Disadvantages include needing more man power/operations to maintain quality control and adding more time to the initial process.

❖ PLANNING OPERATIONS

An operational planning is a subset of strategic work plan. It describes short-term ways of achieving milestones and explains how, or what portion of, a strategic plan will be put into operation during a given operational period, in the case of commercial application, a fiscal year or another given budgetary term. An operational plan is the basis for, and justification of an annual operating budget request. Therefore, a five-year strategic plan would need five operational plans funded by five operating budgets. Operational plans should establish the activities and budgets for each part of the organization for the next 1 - 3 years. They link the strategic

plan with the activities the organization will deliver and the resources required to deliver them.

An operational plan draws directly from agency and program strategic plans to describe agency and program missions and goals, program objectives, and program activities. Like a strategic plan, an operational plan addresses four questions:

- Where are we now?
- Where do we want to be?
- How do we get there?
- How do we measure our progress?

The OP is both the first and the last step in preparing an operating budget request. As the first step, the OP provides a plan for resource allocation; as the last step, the OP may be modified to reflect policy decisions or financial changes made during the budget development process. Operational plans should be prepared by the people who will be involved in implementation. There is often a need for significant cross-departmental dialogue as plans created by one part of the organization inevitably have implications for other parts.

Operational plans should contain:

- clear objectives
- activities to be delivered
- quality standards
- desired outcomes
- staffing and resource requirements
- implementation timetables
- a process for monitoring progress.

Requirements of Adequate Controls

1. Controls must reflect the nature and needs of the activity.

All control systems should reflect the job they are to perform. Controls of

the sales department will differ from those of the finance department and these from the controls of the purchasing department. And a small business will need different controls from a large business. The manager must be aware of the strategic factors in his plans and operations calling for control and use techniques suited to them.

2. Controls should report deviations promptly.

The ideal control system detects deviations before they actually occur. In any case, the information must reach the manager as soon as possible.

3. Controls should be forward looking.

Although ideal control is instantaneous, as in certain electronic controls, the facts of managerial life include a time lag between the deviation and corrective action. Therefore, the manager should strive for a control technique which will forecast deviations in time for him to make corrections before the problem occurs.

That this is possible is illustrated by such forward-looking devices as cash control. A company manager cannot very well find in April that he ran out of cash in March. Properly, he forecasts his cash requirements to handle his payroll and other cash needs as they arise. This approach to control can surely be applied on a much broader front than is now the case.

4. Controls should point up exceptions as strategic points.

The time-honored exception principle, that the manager should only watch for and deal with exceptions, is not enough for effective control. Some deviations from standards have little meaning and others have a great deal. Small exceptions in certain areas have greater significance than larger deviations in other areas. A manager, for example, might be concerned if the cost of office labor deviated from standard by 5 per cent, but unworried if the cost of postage stamps deviated from budget by 20 per cent.

Therefore, controls should not only point up deviations but should pinpoint them where they are important or strategic to his operations.

5. Controls should be objective.

Management necessarily has many subjective elements in it, but whether a subordinate is doing a good job should not be the matter for subjective determination. Where controls are subjective, a manager's or subordinate's personality may influence judgments of performance inaccurately; but people have difficulty in explaining away objective control of their performance, particularly if the standards and measurements are kept up to date through periodic review.

Objective control should be definite and determinable in a clear and positive way. Objective standards can be quantitative, such as costs or man-hours per unit, or date of job completion; they can also be qualitative, such as a better budget program or accomplishing an upgrading of the quality of personnel. The point is that, in either case, the standard is determinable and verifiable.

6. Controls should be flexible.

Controls must remain workable in the face of changed plans, unforeseen circumstances, or outright failures. A complex program of managerial plans may fail in some particulars. The control system should report such failures, and should contain sufficient elements of flexibility to maintain managerial control of operations despite such failures.

7. Controls should reflect the organization pattern.

Organization, being the principle vehicle for coordinating the work of people with assigned duties and delegated authority, is also the means of maintaining control; and the manager is the focal point of control, just as he is the focal point for assignment of tasks and the delegation of authority.

8. Controls should be economical.

Control must be worth its cost. Although this requirement is simple, its practice is often complex, for a manager may find it difficult to know what a particular control system is worth, nor may he know what it costs. Economy is relative, since the benefits vary with the importance of the

activity, the size of the business, the expense that might be incurred in the absence of control, and the contribution the system can make.

Since a limiting factor of control systems is relative economy, this, in turn, will depend a great deal on the manager's selecting for control only strategic factors in areas important to him. If tailored to the job and the size of the enterprise, control will probably be economical. On the other hand, one of the economies of large-scale enterprise results from being able to afford expensive and elaborate control systems.

9. Controls should be understandable.

Sometimes the manager could understand controls if he would take the time to learn the techniques, but whether his lack of understanding results from complex techniques or impatience in learning them, the effect is the same: The control system will not function well. Many so-called experts in graphs, charts, advanced statistical methods, or exhaustive analyses fail to communicate the meaning of their control data to the manager who should use it. "Control" staffs and departments in business often develop needed information that cannot or will not be used by managers, because it is not simple enough or adopted to the manager's understanding. What may be valuable and comprehensible to one manager may not be to another, and it is up to the manager (or his staff assistant) to make sure that he has an adequate control system that he understands.

10. Controls should indicate corrective action.

A control system that detects deviations from plans will be little more than an interesting exercise if it does not show the way to corrective action. An adequate system should disclose where failures are occurring, who is responsible for them, and what should be done about them.

❖ TYPES OF TRADITIONAL CONTROL TECHNIQUES

The ten types of traditional techniques of controlling are discussed below :-

1. Direct Supervision and Observation

'Direct Supervision and Observation' is the oldest technique of controlling.

The supervisor himself observes the employees and their work. This brings him in direct contact with the workers. So, many problems are solved during supervision. The supervisor gets first hand information, and he has better understanding with the workers. This technique is most suitable for a small-sized business.

2. Financial Statements

All business organisations prepare Profit and Loss Account. It gives a summary of the income and expenses for a specified period. They also prepare Balance Sheet, which shows the financial position of the organisation at the end of the specified period. Financial statements are used to control the organisation. The figures of the current year can be compared with the previous year's figures. They can also be compared with the figures of other similar organisations.

Ratio analysis can be used to find out and analyse the financial statements. Ratio analysis helps to understand the profitability, liquidity and solvency position of the business.

3. Budgetary Control

A budget is a planning and controlling device. Budgetary control is a technique of managerial control through budgets. It is the essence of financial control. Budgetary control is done for all aspects of a business such as income, expenditure, production, capital and revenue. Budgetary control is done by the budget committee.

4. Break Even Analysis

Break Even Analysis or Break Even Point is the point of no profit, no loss. For e.g. When an organisation sells 50K cars it will break even. It means that, any sale below this point will cause losses and any sale above this point will earn profits. The Break-even analysis acts as a control device. It helps to find out the company's performance. So the company can take collective action to improve its performance in the future. Break-even analysis is a simple control tool.

5. Return on Investment (ROI)

Investment consists of fixed assets and working capital used in business. Profit on the investment is a reward for risk taking. If the ROI is high then the financial performance of a business is good and vice-versa.

ROI is a tool to improve financial performance. It helps the business to compare its present performance with that of previous years' performance. It helps to conduct inter-firm comparisons. It also shows the areas where corrective actions are needed.

6. Management by Objectives (MBO)

MBO facilitates planning and control. It must fulfill following requirements :-

- Objectives for individuals are jointly fixed by the superior and the subordinate.
- Periodic evaluation and regular feedback to evaluate individual performance.
- Achievement of objectives brings rewards to individuals.

7. 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.

8. Management Information System (MIS)

In order to control the organisation properly the management needs accurate information. They need information about the internal working of the organisation and also about the external environment. Information is collected continuously to identify problems and find out solutions. MIS

collects data, processes it and provides it to the managers. MIS may be manual or computerised. With MIS, managers can delegate authority to subordinates without losing control.

9. PERT and CPM Techniques :

Programme Evaluation and Review Technique (PERT) and Critical Path Method (CPM) techniques were developed in USA in the late 50's. Any programme consists of various activities and sub-activities. Successful completion of any activity depends upon doing the work in a given sequence and in a given time. Importance is given to identifying the critical activities. Critical activities are those which have to be completed on time otherwise the full project will be delayed. So, in these techniques, the job is divided into various activities / sub-activities. From these activities, the critical activities are identified. More importance is given to completion of these critical activities. So, by controlling the time of the critical activities, the total time and cost of the job are minimised.

10. Self-Control

Self-Control means self-directed control. A person is given freedom to set his own targets, evaluate his own performance and take corrective measures as and when required. Self-control is especially required for top level managers because they do not like external control. The subordinates must be encouraged to use self-control because it is not good for the superior to control each and everything. However, self-control does not mean no control by the superiors. The superiors must control the important activities of the subordinates.

4.10 COORDINATION

In every organization, different types of work are performed by various departments and work groups and no single department or work group on its own can be expected to achieve the goals of the organization as a whole. Hence, it becomes essential that the activities of different departments and work groups of the organization are harmonized. This function of management is known as 'coordinating' function. It ensures unity of action among individuals, work groups and departments, and brings harmony in carrying out the different activities and

tasks so as to achieve the organizational goals efficiently. The concept of coordinating always applies to group efforts. There is no need for coordination when only single individual is working.

In other words, coordinating function is the orderly arrangement of individual and group efforts to provide unity of action in the pursuit of a common goal. In an organization, all the departments must operate in an integrated manner so that the organizational goals are duly achieved. Coordinating function involves synchronization of different efforts of the various departments so that the planned objectives are achieved with minimum conflict.

The significance of coordinating as a function of management mainly arises from the fact that work performed by different departments and groups form integral part of the total work for which the organization exists. Without harmonized effort or unity of action, achievement of goals in some departments may run counter to that of the other departments, or the timing of achievements may not match properly. The coordinating function of the management prevents overlapping and conflict so that the unity of action is achieved.

Coordinating function of the management consists of inter-relating the various parts of the work as well as the work of different departments. It involves coordinating the various job roles and responsibilities of the employees so that they have good relationship with the co-employees while delivering the output. It also consists of developing relationship with stakeholders and the environment under which the organization operates.

The significance of coordinating function becomes more important when the size and scale of operation is large in the organization. This is because of the following reasons.

- When the size and scale of operation is large, there is more number of people and work groups working. So there is greater possibility of people working at cross purposes as the unit and sub-unit goals may be considered more important by them than the organizational goals. The large size may

also lead problems of supervision and communication. Hence coordinating the activities becomes a major task of the management in a large organization.

- Large organizations generally tend to have activities located at different places, which may not permit frequent and close interaction among people. Hence, the need for coordinating becomes greater and it becomes a major responsibility for the management.
- The large size of the organization is often associated with diversification of business activities. This may be due to a large number of different types of products being produced. Due to it, there are several division and sub-division of activities. At the same time, there are also increase in the number of managerial levels and vertical division of responsibilities. All these make coordinating function an important function of the management.

Since the coordinating function of the management is very important, it is sometimes called the 'essence' of management. It is a function of managers in all departments and branches of the organization, and applies to all the levels of the management. It ultimately helps in reconciliation of goals, total accomplishment of organizational objectives, and maintenance of harmonious relationship between different groups and ensuring economy and efficiency in the organization.

According to management experts, coordinating function of management is necessary since (i) it affects all the functions of management, viz., planning, organizing, and directing etc., and (ii) It is a mother principle of management and all other principles are included in this one principle.

Different management experts have described the coordinating function of the management in the following way.

- Co-ordination is orderly arrangement of group efforts to provide unity of action in the pursuit of common goals". - Mooney and Reelay
- Co-ordination is the integration of several parts into an orderly whole to achieve the purpose of understanding". - Charles Worth
- Coordination is balancing and keeping together the team by ensuring suitable

allocation of tasks to the various members and seeing that the tasks are performed with the harmony among the members themselves." - Brech

- The first test of a business administration should be whether you have a business with all its parts so coordinated, so moving together in their closely knit and adjusting activities, so linking, inter-locking, inter-relating, that they make a working unit that is not a congeneric of separate pieces, but a functional whole or integrated unit". - Mary Parker Follett

According to Mary Parker Follett, coordinating is the "Plus-value of the group". That is, if there is good coordinating between the groups then the combined achievement of the groups will be greater than the total of the achievement of the individual group, i.e. $3+2=6$. This is impossible in the physical world, but it is possible in human affairs through coordinating.

Coordinating is an integral element or ingredient of all the managerial functions. It is a hidden force which binds all the other functions of management. It is required in each and every function and at each and every stage. Coordinating function cannot be separated from other functions as described below.

- Coordinating through planning - Coordinating is a part of planning, because it tells what to include in a good plan and how to execute it. Planning facilitates co-ordination by integrating the various plans through mutual discussion, exchange of ideas.
- Coordinating through organizing - Coordinating is the very essence of organizing. It is part of organizing, because it takes the first lead. In fact when the management assigns and groups various activities to the departments, coordinating of the activities is the uppermost in its mind.
- Coordinating through staffing - Coordinating is part of staffing, because it specifies who will be a staff and its rational placement. Management always ensures that, for better coordination, the right number of personnel in various positions with right type of education and skills are taken so that there are right men on the right job.
- Coordinating through directing - Coordinating is part of directing, because

it gives it a clear focus. The purpose of giving orders, instructions and guidance to the subordinates is served only when there is a harmony between the superiors and the subordinates.

- Coordinating through controlling - Coordinating is a part of reporting, because it makes it realistic. Management ensures through coordinating that there is no difference in actual performance as compared to the standard performance so as to achieve the organizational goals.

Coordinating function is an essential function for achieving a balanced organizational performance. The effective and efficient coordinating of internal and external organizational components help in reducing internal and external complexities and uncertainties in the organization thus increasing productivity, integrating macro and micro level organizational dynamics, connecting of roles among inter and intra organizational groups, bridging performance and trust among competing organizational groups, and defining organizational tasks and their accomplishment. With the effective implementation of the coordinating function, (i) there is clear definition of internal and external organizational interests and goals which helps in enhancing organizational reputation, (ii) there is utilization of external organizational elements in correspondence with internal organizational elements, (iii) there is an establishment of long term foundation for organizational performance and trust, (iv) there is securing of sustainable organizational relationships among unequal parties in unclear situation, which is often characterized by uncertainty, (v) there is the institutionalization of actions that help in realizing organizational vision, (vi) there is generation of higher profit through the creation of organizational focus, (vii) there is creation of organizational expertise along with strategic contents, (viii) there is the establishment of the competitive advantage for the organization, and (ix) there is establishment of result oriented structures in an organization.

The more efficient coordinating at all the levels of administration results into cohesion which is achieved in a more efficient manner since coordination is a tool of cohesion. Effective and efficient implementation of the coordinating function in the organization needs the following.

- It needs professional, competent leadership, a democratic style that leads to trust, open communication, and ease of information flow.
- It needs a constant definition and communication of mission and objectives that are understood by all the managers.
- It needs an open, two-way channel of communication.
- It involves a sharing atmosphere as well as commonly agreed on direction. Because effective coordinating function requires cooperation and communication, the meeting technique is still the most effective format for assuring the interrelationships among the various job responsibilities.

❖ **IMPORTANCE OF COORDINATING FUNCTION**

The following points highlight the importance of coordinating function of the management (Fig 1).

- It provides proper direction to the various departments of the organization by integrating (bringing together) the different activities of the departments for achieving the common goals or objectives of the organization.
- It facilitates motivation. Coordinating gives complete freedom to the employees. It encourages the employees to show initiative. It helps them in getting the job satisfaction through achievement of the objectives and thus getting motivated.
- It helps to ensure unity of action in the face of disruptive forces. By welding together different departments and sections into one entity, coordinating ensures the stability and growth of an organization. It enables the executives to see the organization as a whole instead of narrow sectional goals. Individual interests are subordinated to the common interest more easily and effectively.
- It encourages team spirit. There exist many conflicts and rivalries between individuals, departments, between a line and staff, etc. Similarly, conflicts are also between individual objectives and organizational objectives. Coordinating function arranges the work and the objectives in such a way

that there are minimum conflicts between departments and the individuals. It encourages the employees to work as a team and achieve the common objectives of the organization.

- It results into higher efficiency and economy in the organization. Coordinating helps to improve the efficiency of operations by avoiding overlapping efforts and duplication of work. Integration and balancing of individual efforts provide a smooth and harmonious team work. There is the synergetic effect of the coordinating function. Coordinating also improves workers efficiency since their work does not go waste and produces the desired results.
- It makes optimum utilization of resources. Coordinating function helps in avoiding cross purpose work since it brings together the human and material resources of the organization. In this way it helps to minimize the wastage of resources in the organization and thus make possible the optimum utilization of resources.
- It helps to achieve the organizational objectives quickly by ensuring a systematic and smooth working in the organization. All the work in the organization is done in a planned manner without any conflict.
- It improves inter personnel relations in the organization. Since the coordinating is done through people, with people and between people, it helps in removing misunderstanding between the people and thus improving the inter personnel relationship between the employees. Composite and orderly effort established through team spirit and executive leadership enables employees to derive a sense of security and personal contentment from their job.
- It improves organizational effectiveness. Coordination fosters loyalty and commitment among employees. This enhances the effectiveness and stability of the organization. According to McFarland, "if job satisfactions are present, executives will tend to remain longer with the company. They will feel that they have a place in the organization. They will feel that they have earned that place. The presence of coordination becomes part of their job experience

and hence can form a very useful part of their training." Thus, coordination is indispensable for an effective management.

- It improves goodwill of the organization. Through coordinating function the performance of the organization improves and it produces goods which are more acceptable to the customers. Its performance earns goodwill amongst its stakeholders.



Coordinating function of the management has two forms of coordination namely (i) vertical coordination and horizontal coordination. These two forms of coordination are described below.

Vertical coordination is aimed at linking activities at higher levels and lower levels of the management for the achievement of the organizational objectives. The main parameters which determine the effective vertical coordination are (i) degree of formalization, (ii) hierarchical structure, (iii) centralization and decentralization of authority, (iv) delegation of powers, and (v) division of

operational and functional positions. Formalization is the extent to which the organizational policies, tactics, rules, job descriptions and other official documents, on which the clear operational decisions are taken. It determines the expected behaviours of the employees. The degree of centralization of authority reflects the concentration of the upper levels in the organizational structure. Delegation of powers is another parameter of vertical coordination involving the transfer of responsibility and authority for the decisions of a managerial level to another immediately below. Unlike decentralization which standing downward movement of tasks and powers, the delegation is temporary, covering a period set by managers and subordinates. Operational position means a job or function constituting the organizational structure invested with authority and responsibility necessary to achieve the major objectives of the organization. Functional position is associated with a job or function designed to provide specialized knowledge and support operational work.

Horizontal coordination is intended to harmonize activities in hierarchical levels similar or close, but belonging to different departments. Frequency of use increases the extent of multiplication of horizontal links information processing requirements relating to production. By facilitating the transfer of information between organizational sub-units positioned on the same levels, horizontal coordination mechanisms supplement the actions of specific vertical coordination traditional pyramid hierarchy. Four major directions are known to promote horizontal coordination are (i) buffer resources, (ii) information systems, (iii) horizontal relations (cooperation) and (iv) managers coordinators. Horizontal relations facilitate aligning employees to the same hierarchical level, to cope with sharing of complex problems without the involvement of superiors. Since the development and deployment of hierarchical lines ease the bridges between departments, offices, departments, workshops with the horizontal relations, it is sometimes called "bridge relations". The main ways of realizing the horizontal relations are (i) direct contact made between mid-level managers or lower in order to coordinate activities and resolve complex tasks, (ii) connection through the liaison agency role exercised by a manager who handle effective communication and continuous coordination between departments performing common tasks, (ii) task forces and interdepartmental work teams are groups set up for solving specific problems.

4.11 SUMMARY

Controlling consists of verifying whether everything occurs in conformance with the plans adopted, instructions issued and principles established. Controlling ensures that there is effective and efficient utilization of organizational resources so as to achieve the planned goals. Controlling measures the deviation of actual performance from the standard performance, discovers the causes of such deviations and helps in taking corrective actions

4.12 GLOSSARY

Budgetary Control It is defined as "the establishment of budgets, relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results either to secure by individual action the objective of that policy or to provide a base for its revision.

Productivity It refers to the ratio between the output from production processes to its input. Productivity may be conceived of as a measure of the technical or engineering efficiency of production. As such quantitative measures of input, and sometimes output, are emphasized.

4.13 SELF ASSESSMENT QUESTIONS

1. What is the controlling function of management?
2. What do you understand by principles of Preventive control? Explain its advantages.

4.15 LESSON END EXERCISES

1. What are the principles of preventive control?

2. What are the different types conventional controlling techniques?

4.15 SUGGESTED READINGS

1. Kootnz & O'Donnell, Principles of Management.
2. J.S. Chandan, Management Concepts and Strategies

BUSINESS PROCESS RE-ENGINEERING

STRUCTURE:

- 5.1 Introduction
- 5.2 Objectives
- 5.3 What is Business Process Reengineering
- 5.4 Objectives of BPR
- 5.5 TQM: The Key Concepts
- 5.6 TQM: Evolution
- 5.7 Introduction To Knowledge Management
- 5.8 KM For Individuals, Communities, And Organizations
- 5.9 MIS Need for Information System
- 5.10 Planing for MIS
- 5.11 Summary
- 5.12 Glossary
- 5.13 Self Assessment Questions
- 5.14 Lesson End Excercises
- 5.15 Suggested Readings

5.1 INTRODUCTION

Business Process Reengineering involves changes in structures and in processes within the business environment. The entire technological, human, and organizational dimensions may be changed in BPR. Information Technology plays a major role in Business Process Reengineering as it provides office automation, it allows the business to be conducted in different locations, provides flexibility in manufacturing, permits quicker delivery to customers and supports rapid and paperless transactions. In general it allows an efficient and effective change in the manner in which work is performed.

5.2 OBJECTIVES :

The objective of this chapter is give in depth knowledge of Business Process Re-engineering (BPR), Total Quality Management (TQM) and Knowledge Management too students.

5.3 WHAT IS THE BUSINESS PROCESS RE-ENGINEERING

The globalization of the economy and the liberalization of the trade markets have formulated new conditions in the market place which are characterized by instability and intensive competition in the business environment. Competition is continuously increasing with respect to price, quality and selection, service and promptness of delivery. Removal of barriers, international cooperation, technological innovations cause competition to intensify. All these changes impose the need for organizational transformation, where the entire processes, organization climate and organization structure are changed. Hammer and Champy provide the following definitions: , 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. Process is a structured, measured set of activities designed to produce a specified output for a particular customer or market. It implies a strong emphasis on how work is done within an organization." (Davenport 1993). Each process is composed of related steps or activities that use people, information, and other resources to create value for customers.

Business processes are characterized by three elements: the inputs, (data such customer inquiries or materials), the processing of the data or materials (which usually go through several stages and may necessary stops that turns out to be time and money consuming), and the outcome (the delivery of the expected result). The problematic part of the process is processing. Business process reengineering mainly intervenes in the processing part, which is reengineered in order to become less time and money consuming.

The term "Business Process Reengineering" has, over the past couple of year, gained Increasing circulation. As a result, many find themselves faced with the prospect of having to learn, plan, implement and successfully conduct a real Business Process Reengineering endeavor, whatever that might entail within their own business organization. Hammer and Champy (1993) define business process reengineering (BPR) as: An example of BPR application. A typical problem with processes in vertical organizational structure is that customers must speak with various staff members for different inquiries. For example, if a bank customer enters into the bank determine d to apply for a loan, apply for an ATM card and open a savingsaccount, most probably must visit three different desks in order to be serviced. When BPR is applied to an organization , manager completes an application for a loan in electronic form, which in turn is submitted through the network to the next team member, the credit control director, who examines the credit status of the customer. If the credit status is not satisfactory the rejection of the loan is approved by the credit manager and a rejection form is filled and it is returned to the case manager. The case manager explains to the customer the reason that his application was rejected. On the other hand, if the credit status of the customer is satisfactory, the application is submitted electronically to the next team member, who calculates interest rates and payment tables. The application is then submitted to the credit manager for approval using a digital signature. The approval of the application along with the payment table is delivered to the customer by the case manager.

Most importantly, while the loan application team was processing the loan application, the case manager "triggered" the account team to open a savings account and the ATM team to supply the customer with an ATM card. The customer

leaves the bank having a response for his loan application, a new savings account and an ATM card, And all these without having to move around the desks for signatures and documents. All the customer's requests were satisfied at the same time in parallel motion. The difference between the vertical organization and the cross functional organization lies in the way businesses are organized internally. The vertical organization is organized based on functional units (e.g. the sales, the accounting department). In cross-functional organizational units the main organizational unit is the process. Since "doing business" is mainly running processes, it would be very logical to organize companies based on processes. For instance, the ordering process crosses different departments. The sales department for order taking, the accounting department for credit control and invoicing, the logistics department for inventory control and distribution, and the production department for producing the order.

Throughout the conversation there is an emphasis on department functions. Each employee is satisfied with the fact that "I have done my job but I do not know what the others did". (see bold characters in the conversation". Nobody would like to take total responsibility. While this situation seems awkward, it is the most usual case in most organizations. Most of the times it is up to the good will of some employees, like the logistics manager, for the customer to receive some type of service. Using BPR the company will be organized based on processes. The company will organize an order processing team, braking the departmental barriers. The team would be composed of a case manager to respond to the customers requests, and employees fromthe accounting department, the logistics department and the production department. The process must be designed to trace an order step by a step electronically and provide an answer back to the customer quickly. **THE CUSTOMER MUST SPEAK WITH ONE PERSON**, the case manager. All internal controls are the responsibility of the order processing team.

BPR focuses on team building operations around processes and building a company mentality to personnel. The objective of the technique is to build customer-oriented effective organizations. The customer does not care if the accounting department works adequately, he wants to see his order processed as it should be.

If the management of the company overheard this conversation, they would be desperately seek for a solution to the problem. Most frequently they would change around the organizational chart and would replace people in the company hierarchy or would modify the roles and responsibilities of some employees. Businesses continuously are overcoming some major or minor changes in the way they operate without having the desired outcome. Their effort is crashed on the departmental barriers and the employee mentality to protect their personal or functional interests.

❖ HOW CAN BPR BE APPLIED TO AN ORGANIZATION?

When British Telecom had announced their Business Plan, all competitors were eager to find out who would be the new CEO of the organization. To the surprise of all the new CEO it was the customer. The company had decided to transform all the operations of the organization the way customers wanted them to operate. The most important action in applying BPR is the company's strategic goal to provide customer oriented services. BPR is a technique used to implement this type of organizational structure. Having the management commitment for change, another very important factor for implementing BPR, is the enabling role of Information Technology. The way that businesses are organized around departments is very logical since, for instance, there were physical barriers in the communication of the accounting department with production department. (The warehouse could be in another location in the another part of the city). So it wasn't possible for a cross-functional team to communicate efficiently. In the 90s when telecommunication technologies were becoming abundant and low costing BPR was becoming a world-wide applicable managing technique for business upgrade, enabled by the technology. Employees can easily operate as a team using intranets/extranets, workflow and groupware applications, eliminating distances. We can work together even though we are located in different places.

Empowering people. Empowerment means giving people the ability to do their work: the right information, the right tools, the right training, the right environment, and the authority they need. Information systems help empower people by providing information, tools and training. Providing Information. Providing information to help people perform their work is a primary purpose of most information systems although they provide

information in many different ways. Some systems provide information that is essential in informing a business process, such as the prices used to create a customer's bill at a restaurant. Other systems provide information that is potentially useful but can be used in a discretionary manner, such as medical history information that different doctors might use in different ways.

Providing Tools. In addition to providing the right information, empowering people means giving them the right tools. Consider the way planning analysts produce consolidated corporate plans based on plans of individual divisions and departments. If the plans are submitted on paper, it is a major task to add up the numbers to determine the projected corporate bottom line. When the plan is changed during a negotiation process, the planning analyst has to recalculate the projected results. With the right tools, the numerical parts of the plans arrive in a consistent, electronic format permitting consolidation by a computer. This leaves the analyst free to do the more productive work of analysing the quality of the plan.

Providing Training . Since information systems are designed to provide the information needed to support desired work practices, they are often used for training and learning. As shown by an expert system and a decision simulator, they sometimes provide new and unique training methods. IBM developed an expert system for fixing computer disk drives. The expert system was an organized collection of the best knowledge about fixing these disk drives, and it fostered rapid and efficient training. Before the system was developed, technicians typically took between 1 and 16 months to become certified, but with the expert system, training time dropped 3 to 5 months.

Eliminating Unproductive Uses of Time. Information systems can reduce the amount of time people waste doing unproductive work. A study of how professionals and managers at 15 leading U.S. corporations spent their time concluded that many professionals spent less than half of their work time on activities directly related to their functions. Although the primary function

of salespeople is selling, the time breakdown for salespeople averaged 36 percent spent on prospecting and selling, 39 percent spent on prospecting and selling, 3 percent on servicing accounts, 19 percent on doing administrative chores, and 6 percent on training. Better use of information systems could save much of their unproductive time performing chores such as collecting product or pricing information, determining order status for a customer, resolving invoice discrepancies, and reporting of time and expenses.

Eliminating Unnecessary Paper. One common way to improve data processing is to eliminate unnecessary paper. Although paper is familiar and convenient for many purposes, it has major disadvantages. It is bulky, difficult to move from place to place, and extremely difficult to use for analysing large amounts of data. Storing data in computerized form takes much less physical space and destroys fewer forests, but that is only the beginning. It makes data easier to analyze, easier to copy or transmit, and easier to display in a flexible format. Compare paper telephone bills with computerized bills for a large company. The paper bills identify calls but are virtually impossible to analyze for patterns of inefficient or excessive usage.

Eliminating Unnecessary Variations in the Procedures and Systems. In many companies, separate departments use different systems and procedures to perform essentially similar repetitive processes, such as paying employees, purchasing supplies, and keeping track of inventories. Although these procedures may seem adequate from a totally local viewpoint, doing the same work in different ways is often inefficient in a global sense. Whenever the systems must change with new technology, new regulations, or new business issues, each separate system must be analysed separately, often by someone starting from scratch.

Minimizing the Burden of Record Keeping, Data Handling, and General Office Work. Since processing data is included in most jobs, improving the way people process data is an obvious place to look for information system applications. Focus on basic data processing tasks:

Reducing the burden of record keeping means being more efficient and effective with the six components of data processing. Those components are capturing, transmitting, storing, retrieving, manipulating, and displaying data. Capture data automatically when generated: Capturing data automatically at the time of data generation is especially important in minimizing the burden of record keeping.

In depth, BPR assumes that the current processes in a business are inapplicable and suggest completely new processes to be implemented by starting over. Such a perspective enables the designers of business processes to disassociate themselves from today's process, and focus on a new process. The BPR characteristics - outcomes include the following:

- Several jobs are combined into one.
- Decision-making becomes part of the job of employees (employee empowerment).
- Steps in the processes are performed in natural order, and several jobs get done simultaneously.
- Processes have multiple versions. This enables the economies of scale that result from mass production, yet allows customization of products and services.
- Work is performed where it makes the most sense.
- Controls and checks and other non-value-added work are minimized.
- Reconciliation is minimized by cutting back the number of external contact points and by creating business alliances.
- A single point of contact is provided to customers.
- A hybrid centralized/decentralized operation is used.

BPR is achieving dramatic performance improvements through radical change in organizational processes, rearchitecting of business and management processes. It involves the redrawing of organizational boundaries, the reconsideration of jobs, tasks, and skills. This occurs with the creation and the use of models. Whether those be physical models, mathematical, computer or structural models, engineers build and analyze models to predict the performance of designs or to understand

the behavior of devices. More specifically, BPR is defined as the use of scientific methods, models and tools to bring about the radical restructuring of an enterprise that result in significant improvements in performance.

Redesign, retooling and re-orchestrating form the key components of BPR that are essential for an organization to focus on the outcome that it needs to achieve. The outcome pursued should be an ambitious outcome (as for instance, are a 24 hour delivery to any customer anywhere in the world, approval of mortgage loans within 60 minutes of application, or ability to have on-line access to a patient's medical records no matter where they are in any major city in the world). These types of visionary goals require rethinking the way most organizations do business, careful redesign. They will additionally need very sophisticated supporting information systems and a transformation from a traditional organizational structure to a network type organization.

5.4 OBJECTIVES OF BPR

When applying the BPR management technique to a business organization the implementation team effort is focused on the following objectives:

Customer focus. Customer service oriented processes aiming to eliminate customer complaints.

Speed. Dramatic compression of the time it takes to complete a task for key business processes. For instance, if process before BPR had an average cycle time 5 hours, after BPR the average cycle time should be cut down to half an hour.

Compression. Cutting major tasks of cost and capital, throughout the value chain. Organizing the processes a company develops transparency throughout the operational level reducing cost. For instance the decision to buy a large amount of raw material at 50% discount is connected to eleven cross checking in the organizational structure from cash flow, inventory, to production planning and marketing. These checking become easily implemented within the cross-functional teams, optimizing the decision making and cutting operational cost.

Flexibility. Adaptive processes and structures to changing conditions and competition. Being closer to the customer the company can develop the awareness mechanisms to rapidly spot the weak points and adapt to new requirements of the market.

Quality. Obsession with the superior service and value to the customers. The level of quality is always the same controlled and monitored by the processes, and does not depend mainly on the person, who servicing the customer.

Innovation. Leadership through imaginative change providing to organization competitive advantage.

Productivity. Improve drastically effectiveness and efficiency.

In order to achieve the above mentioned adjectives the following BPR project methodology is proposed.

❖ METHODOLOGY OF A BPR PROJECT IMPLEMENTATION

BPR is world-wide applicable technique of business restructuring focusing on business processes, providing vast improvements in a short period of time. The technique implements organizational change based on the close coordination of a methodology for rapid change, employee empowerment and training and support by information technology. In order to implement BPR to an enterprise the following key actions need to take place:

- Selection of the strategic (added-value) processes for redesign.
- Simplify new processes - minimize steps - optimize efficiency - (modeling).
- Organize a team of employees for each process and assign a role for process coordinator.
- Organize the workflow - document transfer and control.
- Assign responsibilities and roles for each process.
- Automate processes using IT (Intranets, Extranets, Workflow Management)
- Train the process team to efficiently manage and operate the new process

- Introduce the redesigned process into the business organizational structure

Most reengineering methodologies share common elements, but simple differences can have a significant impact on the success or failure of a project. After a project area has been identified, the methodologies for reengineering business processes may be used. In order for a company, aiming to apply BPR, to select the best methodology, sequence processes and implement the appropriate BPR plan, it has to create effective and actionable visions. Referring to 'vision' we mean the complete articulation of the future state (the values, the processes, structure, technology, job roles and environment). For creating an effective vision, five basic steps are mentioned below.

- the right combination of individuals come together to form an optimistic and energized team
- clear objectives exist and the scope for the project is well defined and understood
- the team can stand in the future and look back, rather than stand in the present and look forward
- the vision is rooted in a set of guiding principles.

All methodologies could be divided in general 'model' stages:

The Envision stage: the company reviews the existing strategy and business processes and based on that review business processes for improvement are targeted and IT opportunities are identified.

The Initiation stage: project teams are assigned, performance goals, project planning and employee notification are set.

The Diagnosis stage : documentation of processes and sub-processes takes place in terms of process attributes (activities, resources, communication, roles, IT and costs).

The Redesign stage : new process design is developed by devising process design alternatives and through brainstorming and creativity techniques.

The Reconstruction stage : management technique changes occur to ensure smooth migration to the new process responsibilities and human resource roles.

The Evaluation stage : the new process is monitored to determine if goals are met and examine total quality programs.

TOTAL QUALITY MANAGEMENT

INTRODUCTION

In recent years, Total Quality Management (TQM) has received worldwide attention and is being adopted in many industries, particularly in developed economies. TQM has evolved primarily because of the changes in the global economy and also because of demand in market forces. Although control of quality has been practised in many industries for several years, the adoption of TQM as a major preoccupation of businesses worldwide is very recent. The traditional control methods being implemented in industries to ensure quality have not yielded the results that were expected of them. Furthermore, rapidly changing technology and customer expectations have already affected organizations worldwide and thus have promoted the need for taking a new look at quality management.

5.5 TQM: The Key Concepts

TQM may be defined as a continuous quest for excellence by creating the right skills and attitudes in people to make prevention of defects possible and satisfy customers/users totally at all times. TQM is an organization-wide activity that has to reach every individual within an organization. TQM is regarded as an integration of various processes characterizing the behavioural dynamics of an organization. For this, an organization is referred to as a total system (socio-technical), where all the activities carried out are geared towards meeting the requirements of customers with efficiency and effectiveness.

TQM has been based on the quest for progress and continual improvement in the areas of cost, reliability, quality, innovative efficiency and business effectiveness. TQM is an approach for continuously improving the quality of goods and services delivered through the participation of all levels and functions of the organization.

TQM is the totally integrated effort for gaining competitive advantage by continuously improving every facet of organizational culture. TQM can be successful only if the operational definition is translated into strategies by the leadership of the organization and which are crystallized into actions and communicated to all the people with conviction and clarity. However, TQM may also be viewed functionally as an integration of two basic functions, i.e. total quality control and quality management. Quality has been defined in a variety of ways, such as "fitness for use"; "conformance to requirements"; "the amounts of unpriced attributes contained in each unit of priced attributes", among many others. Total quality control is a long-term success strategy for organizations. Customer satisfaction, employee satisfaction, product quality assurance in all its stages, and continuous improvement and innovation, are the main ingredients of total quality control; whereas quality management is a way of planning, organizing and directing that will facilitate and integrate the capabilities of all employees for continuous improvement of anything and everything in an organization to attain excellence. Thus, TQM in an organization brings all the people together to ensure and improve product-process quality, the work environment and working culture.

Three dimensions of TQM are:

- (1) the product and service dimension: the degree to which the customer is satisfied with the product or service supplied;
- (2) the people dimension: the degree to which the customer is satisfied with the relationship with the people in the supplying organizations;
- (3) the process dimension: the degree to which the supplier is satisfied with the internal work processes, which are used to develop the products and services supplied to the customers.

5.6 TQM: Evolution

The evolution of TQM is the outcome of four major eras of development. Quality has moved from an initial stage of inspecting, sorting and correcting standards to an era of developing quality manuals and controlling process performance. The third stage was to develop systems for third-party certification, more comprehensive manuals including areas of organization other than production, and to use standard

techniques such as SPC. The present and fourth era of TQM is primarily strategic in nature and is based on continuous improvement as the driving force. The primary factors behind the need for TQM are: the global economy; complex and dynamic technology; complex and dynamic resources; customer orientation and expectations; complex and dynamic task environment; and a shrinking feasible solution space for many critical problems, issues and opportunities.

The TQM approach differs from traditional management in the following ways:

- (1) TQM focuses on customers absolutely. The firm customer focus brings competitive edge to the organization.
- (2) "Products conquer markets" is the basic edifice of TQM.
- (3) TQM takes the view that profits follow quality, not the other way around.
- (4) TQM views total quality as having multi-dimensional attributes.
- (5) TQM creates goal-directed connections between customers, managers and workers. Everyone is motivated to contribute towards quality. TQM empowers each and every employee, regardless of level, to find better ways to work. Traditional management, in contrast, is monolithic: workers work and managers manage the workers.
- (6) TQM is process-oriented, as against the traditional result-oriented approach.
- (7) TQM favours a long span of control, with authority pushed down almost to the lowest level, as against short spans of control and many layers of authority in traditional management cultures. Accountability for quality is embedded at every level.
- (8) TQM requires a multi-skilled workforce with job rotation, in contrast to division of labour.

In essence, TQM is collectively owned by all people in the organization and it is everybody's concern to improve perpetually.

❖ **TQM: Implementation**

Implementing TQM is a major task. TQM, as stated earlier, is a major sociotechnical system and an organization-wide intervention. As such, TQM must be approached

in a systematic, pragmatic, well-thought-through fashion. The following approach may be used to the design, development and implementation of TQM:

- Stage 0: understanding the organizational system.
- Stage 1: developing a strategic plan for the TQM effort.
- Stage 2: planning assumptions.
- Stage 3: specifying strategic objectives.
- Stage 4: specifying tactical objectives.
- Stage 5: implementation planning.
- Stage 6: project management.
- Stage 7: measurement and evaluation.
- Stage 8: evaluation, accountability, follow through, ensuring effective implementation

Conclusion

Attention to the field of research in TQM is very recent but efforts aimed at spreading it are increasing at a rapid rate. Despite these efforts there exists confusion in relation to definition, circumstances and application. It is indicative that there is no comprehensive conceptualization of TQM. An understanding of TQM, its philosophy and development of a vision are the necessary requirements for future quality goals.

KOWLEDGE MANAGEMENT

5.7 INTRODUCTION TO KOWLEDGE MANAGEMENT

The ability to manage knowledge is crucial in today ' s knowledge economy. The creation and diffusion of knowledge have become increasingly important factors in competitiveness. More and more, knowledge is being thought of as a valuable commodity that is embedded in products (especially high-technology products) and embedded in the tacit knowledge of highly mobile employees. While knowledge is increasingly being viewed as a commodity or intellectual asset, there are some paradoxical characteristics of knowledge that are radically different from other valuable commodities. These knowledge characteristics include the following:

- Using knowledge does not consume it.
- Transferring knowledge does not result in losing it.
- Knowledge is abundant, but the ability to use it is scarce.
- Much of an organization ' s valuable knowledge walks out the door at the end of the day.

The advent of the Internet, the World Wide Web, has made unlimited sources of knowledge available to us all. Pundits are heralding the dawn of the Knowledge Age supplanting the Industrial Era. Forty-five years ago, nearly half of all workers in industrialized countries were making or helping to make things. By the year 2000, only 20 percent of workers were devoted to industrial work - the rest was knowledge work. An organization in the Knowledge Age is one that learns, remembers, and acts based on the best available information, knowledge, and know-how. All of these developments have created a strong need for a deliberate and systematic approach to cultivating and sharing a company ' s knowledge base - one populated with valid and valuable lessons learned and best practices. In other words, in order to be successful in today ' s challenging organizational environment, companies need to learn from their past errors and not reinvent the wheel. Organizational knowledge is not intended to replace individual knowledge but to complement it by making it stronger, more coherent, and more broadly applied. Knowledge management represents a deliberate and systematic approach to ensure the full utilization of the organization ' s knowledge base, coupled with the potential of individual skills, competencies, thoughts, innovations, and ideas to create a more efficient and effective organization.

Some typical knowledge management objectives would be to:

- Facilitate a smooth transition from those retiring to their successors who are recruited to fill their positions
- Minimize loss of corporate memory due to attrition and retirement o Identify critical resources and critical areas of knowledge so that the corporation knows what it knows and does well - and why
- Build up a toolkit of methods that can be used with individuals, with

groups, and with the organization to stem the potential loss of intellectual capital.

❖ WHAT IS KNOWLEDGE MANAGEMENT?

Knowledge management develops systems and processes to acquire and share intellectual assets. It increases the generation of useful, actionable, and meaningful information, and seeks to increase both individual and team learning. In addition, it can maximize the value of an organization ' s intellectual base across diverse functions and disparate locations. Knowledge management maintains that successful businesses are a collection not of products but of distinctive knowledge bases. This intellectual capital is the key that will give the company a competitive advantage with its targeted customers. Knowledge management seeks to accumulate intellectual capital that will create unique core competencies and lead to superior results.

Knowledge management is a surprising mix of strategies, tools, and techniques - some of which are nothing new under the sun: storytelling, peer-to-peer mentoring, and learning from mistakes, for example, all have precedents in education, training, and artificial intelligence practices. Knowledge management makes use of a mixture of techniques from knowledge-based system design, such as structured knowledge acquisition strategies from subject matter experts and educational technology (e.g., task and job analysis to design and develop task support systems). This makes it both easy and difficult to define what KM is. At one extreme, KM encompasses everything to do with knowledge. At the other extreme, KM is narrowly defined as an information technology system that dispenses organizational knowhow. KM is in fact both of these and much more. One of the few areas of consensus in the field is that KM is a highly multidisciplinary field.

Multidisciplinary Nature of KM Knowledge management draws upon a vast number of diverse fields such as:

- Organizational science
- Cognitive science
- Linguistics and computational linguistics

- Information technologies such as knowledge-based systems, document and information management, electronic performance support systems, and database technologies
- Information and library science
- Technical writing and journalism
- Anthropology and sociology
- Education and training
- Storytelling and communication studies
- Collaborative technologies such as Computer-Supported Collaborative Work (CSCW) and groupware as well as intranets, extranets, portals, and other web technologies

The above is by no means an exhaustive list but serves to show the extremely varied roots that KM grew out of and continues to be based upon today. Figure below illustrates some of the diverse disciplines that have contributed to KM.

The multidisciplinary nature of KM represents a double-edged sword: on the one hand, it is an advantage as almost anyone can find a familiar foundation upon which to base an understanding and even practice of KM. Someone with a background in journalism, for example, can quickly adapt this skill set to capture knowledge from experts and reformulate this knowledge as organizational stories to be stored in corporate memory. Someone coming from a more technical database background can easily extrapolate his or her skill set to design and implement knowledge repositories that will serve as the corporate memory for that organization. However, the diversity of KM also results in some challenges with respect to boundaries. Skeptics argue that KM is not and cannot be said to be a separate discipline with a unique body of knowledge to draw upon. This attitude is typically represented by statements such as " KM is just IM "or " KM is nonsensical - it is just good business practices. "It becomes very important to be able to list and describe what attributes are necessary and in themselves sufficient to constitute knowledge management both as a discipline and as a field of practice that can be distinguished from others.

One of the major attributes lies in the fact that KM deals with knowledge as well

as information. Knowledge is a more subjective way of knowing, typically based on experiential or individual values, perceptions, and experience. Consider the example of planning for an evening movie to distinguish between data, information, and knowledge.

Data Content that is directly observable or verifiable: a fact; for example, movie listings giving the times and locations of all movies being shown today - I download the listings.

Information Content that represents analyzed data; for example, I can't leave before 5, so I will go to the 7 pm show at the cinema near my office.

Knowledge At that time of day, it will be impossible to find parking. I remember the last time I took the car, I was so frustrated and stressed because I thought I would miss the opening credits. I'll therefore take the commuter train. But first, I'll check with Al. I usually love all the movies he hates, so I want to make sure it's worth seeing!

Another distinguishing characteristic of KM, as opposed to other information management fields, is the fact that knowledge in all of its forms is addressed: tacit knowledge and explicit knowledge.

❖ WHY IS KM IMPORTANT TODAY?

The major business drivers behind today's increased interest and application of KM lie in four key areas:

1. Globalization of business Organizations today are more global - multisite, multilingual, and multicultural in nature.
2. Leaner organizations We are doing more and we are doing it faster, but we also need to work smarter as knowledge workers - increased pace and workload.
3. Corporate amnesia We are more mobile as a workforce, which creates problems of knowledge continuity for the organization, and places continuous learning demands on the knowledge worker - we no longer expect to work for the same organization for our entire career.

4. Technological advances We are more connected - information technology advances have made connectivity not only ubiquitous but has radically changed expectations: we are expected to be on at all times and the turnaround time in responding is now measured in minutes, not weeks.

Today ' s work environment is more complex due to the increase in the number of subjective knowledge items we need to attend to every day. Filtering over two hundred e-mails, faxes, and voice mail messages on a daily basis should be done according to good time management practices and filtering rules, but more often than not, workers tend to exhibit a Pavlovianrefl ex to beeps announcing the arrival of new mail or the ringing of the phone that demands immediate attention. Knowledge workers are increasingly being asked to think on their feet with little time to digest and analyze incoming data and information, let alone time to retrieve, access, and apply relevant experiential knowledge. This is due both to the sheer volume of tasks to attend to, as well as the greatly diminished turnaround time. Today ' s expectation is that everyone is on all the time - as evidenced by the various messages embodying annoyance at not having connected, such as voice mails asking why you have not responded to an e-mail, and e-mails asking why you have not returned a call! Knowledge management represents one response to the challenge of trying to manage this complex, information overloaded work environment. As such, KM is perhaps best categorized as a science of complexity. One of the largest contributors to the complexity is that information overload represents only the tip of the iceberg - only that information that has been rendered explicit. KM must also deal with the yet to be articulated or tacit knowledge. To further complicate matters, we may not even be aware of all the tacit knowledge that exists - we may not know that we don ' t know.

In fact, we are now entering the third generation of knowledge management, one devoted to content management. In the first generation, the emphasis was placed on containers of knowledge or information technologies in order to help us with the dilemma exemplified by the much quoted phrase " if only we knew what we know ". The early adopters of KM, large consulting companies that realized that their primary product was knowledge and that they needed to inventory their knowledge stock more effectively, exemplified this phase. A great many intranets

and internal knowledge management systems were implemented during the first KM generation. This was the generation devoted to finding all the information that had up until then been buried in the organization with commonly produced by-products encapsulated as reusable best practices and lessons learned. Reeling from information overload, the second generation swung to the opposite end of the spectrum, to focus on people; this could be phrased as "if only we knew who knows about." There was growing awareness of the importance of human and cultural dimensions of knowledge management as organizations pondered why the new digital libraries were entirely devoid of content (i.e., information junkyards) and why the usage rate was so low. In fact, the information technology approach of the first KM generation leaned heavily toward a top-down, organization-wide monolithic KM system. In the second generation, it became quite apparent that a bottom-up or grassroots adoption of KM led to much greater success and that there were many grassroots movements - which were later dubbed communities of practice. Communities of practice are good vehicles to study knowledge sharing or the movement of knowledge throughout the organization to spark not only reuse for greater efficiency but knowledge creation for greater innovation. The third stage of KM brought about an awareness of the importance of content - how to describe and organize content so that intended end users are aware it exists, and can easily access and apply this content. This phase is characterized by the advent of metadata to describe the content in addition to the format of content, content management, and knowledge taxonomies. After all, if knowledge is not put to use to benefit the individual, the community of practice, and/or the organization, then knowledge management has failed. Bright ideas in the form of light bulbs in the pocket are not enough - they must be plugged in and this can only be possible if people know what there is to be known, can find it when they need, can understand it, and, perhaps most important, are convinced that this knowledge should be put to work. A slogan for this phase might be something like: "taxonomy before technology".

5.8 KM FOR INDIVIDUALS, COMMUNITIES, AND ORGANIZATIONS

Knowledge management provides benefits to individual employees, to communities of practice, and to the organization itself. This three-tiered view of KM helps

emphasize why KM is important today .

For the individual, KM:

- Helps people do their jobs and save time through better decision making and problem solving
- Builds a sense of community bonds within the organization
- Helps people to keep up to date
- Provides challenges and opportunities to contribute

For the community of practice, KM:

- Develops professional skills
- Promotes peer-to-peer mentoring
- Facilitates more effective networking and collaboration
- Develops a professional code of ethics that members can adhere to
- Develops a common language

For the organization, KM:

- Helps drive strategy
- Solves problems quickly
- Diffuses best practices
- Improves knowledge embedded in products and services
- Cross-fertilizes ideas and increases opportunities for innovation o Enables organizations to better stay ahead of the competition
- Builds organizational memory

Some critical KM challenges are to manage content effectively, facilitate collaboration, help knowledge workers connect, find experts, and help the organization to learn to make decisions based on complete, valid, and well-interpreted data, information, and knowledge.

In order for knowledge management to succeed, it has to tap into what is important

to knowledge workers, what is of value to them and to their professional practice as well as what the organization stands to gain. It is important to get the balance right. If the KM initiative is too big, it risks being too general, too abstract, too top-down, and far too remote to catalyze the requisite level of buy-in from individuals. If the KM initiative is too small, however, then it may not be enough to provide sufficient interaction between knowledge workers to generate synergy. The KM technology must be supportive and management must commit itself to putting into place the appropriate rewards and incentives for knowledge management activities. Last but not least, participants need to develop KM skills in order to participate effectively. These KM skills and competencies are quite diverse and varied, given the multidisciplinary nature of the field, but one particular link is often neglected, and that is the link between KM skills and information professionals' skills. KM has resulted in the emergence of new roles and responsibilities. Many of these new roles can benefit from a healthy foundation from not only information technology (IT) but also information science. In fact, KM professionals have a crucial role to play in all processes of the KM cycle.

❖ INFORMATION DEFINITION

Information can be defined as meaningfully interpreted data. If we give you a number 1-212-290-4700, it does not make any sense on its own. It is just a raw data. However if we say Tel: +1-212-290-4700, it starts making sense. It becomes a telephone number. If I gather some more data and record it meaningfully like:

Address: 350 Fifth Avenue,
34th floor New York,
NY 10118-3299 USA
Tel: +1-212-290-4700
4Fax: +1-212-736-1300

It becomes a very useful information - the address of New York office of Human Rights Watch, a non-profit, non-governmental human rights organization. So, from

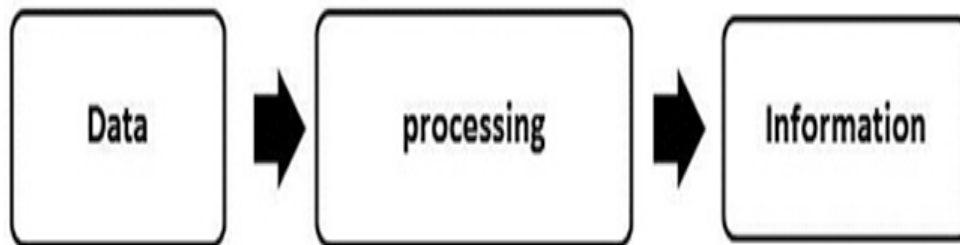
a system analyst's point of view, information is a sequence of symbols that can be construed to a useful message. An Information System is a system that gathers data and disseminates information with the sole purpose of providing information to its users. The main object of an information system is to provide information to its users. Information systems vary according to the type of users who use the system. A Management Information System is an information system that evaluates, analyzes, and processes an organization's data to produce meaningful and useful information based on which the management can take right decisions to ensure future growth of the organization.

❖ INFORMATION DEFINITION

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". Information cannot be predicted and resolves uncertainty.

❖ INFORMATION VS DATA

Data can be described as unprocessed facts and figures. Plain collected data as raw facts cannot help in decision-making. However, data is the raw material that is organized, structured, and interpreted to create useful information systems. Data is defined as 'groups of non-random symbols in the form of text, images, voice representing quantities, action and objects'. Information is interpreted data; created from organized, structured, and processed data in a particular context. According to Davis and Olson: "Information is a data that has been processed into a form that is meaningful to recipient and is of real or perceived value in the current or the prospective action or decision of recipient."



❖ INFORMATION, KNOWLEDGE, AND BUSINESS INTELLIGENCE

Professor Ray R. Larson of the School of Information at the University of California, Berkeley, provides an Information Hierarchy, which is:

- **Data** - The raw material of information.
- **Information** - Data organized and presented by someone.
- **Knowledge** - Information read, heard, or seen, and understood.
- **Wisdom** - Distilled and integrated knowledge and understanding.

Scott Andrews' explains Information Continuum as follows:

- **Data** - A Fact or a piece of information, or a series thereof.
- **Information** - Knowledge discerned from data.
- **Business Intelligence** - Information Management pertaining to an organization's policy or decision-making, particularly when tied to strategic or operational objectives.

❖ INFORMATION/DATA COLLECTION TECHNIQUES

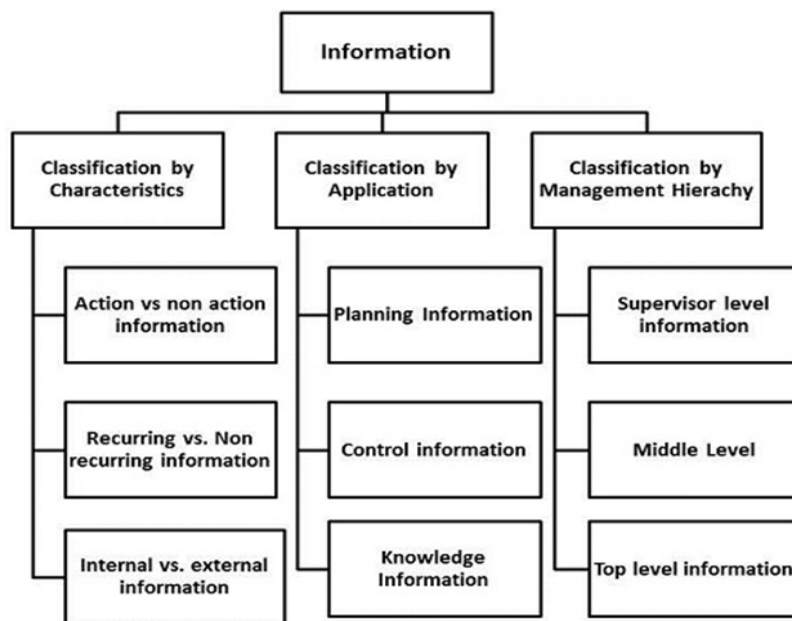
The most popular data collection techniques include:

- **Surveys** : A questionnaire is prepared to collect the data from the field.
- **Secondary data sources or archival data** : Data is collected through old records, magazines, company website, etc.
- **Objective measures or tests**: An experimental test is conducted on the subject and the data is collected.

- **Interviews:** Data is collected by the system analyst by following a rigid procedure and collecting the answers to a set of pre-conceived questions through personal interviews.

❖ CLASSIFICATION OF INFORMATION

Information can be classified in a number of ways and in this chapter, you will learn two of the most important ways to classify information.



Classification by Characteristic

Based on Anthony's classification of Management, information used in business for decision-making is generally categorized into three types:

- **Strategic Information :** Strategic information is concerned with long term policy decisions that defines the objectives of a business and checks how well these objectives are met. For example, acquiring a new plant, a new product, diversification of business etc., comes under strategic information.
- **Tactical Information :** Tactical information is concerned with the information needed for exercising control over business resources, like

budgeting, quality control, service level, inventory level, productivity level etc.

- **Operational Information :** Operational information is concerned with plant/business level information and is used to ensure proper conduction of specific operational tasks as planned/intended. Various operator specific, machine specific and shift specific jobs for quality control checks comes under this category.

Classification by Application

In terms of applications, information can be categorized as:

- **Planning Information :** These are the information needed for establishing standard norms and specifications in an organization. This information is used in strategic, tactical, and operation planning of any activity. Examples of such information are time standards, design standards.
- **Control Information :** This information is needed for establishing control over all business activities through feedback mechanism. This information is used for controlling attainment, nature and utilization of important processes in a system. When such information reflects a deviation from the established standards, the system should induce a decision or an action leading to control.
- **Knowledge Information :** Knowledge is defined as "information about information". Knowledge information is acquired through experience and learning, and collected from archival data and research studies.
- **Organizational Information :** Organizational information deals with an organization's environment, culture in the light of its objectives. Karl Weick's Organizational Information Theory emphasizes that an organization reduces its equivocality or uncertainty by collecting, managing and using these information prudently. This information is used by everybody in the organization; examples of such information are employee and payroll information.
- **Functional/Operational Information :** This is operation specific information. For example, daily schedules in a manufacturing plant that

refers to the detailed assignment of jobs to machines or machines to operators. In a service oriented business, it would be the duty roster of various personnel. This information is mostly internal to the organization.

- " **Database Information** : Database information construes large quantities of information that has multiple usage and application. Such information is stored, retrieved and managed to create databases. For example, material specification or supplier information is stored for multiple users.

❖ **QUALITY OF INFORMATION**

Information is a vital resource for the success of any organization. Future of an organization lies in using and disseminating information wisely. Good quality information placed in right context in right time tells us about opportunities and problems well in advance.

Good quality information: Quality is a value that would vary according to the users and uses of the information.

According to Wang and Strong, following are the dimensions or elements of Information Quality:

- **Intrinsic** : Accuracy, Objectivity, Believability, Reputation
- **Contextual** : Relevancy, Value-Added, Timeliness, Completeness, Amount of information
- **Representational** : Interpretability, Format, Coherence, Compatibility
- **Accessibility** : Accessibility, Access security

Various authors propose various lists of metrics for assessing the quality of information. Let us generate a list of the most essential characteristic features for information quality:

- **Reliability** : It should be verifiable and dependable.
- **Timely** : It must be current and it must reach the users well in time, so that important decisions can be made in time.
- **Relevant** : It should be current and valid information and it should reduce uncertainties.

- **Accurate** : It should be free of errors and mistakes, true, and not deceptive.
- **Sufficient** : It should be adequate in quantity, so that decisions can be made on its basis.
- **Unambiguous** : It should be expressed in clear terms. In other words, it should be comprehensive.
- **Complete** : It should meet all the needs in the current context.
- **Unbiased** : It should be impartial, free from any bias. In other words, it should have integrity.
- **Explicit** - It should not need any further explanation.
- **Comparable** - It should be of uniform collection, analysis, content, and format.
- **Reproducible** - It could be used by documented methods on the same data set to achieve a consistent result.

❖ **INFORMATION NEED AND OBJECTIVE**

Information processing beyond doubt is the dominant industry of the present century. Following factors states few common factors that reflect on the needs and objectives of the information processing:

- Increasing impact of information processing for organizational decision making.
- Dependency of services sector including banking, financial organization, health care, entertainment, tourism and travel, education and numerous others on information.
- Changing employment scene world over, shifting base from manual agricultural to machine-based manufacturing and other industry related jobs.
- Information revolution and the overall development scenario.
- Growth of IT industry and its strategic importance.
- Strong growth of information services fuelled by increasing competition and reduced product life cycle.

- Need for sustainable development and quality life.
- Improvement in communication and transportation brought in by use of information processing.
- Use of information processing in reduction of energy consumption, reduction in pollution and a better ecological balance in future.
- Use of information processing in land record managements, legal delivery system, educational institutions, natural resource planning, customer relation management and so on.

In a nutshell :

- Information is needed to survive in the modern competitive world.
- Information is needed to create strong information systems and keep these systems up to date.

❖ IMPLICATIONS OF INFORMATION IN BUSINESS

Information processing has transformed our society in numerous ways. From a business perspective, there has been a huge shift towards increasingly automated business processes and communication. Access to information and capability of information processing has helped in achieving greater efficiency in accounting and other business processes.

A complete business information system accomplishes the following functionalities:

- Collection and storage of data.
- Transform these data into business information useful for decision making.
- Provide controls to safeguard data.
- Automate and streamline reporting.

The following list summarizes the five main uses of information by businesses and other organizations:

- **Planning :** At the planning stage, information is the most important ingredient in decision making. Information at planning stage includes that

of business resources, assets, liabilities, plants and machineries, properties, suppliers, customers, competitors, market and market dynamics, fiscal policy changes of the Government, emerging technologies, etc.

- **Recording** : Business processing these days involves recording information about each transaction or event. This information is collected, stored, and updated regularly at the operational level.
- **Controlling** : A business need to set up an information filter, so that only filtered data is presented to the middle and top management. This ensures efficiency at the operational level and effectiveness at the tactical and strategic level.
- **Measuring** : A business measures its performance metrics by collecting and analyzing sales data, cost of manufacturing, and profit earned.
- **Decision-making** - MIS is primarily concerned with managerial decision-making, theory of organizational behavior, and underlying human behavior in organizational context. Decision-making information includes the socio-economic impact of competition, globalization, democratization, and the effects of all these factors on an organizational structure.

In short, this multi-dimensional information evolves from the following logical foundations:

- Operations research and management science
- Theory of organizational behavior
- Computer science:
- Data and file structure
- Data theory design and implementation
- Computer networking
- Expert systems and artificial intelligence
- Information theory

Following factors arising as an outcome of information processing help speed up of business events and achieve greater efficiency:

- Directly and immediate linkage to the system
- Faster communication of an order
- Electronic transfer of funds for faster payment
- Electronically solicited pricing (helps in determining the best price)

5.9 MIS NEED FOR INFORMATION SYSTEMS

Managers make decisions. Decision-making generally takes a four-fold path:

- Understanding the need for decision or the opportunity,
- Preparing alternative course of actions,
- Evaluating all alternative course of actions,
- Deciding the right path for implementation.

MIS is an information system that provides information in the form of standardized reports and displays for the managers. MIS is a broad class of information systems designed to provide information needed for effective decision making.

Data and information created from an accounting information system and the reports generated thereon are used to provide accurate, timely and relevant information needed for effective decision making by managers.

Management information systems provide information to support management decision making, with the following goals:

- Pre-specified and preplanned reporting to managers.
- Interactive and ad-hoc support for decision making.
- Critical information for top management.

MIS is of vital importance to any organization, because:

- It emphasizes on the management decision making, not only processing of data generated by business operations.

- It emphasizes on the systems framework that should be used for organizing information systems applications.

To the managers, Management Information System is an implementation of the organizational systems and procedures. To a programmer it is nothing but file structures and file processing. However, it involves much more complexity.

The three components of MIS provide a more complete and focused definition, where **System** suggests integration and holistic view, **Information** stands for processed data, and **Management** is the ultimate user, the decision makers. Management **information** system can thus be analyzed as follows:

Management

Management covers the planning, control, and administration of the operations of a concern. The top management handles planning; the middle management concentrates on controlling; and the lower management is concerned with actual administration.

Information

Information, in MIS, means the processed data that helps the management in planning, controlling and operations. Data means all the facts arising out of the operations of the concern. Data is processed i.e. recorded, summarized, compared and finally presented to the management in the form of MIS report.

System

Data is processed into information with the help of a system. A system is made up of inputs, processing, output and feedback or control.

Thus MIS means a system for processing data in order to give proper information to the management for performing its functions.

Definition

Management Information System or 'MIS' is a planned system of collecting, storing, and disseminating data in the form of information needed to carry out the functions of management.

❖ OBJECTIVES OF MIS

The goals of an MIS are to implement the organizational structure and dynamics of the enterprise for the purpose of managing the organization in a better way and capturing the potential of the information system for competitive advantage.

- Following are the basic objectives of an MIS:
- **Capturing Data** : Capturing contextual data, or operational information that will contribute in decision making from various internal and external sources of organization.
- **Processing Data** : The captured data is processed into information needed for planning, organizing, coordinating, directing and controlling functionalities at strategic, tactical and operational level. Processing data means:
 - making calculations with the data
 - sorting data
 - classifying data and
 - summarizing data
- **Information Storage**: Information or processed data need to be stored for future use.
- **Information Retrieval**: The system should be able to retrieve this information from the storage as and when required by various users.
- **Information Propagation**: Information or the finished product of the MIS should be circulated to its users periodically using the organizational network.

❖ CHARACTERISTICS OF MIS

Following are the characteristics of an MIS:

- It should be based on a long-term planning.
- It should provide a holistic view of the dynamics and the structure of the organization.

- It should work as a complete and comprehensive system covering all interconnecting sub-systems within the organization.
- It should be planned in a top-down way, as the decision makers or the management should actively take part and provide clear direction at the development stage of the MIS.
- It should be based on need of strategic, operational and tactical information of managers of an organization.
- It should also take care of exceptional situations by reporting such situations.
- It should be able to make forecasts and estimates, and generate advanced information, thus providing a competitive advantage. Decision makers can take actions on the basis of such predictions.
- It should create linkage between all sub-systems within the organization, so that the decision makers can take the right decision based on an integrated view.
- It should allow easy flow of information through various sub-systems, thus avoiding redundancy and duplicity of data. It should simplify the operations with as much practicability as possible.
- Although the MIS is an integrated, complete system, it should be made in such a flexible way that it could be easily split into smaller sub-systems as and when required.
- A central database is the backbone of a well-built MIS.

Characteristics of Computerized MIS

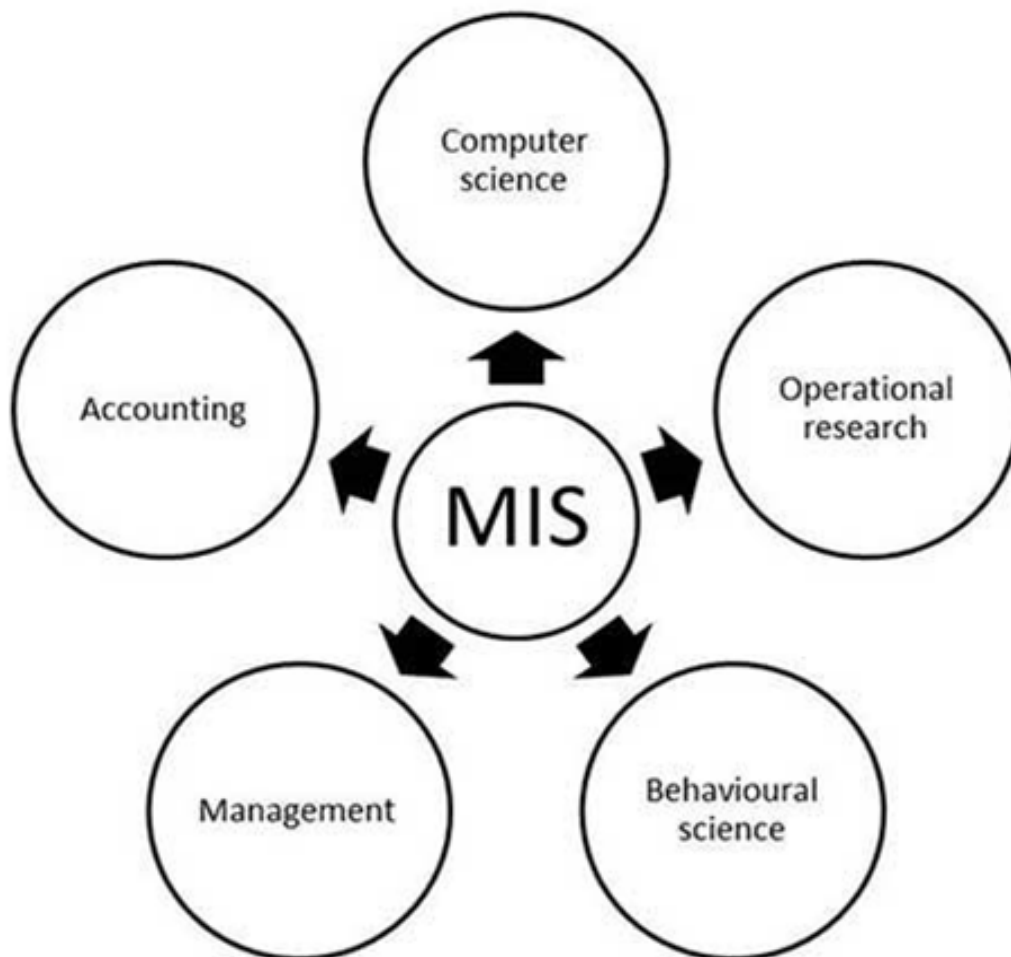
Following are the characteristics of a well-designed computerized MIS:

- It should be able to process data accurately and with high speed, using various techniques like operations research, simulation, heuristics, etc.
- It should be able to collect, organize, manipulate, and update large amount of raw data of both related and unrelated nature, coming from various internal and external sources at different periods of time.

- It should provide real time information on ongoing events without any delay.
- It should support various output formats and follow latest rules and regulations in practice.
- It should provide organized and relevant information for all levels of management: strategic, operational, and tactical.
- It should aim at extreme flexibility in data storage and retrieval.

❖ NATURE AND SCOPE OF MIS

The following diagram shows the nature and scope of MIS :



MIS DEVELOPMENT PROCESS

In MIS, the information is recognized as a major resource like capital and time. If this resource has to be managed well, it calls upon the management to plan for it and control it, so that the information becomes a vital resource for the system.

- The management information system needs good planning.
- This system should deal with the management information not with data processing alone.
- It should provide support for the management planning, decision-making and action.
- It should provide support to the changing needs of business management.

Major challenges in MIS implementation are:

- Quantity, content and context of information - how much information and exactly what should it describe.
- Nature of analysis and presentation - comprehensibility of information.
- Availability of information - frequency, contemporariness, on-demand or routine, periodic or occasional, one-time info or repetitive in nature and so on
- Accuracy of information.
- Reliability of information.
- Security and Authentication of the system.

5.10 PLANNING FOR MIS

MIS design and development process has to address the following issues successfully:

- There should be effective communication between the developers and users of the system.
- There should be synchronization in understanding of management, processes and IT among the users as well as the developers.

- Understanding of the information needs of managers from different functional areas and combining these needs into a single integrated system.
- Creating a unified MIS covering the entire organization will lead to a more economical, faster and more integrated system, however it will increase in design complexity manifold.
- The MIS has to be interacting with the complex environment comprising all other sub-systems in the overall information system of the organization. So, it is extremely necessary to understand and define the requirements of MIS in the context of the organization.
- It should keep pace with changes in environment, changing demands of the customers and growing competition.
- It should utilize fast developing in IT capabilities in the best possible ways.
- Cost and time of installing such advanced IT-based systems is high, so there should not be a need for frequent and major modifications.
- It should take care of not only the users i.e., the managers but also other stakeholders like employees, customers and suppliers.

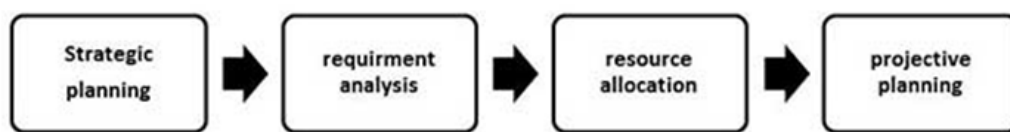
Once the organizational planning stage is over, the designer of the system should take the following strategic decisions for the achievement of MIS goals and objectives:

- Development Strategy: Example - an online, real-time batch.
- System Development Strategy: Designer selects an approach to system development like operational verses functional, accounting verses analysis.
- Resources for the Development: Designer has to select resources. Resources can be in-house verses external, customized or use of package.
- Manpower Composition: The staffs should have analysts, and programmers.

Information system planning essentially involves :

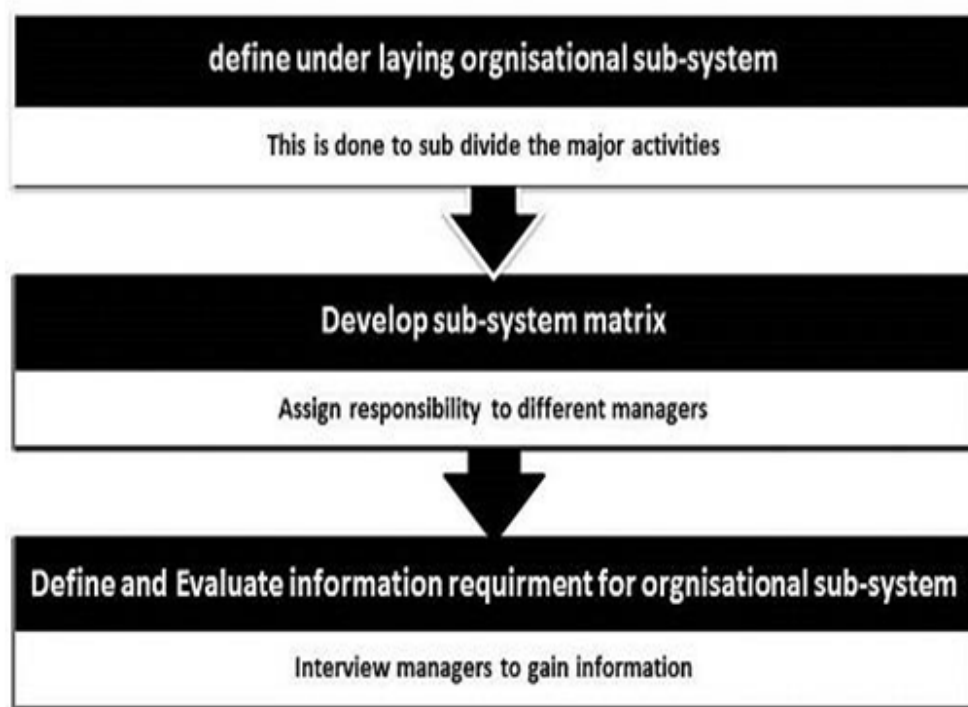
- Identification of the stage of information system in the organization.

- Identification of the application of organizational IS.
- Evolution of each of this application based on the established evolution criteria.
- Establishing a priority ranking for these applications.
- Determining the optimum architecture of IS for serving the top priority applications.



❖ INFORMATION SYSTEM REQUIREMENTS

The following diagram illustrates a brief sketch of the process of information requirement analysis:



The following three methodologies can be adopted to determine the requirements in developing a management information system for any organization:

Business Systems Planning (BSP) - this methodology is developed by IBM.

It identifies the IS priorities of the organization and focuses on the way data is maintained in the system.

- It uses data architecture supporting multiple applications.
- It defines data classes using different matrices to establish relationships among the organization, its processes and data requirements.

Critical Success Factor (CSF) - this methodology is developed by John Rockart of MIT.

- It identifies the key business goals and strategies of each manager as well as that of the business.
- Next, it looks for the critical success factors underlying these goals.
- Measure of CSF effectiveness becomes an input for defining the information system requirements.

End/Means (E/M) analysis - this methodology is developed by Wetherbe and Davis at the University of Minnesota.

- It determines the effectiveness criteria for outputs and efficiency criteria for the processes generating the outputs.
- At first it identifies the outputs or services provided by the business processes.
- Then it describes the factors that make these outputs effective for the user.
- Finally it selects the information needed to evaluate the effectiveness of outputs.

❖ **INFORMATION SYSTEM ANALYSIS AND DESIGN**

System analysis and design follows the typical System/Software Design Life Cycle (SDLC) as discussed in the previous chapter. It generally passes through the following phases:

- Problem Definition
- Feasibility Study
- Systems Analysis
- System Design
- Detailed System Design
- Implementation
- Maintenance

In the analysis phase, the following techniques are commonly used:

- Data flow diagrams (DFD)
- Logic Modeling
- Data Modeling
- Rapid Application Development (RAD)
- Object Oriented Analysis (OOA)

Technology for Information Systems

The technology requirement for an information system can be categorized as:

- Devices
- **Data center systems** - It is the environment that provides processing, storage, networking, management and the distribution of data within an enterprise.
- **Enterprise software** - These are software system like ERP, SCM, Human Resource Management, etc. that fulfill the needs and objectives of the organizations.
- IT services - It refers to the implementation and management of quality IT services by IT service providers through people, process and information technology. It often includes various process improvement frameworks and methodologies like six sigma, TQM, and so on.
- Telecom services

System Test Planning and Execution

The system should be fully tested for errors before being fully operational.

The test plan should include for each test:

- Purpose
- Definition
- test inputs
- detailed specification of test procedure
- details of expected outputs

Each sub-system and all their components should be tested using various test procedures and data to ensure that each component is working as it is intended.

The testing must include the users of the system to identify errors as well as get the feedback.

System Operation

Before the system is in operation, the following issues should be taken care of:

- Data security, backup and recovery;
- Systems control;
- Testing of the system to ensure that it works bug-free in all expected business situations;
- The hardware and software used should be able to deliver the expected processing;
- The system capacity and expected response time should be maintained;
- The system should be well documented including:
 - A user guide for inexperienced users,
 - A user reference or operations manual for advanced users,
 - A system reference manual describing system structures and architecture.

Once the system is fully operational, it should be maintained throughout its working life to resolve any glitches or difficulties faced in operation and minor modifications

might be made to overcome such situations.

Factors for Success and Failure

MIS development projects are high-risk, high-return projects. Following could be stated as critical factors for success and failure in MIS development:

- It should cater to a specific, well-perceived business.
- The top management should be completely convinced, able and willing to support such a system. Ideally there should be a patron or a sponsor for the system in the top management.
- All users including managers and other employees should be made an integral part of the development, implementation, and use of the system.
- There should be an operational prototype of the system released as soon as possible, to create interest among the users.
- There should be good support staff with necessary technical, business, and interpersonal skills.
- The system should be simple, easy to understand without adding much complexity. It is a best practice, not to add up an entity unless there is both a use and user for it.
- It should be easy to use and navigate with high response time.
- The implementation process should follow a definite goal and time.
- All the users including the top management should be given proper training, so that they have a good knowledge of the content and function of the system, and can use it fully for various managerial activities such as reporting, budgeting, controlling, planning, monitoring, etc.
- It must produce useful outputs to be used by all managers.
- The system should be well integrated into the management processes of planning, decision-making, and monitoring.

❖ **COMPARATIVE STUDY OF MANAGEMENT IN INDIA & JAPAN**

Parameter	Japanese	Indian
Recruitment	Once in a year and for Lifetime Employment. Emphasis on Character and recruitment not for specific vacancies and low emphasis on skill sets and competence.	No fixed recruitment schedules. No Lifetime employment guarantee. Emphasis on skill sets and competence. May also recruit for specific vacancies.
Promotion	Always from within. Promotion to rank based on seniority and role based on merit.	Can be from within or even a new recruit. Promotions are always based on merit and performance.
Performance Appraisal	Informal. Focus on employee development and placement rather than rewards and punishments.	Formal. Focus on identifying the performance level and improve productivity.
Training	Extensive on the job training and Job rotation. Training in associated jobs as well. Focus on creation of flexible and versatile workforce.	Extensive on the job training and No Job rotation. Not trained for associated jobs. Focus on creation of specialized and streamlined workforce.
Benefits	Extensive welfare and benefit schemes. Expectation of total loyalty to the organization.	Limited welfare and benefits just for intrinsic motivation of employees for higher productivity.

5.11 SUMMARY

The strategic role of Management Information System involves using it to develop products, services, and capabilities that provides a company major advantages over competitive forces it faces in the global marketplace.

We need an MIS flexible enough to deal with changing information needs of the organization. The designing of such a system is a complex task. It can be achieved only if the MIS is planned. We understand this planning and implementation in management development process.

5.12 GLOSSARY

Business Process Reengineering It involves changes in structures and in processes within the business environment.

TQM It may be defined as a continuous quest for excellence by creating the right skills and attitudes in people to make prevention of defects possible and satisfy customers/users totally at all times.

Management : Management covers the planning, control, and administration of the operations of a concern. The top management handles planning; the middle management concentrates on controlling; and the lower management is concerned with actual administration.

Information : Information, in MIS, means the processed data that helps the management in planning, controlling and operations. Data means all the facts arising out of the operations of the concern. Data is processed i.e. recorded, summarized, compared and finally presented to the management in the form of MIS report.

System : Data is processed into information with the help of a system. A system is made up of inputs, processing, output and feedback or control.

5.13 SELF ASSESSMENT QUESTIONS

1. How is BPR different from what we've done before?
2. Is TQM the same as BPR?
3. What is the difference between information technology and information systems? Describe some of the functions of information systems.
4. Discuss MIS in detail.

5.14 LESSON END EXERCISES

1. What is the first step in BPR?

2. How is Knowledge Management is beneficial for individuals, communities and organizations?

3. How does a company's use of information systems affect its corporate strategies? Provide an example.

4. You work at the business headquarters for a chain of movie theaters. Describe this firm's information value chain.

5.15 SUGGESTED READINGS

1. Bpr, Benchmarking, Tqm And Six Sigma Management by B Hiriappa
2. Essentials of Knowledge Management by Bryan Bergerson.
3. Management Information Systems: Managing the Digital Firm by Kenneth C. Laudon , Jane P. Laudon
4. Management Information Systems for the Information Age by Stephen Haag, Maeve Cummings
